FORM 10-K

Annual report pursuant to section 13 and 15(d)

Filing Date: **1994-04-12** | Period of Report: **1993-12-31**
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FILER

FLAGSTAR COMPANIES INC

CIK:**852772**| IRS No.: **133487402** | State of Incorp.:**DE** | Fiscal Year End: **1231**
Type: **10-K** | Act: **34** | File No.: **000-18051** | Film No.: **94522389**
SIC: **5812** Eating places

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SPARTANBURG SC 29319

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SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K

(Mark One)
[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934 [FEE REQUIRED]
For the fiscal year ended December 31, 1993
OR
[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934 [NO FEE REQUIRED]
For the transition period from to
Commission file number 0-18051

FLAGSTAR COMPANIES, INC.
(Exact name of registrant as specified in its charter)

<TABLE>

<S>	<C>
DELAWARE (State or other jurisdiction of incorporation or organization)	13-3487402 (I.R.S. employer identification no.)
203 EAST MAIN STREET SPARTANBURG, SOUTH CAROLINA (Address of principal executive offices)	29319-9966 (Zip code)

</TABLE>

Registrant's telephone number, including area code: (803) 597-8700.
Securities registered pursuant to Section 12(b) of the Act:

<TABLE>
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TITLE OF EACH CLASS	NAME OF EACH EXCHANGE ON WHICH REGISTERED
<S> None	<C> None

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Securities registered pursuant to Section 12(g) of the Act:
$.50 Par Value, Common Stock
TITLE OF CLASS
$.10 Par Value, $2.25 Series A Cumulative Convertible Exchangeable Preferred Stock
TITLE OF CLASS

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

Indicate by check mark if disclosure of delinquent filers pursuant to Rule 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. H

The aggregate market value of the voting stock held by non-affiliates of the registrant was approximately $67,987,000 based upon the closing sales price of registrant's Common Stock on March 31, 1994 of $9 1/2 per share.

As of March 31, 1994, 42,369,319 shares of registrant's Common Stock, $.50 par value per share, were outstanding.

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PART I

ITEM 1. BUSINESS

INTRODUCTION

Flagstar Companies, Inc. ("FCI"), through its wholly-owned subsidiary Flagstar Corporation ("Flagstar"), is one of the largest food service enterprises in the United States, operating (directly and through franchisees) 2,500 moderately priced restaurants and providing contract food services to more than 1,600 business, industrial and institutional clients and vending services at approximately 11,400 locations.

The Company's restaurant operations are conducted through three principal chains. Denny's is the nation's largest chain of family-oriented full service restaurants, with over 1,500 units in 49 states and eight foreign countries, including 490 in California and Florida. According to an independent survey conducted in 1993, Denny's has the leading share of the national market in the family segment. Hardee's is a chain of fast-food restaurants of which the Company, with 564 units located primarily in the southeast, is the largest franchisee. Although specializing in sandwiches, the Company's Hardee's restaurants have introduced fresh fried chicken and also offer a breakfast menu that accounts for approximately 38% of total sales and features the chain's famous "made-from-scratch" biscuits. Quincy's, with more than 200 locations, is one of the largest chains of steakhouse restaurants in the southeastern United States, offering steak, chicken and seafood entrees as well as a buffet food bar, called the "Country Sideboard," that features as many as 87 different items. A weekend breakfast buffet is available at most Quincy's locations. The Company also operates El Pollo Loco, a chain of fast-food restaurants featuring flame-broiled chicken and steak products and related Mexican food items, with a strong regional presence in California.

Although operating in three distinct segments of the restaurant industry -- family-style, fast-food and steakhouse -- the Company's restaurants benefit from a single management strategy that emphasizes superior value and quality, friendly and attentive service and appealing facilities. During the past year, the Company has remodeled 59 of its existing restaurants and added a net of 86 new restaurants to its principal chains.

The Company's contract food and vending services are conducted through Canteen, one of the three largest contract food and vending companies in the nation. Canteen also operates food, beverage and lodging facilities and gift shops and provides ancillary services at various national and state parks, sports stadiums, amphitheaters and arenas throughout the United States.

FCI is a holding company that was organized in Delaware in 1988 in order to effect the acquisition of Flagstar in 1989. On November 16, 1992, FCI and Flagstar consummated the principal elements of a recapitalization (the "Recapitalization"), which included, among other things, an equity investment by TW Associates, L.P. ("TW Associates") and KKR Partners II, L.P. ("KKR Partners II") (collectively, "Associates"), partnerships affiliated with Kohlberg Kravis Roberts & Co. ("KKR"), and a restructuring of Flagstar's bank credit facility and public debt securities. As a result of such transactions, Associates acquired control of FCI and Flagstar. Prior to June 16, 1993, FCI and Flagstar had been known, respectively, as TW Holdings, Inc. and TW Services, Inc. As used herein, the term "Company" includes, in addition to FCI, Flagstar and its subsidiaries, except as the context otherwise requires.

GENERAL

The Company's operating revenues and operating income by business segment for the periods shown were as follows:

<TABLE>
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	PREDECESSOR		SUCCESSOR			
	JANUARY 1 TO JULY 20, 1989	JULY 21 TO DECEMBER 31, 1989	YEAR ENDED DECEMBER 31, 1990	1991	1992	1993
<S>	<C>	<C>	<C>	<C>	<C>	<C>
			(IN MILLIONS)			
Operating Revenues:						
Restaurants	$ 1,180.9	$ 931.7	$2,303.9	$2,338.7	$2,443.0	$ 2,598.9
Contract food service	735.9	586.2	1,322.6	1,279.2	1,277.3	1,371.3
	$ 1,916.8	$1,517.9	$3,626.5	$3,617.9	$3,720.3	$ 3,970.2
Operating Income (Loss):						
Restaurants	$ 112.9	$ 74.4	$ 196.5	$ 192.0	$ 214.1	
Contract food service	29.4	26.5	51.9	45.9	50.9	
Corporate, net	(7.1)	(4.0)	(10.1)	(13.9)	(18.6)	
Acquisition-related costs and unusual expenses	(30.1)	(69.9)	--	--	--	
	$ 105.1	$ 27.0	$ 238.3	$ 224.0	$ 246.4	

Operating Income (Loss):	
Restaurants	$(1,085.9)(1)
Contract food service	(313.3)(1)
Corporate, net	(61.6)(1)
Acquisition-related costs and unusual expenses	--
	$(1,460.8)

</TABLE>

(1) Operating income by business segment reflects the write-off of goodwill and other intangible assets and the provision for restructuring charges (see Notes 2 and 3 to the Consolidated Financial Statements) as follows: restaurants $1,265.6 million, contract food service $359.8 million, and corporate, net $41.4 million.

For additional financial information about the Company's business segments, see Note 14 of the Notes to Consolidated Financial Statements appearing elsewhere herein.

On July 1, 1993, culminating a dialogue which began in early 1992, the Company signed a Fair Share Agreement with the NAACP "as a commitment to continue and expand opportunities at Flagstar for African-American and other minorities." Pursuant to that agreement, the Company agreed to place special emphasis on management and employment advancement, advertising and marketing, franchising opportunities, purchasing and professional service opportunities, philanthropic and charitable contributions and policy development, to enhance policies and programs by which African-Americans and other minorities realize greater participation in business opportunities at Flagstar. The Company and the NAACP have agreed to meet quarterly during the first year of the agreement and semiannually thereafter to review progress toward the stated goals of the agreement.

RESTAURANTS

The Company believes its restaurant operations benefit from the diversity of the restaurant concepts represented by its three principal chains, the strong market positions and consumer recognition enjoyed by each of these chains, the benefits of a centralized support system for purchasing, menu development, human resources, management information systems, site selection, restaurant design and construction, and an aggressive new management team. The Company owns or has rights in all trademarks it believes are material to its restaurant operations. Denny's and Quincy's are expected to benefit from the demographic trend of aging baby boomers and the growing population of elderly persons. The largest percentage of "family style" customers comes from the 35 and up age group. The Company also expects its chain of Hardee's restaurants to maintain its strong market position in the southeast.

During the fourth quarter of 1993, the Company approved a restructuring plan which includes the identification of units that have produced inadequate returns on investment, have been difficult to supervise or lack market penetration so that such units can be sold, closed or converted to another restaurant concept. These actions should result in a redeployment of capital to activities which produce a higher rate of return. Accordingly, such units were written down to their net realizable value. The plan includes changes to the field management structure which will eliminate a layer of management, increasing the regional manager's "span of control" and expanding the restaurant general manager's decision making role. Also, the Company will consolidate certain Company operations and eliminate overhead positions in the field and in its corporate marketing, accounting, and administrative functions. The Company's restructuring charge reflected in the accompanying Consolidated Financial Statements includes the severance and relocation costs related to these changes. The plan includes specific action plans to fundamentally change the competitive positions of Denny's, El Pollo Loco, and Quincy's, as discussed below.

DENNY'S

<TABLE>
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	YEAR ENDED DECEMBER 31,			
	1989	1990	1991	1992
<S>	<C>	<C>	<C>	<C>
Operating Units (end of year)				
Owned/operated	1,001	992	996	1,013
Franchised	273	302	326	378
International	68	64	69	69
Revenues (in millions) (1)	$1,284	$1,407	$1,429	$1,449
Operating Income (Loss) (in millions) (1)	$ 98	$ 118	$ 128	$ 130
Depreciation and Amortization (in millions) (1)	$ 57	$ 68	$ 75	$ 82
Average Unit Sales (in thousands)				
Owned/operated	$1,117	$1,209	$1,232	$1,231
Franchised	$ 865	$ 949	$1,040	$1,065
Average Check	$ 4.05	$ 4.20	$ 4.37	$ 4.56

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	1993
<S>	<C>
Operating Units (end of year)	
Owned/operated	1,024
Franchised	427
International	63

Revenues (in millions) (1)	$1,530
Operating Income (Loss) (in millions) (1)	$ (625)(2)
Depreciation and Amortization (in millions) (1)	$ 88
Average Unit Sales (in thousands)	
Owned/operated	$1,233
Franchised	$1,057
Average Check	$ 4.76

</TABLE>

(1) Includes distribution and processing operations.
(2) Operating income reflects the write-off of goodwill and other intangible assets and the provision for restructuring charges for the year ended December 31, 1993 of $716 million.

Denny's is the largest full-service family restaurant chain in the United States in terms of both number of units and total revenues and, according to an independent survey conducted in 1993 by Consumer Reports on Eating Share Trends (CREST), an industry market research firm, Denny's has the leading share of the national market in the family segment. Denny's restaurants currently operate in 49 states and eight foreign countries, with principal concentrations in California, Florida, Texas, Washington, Arizona, Illinois, Pennsylvania and Ohio. Denny's restaurants are designed to provide a casual

dining atmosphere with moderately priced food and quick, efficient service to a broad spectrum of customers. The restaurants generally are open 24 hours a day, seven days a week. All Denny's restaurants have uniform menus (with some regional and seasonal variations) offering traditional family fare (including breakfast, steaks, seafood, hamburgers, chicken and sandwiches) and provide both counter and table service for breakfast, lunch and dinner as well as a "late night" menu.

The Company acquired the Denny's chain in September 1987. Since the acquisition, the Company has reduced corporate level overhead (including through the relocation of key operating personnel to the Company's Spartanburg, South Carolina headquarters), accelerated Denny's remodeling program, added point-of-sale ("POS") systems to the chain's restaurants, simplified the menu and created new advertising and marketing programs.

The Company remodeled 125 Denny's restaurants in 1992 and another 41 in 1993, raising the total number of restaurants remodeled since the Company's aquisition of Denny's to over one-half of all Denny's restaurants. The Company expects to remodel approximately 90 units this year so that, by the end of 1994, Company-owned Denny's restaurants will be remodeled on an eight year cycle. A typical Denny's remodeling requires approximately ten days to complete (with the temporary closing of the restaurant), is managed by the Company's in-house design and construction staff, and currently costs approximately $265,000 per unit. The 90 units to be remodeled in 1994 will represent the first phase in a "reimaging" strategy. This reimaging strategy includes an updated exterior look, new signage, an improved interior layout with more comfortable seating and enhanced lighting. Reimaging also includes a new menu, new menu offerings, new uniforms, and enhanced dessert offerings, including a current market test of Baskin-Robbins ice cream. The Company believes this reimaging program, currently being tested at its units in Houston, will increase customer satisfaction and customer traffic.

The Company completed the rollout of its Denny's restaurants with POS systems in January 1993. This system provides hourly sales reports, cash control and marketing data and information regarding product volumes. POS systems improve labor scheduling, provide information to evaluate more effectively the impact of menu changes on sales, and reduce the paperwork of managers. Additional efficiency improvements are being designed in 1994.

Marketing initiatives in 1994 will emphasize positioning Denny's as the price value leader within its segment, initially concentrating on breakfast. The Company intends to support these initiatives by expanding the number of media markets and using co-op advertising with franchisees in other markets. These promotions are designed to capitalize on the strong public recognition of the Denny's name.

The Company intends to open relatively few Company-owned Denny's restaurants and to expand its franchising efforts in 1994 in order to increase its market share, establish a presence in new areas and further penetrate existing markets. To accelerate the franchise expansion, the Company will identify units to sell to franchisees which are not part of its growth strategy for Company-owned Denny's units. These units are in addition to 105 units that are to be sold to franchisees or closed under the Company's restructuring plan. The restructured field management infrastructures established to serve the existing Denny's system are expected to provide sufficient support for additional units with moderate incremental expense. Expanded franchising also will permit the Company to exploit smaller markets where a franchisee's ties to the local community are advantageous.

During 1993, the Company added a net of 49 new Denny's franchises, bringing total franchised units to 427, or 28% of all Denny's restaurants. The initial fee for a single Denny's franchise is $35,000, and the current royalty payment is 4% of gross sales. In 1993, Denny's realized $33.5 million of revenues from franchising. Franchisees also purchase food and supplies from a Company subsidiary.

During 1993, the Company also made certain changes in the management of Denny's, including the appointment of C. Ronald Petty as chief operating

officer. Mr. Petty, 49, has twenty years of experience in the food service industry, including senior leadership positions with other national restaurant chains. Mr. Petty has assumed overall responsibility for the operation of the Denny's chain.

HARDEE'S

	YEAR ENDED DECEMBER 31,			
	1989	1990	1991	1992
Operating Units (end of year)				
Owned/operated	465	483	500	528
Revenues (in millions)	$ 467	$ 510	$ 525	$ 607
Operating Income (Loss) (in millions)	$ 61	$ 52	$ 52	$ 72
Depreciation and Amortization (in millions)	$ 27	$ 40	$ 40	$ 44
Average Unit Sales (in thousands)				
Owned/operated	$1,040	$1,077	$1,062	$1,185
Average Check	$ 2.55	$ 2.64	$ 2.72	$ 2.88

	1993
Operating Units (end of year)	
Owned/operated	564
Revenues (in millions)	$ 682
Operating Income (Loss) (in millions)	$ (179)(1)
Depreciation and Amortization (in millions)	$ 48
Average Unit Sales (in thousands)	
Owned/operated	$1,255
Average Check	$ 3.09

(1) Operating income reflects the write-off of goodwill and other intangible assets and the provision for restructuring charges for the year ended December 31, 1993 of $260 million.

The Company's Hardee's restaurants are operated under licenses from Hardee's Food Systems, Inc. ("HFS"). The Company is HFS' largest franchisee, operating 17% of Hardee's restaurants nationwide. HFS is the third largest sandwich chain in the United States. Of the 564 Hardee's restaurants operated by the Company at December 31, 1993, 544 were located in ten southeastern states. The Company's Hardee's restaurants provide uniform menus in a fast-food format targeted to a broad spectrum of customers. The restaurants offer hamburgers, chicken, roast beef and fish sandwiches, hot dogs, salads and low-fat yogurt, as well as a breakfast menu featuring Hardee's popular "made-from-scratch" biscuits. To add variety to its menu, further differentiate its restaurants from those of its major competitors and increase customer traffic during the traditionally slower late afternoon and evening periods, HFS added fresh fried chicken as a menu item in a number of its restaurants beginning in 1991. The Company first tested fresh fried chicken in one of its market areas in October 1991. Based on the success experienced in this market area and the early success experienced by HFS, the Company accelerated the introduction of fresh fried chicken as a regular menu item during 1992 and completed the planned rollout in 1993.

Substantially all of the Company's Hardee's restaurants have drive-thru facilities, which provided 51% of the chain's revenues in 1993. Most of the restaurants are open 18 hours a day, seven days a week. Operating hours of selected units have been extended to 24 hours a day, primarily on weekends. Hardee's breakfast menu, featuring the chain's signature "made-from-scratch" biscuits, accounts for approximately 38% of total sales at the Company's Hardee's restaurants. The Company plans to remodel its Hardee's restaurants every ten years at a current average cost of $175,000 per unit for major remodels.

Each Hardee's restaurant is operated under a separate license from HFS. Each license grants the exclusive right, in exchange for a franchise fee, royalty payments and certain covenants, to operate a Hardee's restaurant in a described territory, generally a town or an area measured by a radius from the restaurant site. Each license has a term of 20 years from the date the restaurant is first opened for business and is non-cancellable by HFS, except for the Company's failure to abide by its covenants. Earlier issued license agreements are renewable under HFS' renewal policy; more recent license agreements provide for successive five-year renewals upon expiration, generally at rates then in effect for new licenses. A number of the Company's licenses are scheduled for renewal. The Company has historically experienced no difficulty in obtaining such renewals and does not anticipate any problems in the future.

The Company has a territorial development agreement with HFS which calls for the Company to open an additional 69 new Hardee's restaurants in its existing development territory in the southeast (and certain adjacent areas) by the end of 1996. The Company presently plans to open new restaurants in an amount not less than that required by the territorial development agreement. It is anticipated that construction of 69 additional units will require approximately $69 million in capital expenditures. If the Company determines not to open the total number of specified units in the territory within the time

provided, its development rights may become non-exclusive. The Company may seek to expand its Hardee's operations by purchasing existing Hardee's units from HFS and other franchisees, subject to HFS' right of first refusal, but any such purchases will not be counted toward the number of new unit openings called for under the agreement.

QUINCY'S

	YEAR ENDED DECEMBER 31,			
	1989	1990	1991	1992
Operating Units (end of year)				
Owned/operated	213	212	216	217
Revenues (in millions)	$ 263	$ 282	$ 283	$ 290
Operating Income (Loss) (in millions)	$ 18	$ 20	$ 15	$ 11
Depreciation and Amortization (in millions)	$ 17	$ 21	$ 22	$ 22
Average Unit Sales (in thousands)				
Owned/operated	$1,247	$1,324	$1,320	$1,335
Average Check	$ 5.30	$ 5.38	$ 5.40	$ 5.32

	1993
Operating Units (end of year)	
Owned/operated	213
Revenues (in millions)	$ 279
Operating Income (Loss) (in millions)	$ (154)(1)
Depreciation and Amortization (in millions)	$ 21
Average Unit Sales (in thousands)	
Owned/operated	$1,302
Average Check	$ 5.61

(1) Operating income reflects the write-off of goodwill and other intangible assets and the provision for restructuring charges for the year ended December 31, 1993 of $164 million.

Ranked by 1993 sales, Quincy's is the sixth largest steakhouse chain in the country and one of the largest such chains in the southeastern United States. The Quincy's chain consists of 213 Company-owned restaurants at December 31, 1993 which are designed to provide families with limited-service dining at moderate prices. All Quincy's are open seven days a week for lunch and dinner. The restaurants serve steak, chicken and seafood entrees along with a buffet-style food bar, called the "Country Sideboard," offering hot foods, soups, salads and desserts and featuring as many as 87 items at a time. In addition, weekend breakfast service, which is available at most locations, allows Quincy's to utilize its asset base more efficiently.

Since 1986 Quincy's has remodeled approximately 85 restaurants to expand seating capacity from approximately 225 to approximately 280 seats. During 1993, seven units were remodeled to introduce the new scatter bar format.

The Company also began testing a unit concept conversion in 1993 by remodeling and converting three steakhouses in Columbia, S.C., to a buffet only concept. Under the Company's restructuring plan, 90 units have been identified that currently are not producing adequate returns and, therefore, are to be converted, sold, or closed. Upon successful completion of its concept conversion tests, the Company plans to convert most of these units to the buffet only concept or other concepts under consideration. The concept remodels are expected to have an average cost of approximately $250,000 per unit.

EL POLLO LOCO

El Pollo Loco, which accounted for only 4.2% of the Company's total restaurant revenues (2.7% of consolidated revenues) in the year ended December 31, 1993, is the leading chain in the quick service chain segment of the restaurant industry to specialize in flame-broiled chicken. As of December 31, 1993, there were 209 El Pollo Loco units (of which 139 were operated by the Company, 64 were operated by franchisees and 6 were operated under foreign licensing agreements). Approximately 92% of these restaurants are located in southern California. El Pollo Loco directs its marketing at customers desiring an alternative to other fast food products. The Company's El Pollo Loco restaurants are designed to facilitate customer viewing of the preparation of the flame-broiled chicken. El Pollo Loco restaurants generally are open 12 hours a day, seven days per week. El Pollo Loco restaurants feature a limited, but expanding menu highlighted by marinated flame-broiled chicken and steak products and related Mexican food items.

As a part of the restructuring plan, the Company has identified 45 units which do not generate an adequate return on investment, and thus will be sold to franchisees or closed. The Company's restructuring plan includes reimaging the existing units through a limited remodeling program, expanded menu items (including fried foods) and an all-you-can-eat salsa bar. These changes are intended to increase customer satisfaction and expand the customer market resulting in higher customer traffic.

OPERATIONS

The Company believes that successful execution of basic restaurant operations in each of its restaurant chains is critical to its success.

Accordingly, significant effort is devoted to ensuring that all restaurants offer quality food and service. Through a network of division leaders, region leaders, district leaders and restaurant managers, the Company standardizes specifications for the preparation and efficient service of quality food, the maintenance and repair of its premises and the appearance and conduct of its employees. Major emphasis is placed on the proper preparation and delivery of the product to the consumer and on the cost-effective procurement and distribution of quality products.

A principal feature of the Company's restaurant operations is the constant focus on improving operations at the unit level. Unit managers are especially hands-on and versatile in their supervisory activities. Region and district leaders have no offices and spend substantially all of their time in the restaurants. A significant majority of restaurant management personnel began as hourly employees in the restaurants and therefore perform restaurant functions and train by example. The Company benefits from an experienced management team.

Each of the Company's restaurant chains maintains training programs for employees and restaurant managers. Restaurant managers and assistant managers receive training at specially designated training units. Areas of training for managers include customer interaction, kitchen management and food preparation, data processing and cost control techniques, equipment and building maintenance and leadership skills. Video training tapes demonstrating various restaurant job functions are located at each restaurant location and are viewed by employees prior to a change in job function or utilizing new equipment or procedures.

Each of the Company's restaurant chains continuously evaluates its menu. New products are developed in Company test kitchens and then introduced in selected restaurants to determine customer response and to ensure that consistency, quality standards and profitability are maintained. If a new item proves successful at the research and development level, it is usually tested in selected markets, both with and without market support. A successful menu item is then incorporated into the restaurant system. In the case of the Hardee's restaurants, menu development is coordinated through HFS.

Financial and management control of the Company's restaurants is facilitated by the use of POS systems. Detailed sales reports, payroll data and periodic inventory information are transmitted to the Company for management review. These systems economically collect accounting data and enhance the Company's ability to control and manage these restaurant operations. Such systems are in use in all of the Company's Hardee's and Quincy's restaurants, and installation of such systems in the Denny's chain was completed in January 1993.

Denny's size allows it to operate its own distribution and supply facilities, thereby controlling costs and improving efficiency of food delivery while enhancing quality and availability of products. Denny's operates seven regional centers for distribution of substantially all of the ingredients and supplies used by the Denny's restaurants. As opportunities arise, the Company is extending these operations to its other restaurant chains. The Company also operates a food-processing facility in Texas which supplies beef, pork sausage, soup and many other food products currently used by the Company's restaurants.

Food and packaging products for the Company's Hardee's restaurants are purchased from HFS and independent suppliers approved by HFS. A substantial portion of the products for the Company's Hardee's and Quincy's restaurants is obtained from MBM Corporation, an independent supplier/distributor. Adequate alternative sources of supply for required items are believed to be available.

ADVERTISING

Denny's primarily relies upon regional television and radio advertising. Advertising expenses for Denny's restaurants were $41.1 million for 1993, or about 3.1% of Denny's system-wide restaurant revenues. Individual restaurants are also given the discretion to conduct local advertising campaigns. In accordance with HFS licensing agreements, the Company spends approximately 5.6% of Hardee's total gross sales on marketing and advertising. Of this amount, approximately 2.4% of total gross sales is contributed to media cooperatives and HFS' national advertising fund. The balance is directed by the Company on local levels. HFS engages in substantial advertising and promotional activities to maintain and enhance the Hardee's system and image. The Company participates with HFS in planning promotions and television support for the Company's primary markets and engages in local radio, outdoor and print advertising for its Hardee's operations. The Company, together with a regional advertising agency, advertises its Quincy's restaurants primarily through print, radio and billboards. Quincy's has focused on in-store promotions as well as regional marketing. The Company spent approximately 4.1% of Quincy's gross sales on Quincy's marketing in 1993. During 1993, El Pollo Loco's advertising focused on promoting large meals and menu variety.

SITE SELECTION

The success of any restaurant depends, to a large extent, on its location. The site selection process for Company-owned restaurants consists of three main phases: strategic planning, site identification and detailed site review. The planning phase ensures that restaurants are located in strategic markets. In the site identification phase, the major trade areas within a market area are analyzed and a potential site identified. The final and most time consuming phase is the detailed

site review. In this phase, the site's demographics, traffic and pedestrian counts, visibility, building constraints and competition are studied in detail. A detailed budget and return on investment analysis are also completed. The Company considers its site selection standards and procedures to be rigorous and will not compromise those standards or procedures in order to achieve accelerated growth.

CONTRACT FOOD, VENDING AND RECREATION SERVICES

<TABLE>
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	YEAR ENDED DECEMBER 31,			
	1989	1990	1991	1992
<S>	<C>	<C>	<C>	<C>
		(IN MILLIONS)		
Revenues:				
Food and Vending	$1,073	$1,071	$1,015	$ 990
Concession and Recreation Services	249	252	264	287
Total	$1,322	$1,323	$1,279	$1,277
Operating Income (Loss)	$ 56	$ 52	$ 46	$ 51
Depreciation and Amortization	$ 61	$ 70	$ 69	$ 68

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	1993
<S>	<C>
Revenues:	
Food and Vending	$1,049
Concession and Recreation Services	322
Total	$1,371
Operating Income (Loss)	$ (313)(1)
Depreciation and Amortization	$ 75

</TABLE>

(1) Operating income reflects the write-off of goodwill and other intangible assets and the provision for restructuring charges for the year ended December 31, 1993 of $360 million.

Through Canteen, the Company conducts its contract food and vending services on a national basis. According to NATION'S RESTAURANT NEWS (published August 9, 1993), Canteen is the third largest provider of contract food and vending services in the United States (on the basis of U.S. system-wide sales). It had approximately 1,600 food service clients and served approximately 11,400 vending locations at December 31, 1993. Canteen provides its clients with on-site food preparation, cooking and service as well as vending machines that dispense a variety of food and beverage products. These services are offered both independently and in conjunction with each other. Canteen also grants franchises to distributors to operate contract food service facilities and vending businesses. In addition, Canteen licenses its trademark internationally and currently has licensees in Japan and Sweden. Canteen provides both its franchised distributors and international licensees with marketing assistance, training, purchasing services and financial and accounting systems.

Canteen's concession and recreation services operations provide food, beverage, novelty, and ancillary services in sports stadiums, amphitheaters, arenas and other locations, including five major league baseball parks (Hubert H. Humphrey Metrodome, Oakland-Alameda County Coliseum, Royals Stadium, Yankee Stadium and Candlestick Park), five minor league baseball parks and five professional football stadiums (Arrowhead Stadium, Hubert H. Humphrey Metrodome, Los Angeles Coliseum, Tampa Stadium and Candlestick Park). It operates food, beverage and lodging facilities and gift shops and provides other ancillary services at a number of national parks (including Yellowstone, Mount Rushmore, Everglades, Bryce Canyon, Zion and the North Rim of the Grand Canyon) and at state parks in Ohio and New York. In addition, Canteen operates food and beverage services, gift shops, bus tours and the IMAX Theatre at Spaceport USA at the Kennedy Space Center. Contracts to provide these services usually are obtained on the basis of competitive bids. In most instances, Canteen receives the exclusive right to provide the services in a particular location for a period of several years, with the duration of the term often a function of the required investment in facilities or other financial considerations.

Canteen's contract food service and vending operations are conducted throughout the United States. Approximately 30% of the Company's revenues from these operations are derived from industrial plants in the automotive, defense and other manufacturing industries. These industries have experienced a general reduction in employment over the past several years, which has been accelerated by the nation's recent recession. To ameliorate the effects of this trend, Canteen has increased its penetration of the educational, lifecare and correctional facility markets and has targeted these (along with concession and recreation services) as areas of potential growth. These target markets, which accounted for 39% of Canteen's revenues in 1993, are recession-resistant and, at present, are not widely served by contract food service companies. Management believes that growing budgetary pressures on institutions in these target markets should favor their increasing reliance on private sector contractors who can provide required food service at lower costs. As part of the restructuring plan, the Company will de-emphasize vending operations in certain markets resulting in the sale of certain vending branches, with the related severance and lease buy-out costs included in the restructuring charges.

Canteen operates through four primary divisions: the Eastern, Central, and

California divisions within the food and vending divisions, and the concession and recreation services division. These operations are managed on a regional basis, each of which is led by a regional vice president with responsibility for operations, sales and marketing in the assigned area. Field operations are supported by centralized legal, human resources, finance, purchasing, data processing and other services. Formal training programs on a variety of subjects are regularly provided to field personnel at 28 learning centers

maintained on clients' premises and at other on-site locations. In addition, management training is provided at the Company's central training facility in Spartanburg, South Carolina.

Canteen has improved its performance and responsiveness to clients by transferring more responsibility to field operations, while at the same time ensuring that innovative ideas for servicing the customer are shared across operations. Redundant accounting functions were reduced when Canteen closed 12 field accounting centers in 1993. The restructuring plan includes severance and other costs related to further consolidation of accounting and administrative functions. These steps have created a more focused and responsive operational structure and reduced administrative costs.

Canteen normally contracts with customers for food and vending services on a local basis, but, in the case of national customers, it may serve many geographically dispersed facilities. Approximately 47% of Canteen's food service accounts are conducted under management fee arrangements, whereby Canteen typically receives a fixed dollar amount or a fixed percentage of revenues in return for providing food services at price and service levels determined by its clients. Management fee arrangements are prevalent where companies subsidize food services as part of the benefits provided to employees. In other food service accounts, Canteen contracts to provide food service on a profit/loss basis. In the case of vending operations, service is predominantly provided on a profit/loss basis, and a commission is usually payable by Canteen to the owner of the premises on which the vending machines are located. The ability of Canteen to increase its prices in order to cover its cost increases is an important factor in maintaining satisfactory profit levels from operations not conducted pursuant to management fee arrangements. Canteen's ability to increase prices is materially affected by competitive factors and resistance from consumers and from firms and institutions on whose premises Canteen's operations are conducted and whose prior approval is usually required. Food and vending service contracts generally may be terminated on short notice given by either side. The equipment, other than vending equipment (which can be moved to another location), used by Canteen at an on-site operation is usually owned by its customer.

New business is obtained primarily through solicitation of new customers and responding to requests for bids. In competitive bid situations, financial terms as well as other factors, such as reputation and ability to perform, influence customers' decisions in awarding contracts, particularly in the private sector. Canteen capitalizes on its name recognition and owns or has rights in all trademarks it believes are material to its operations. Canteen's sales force is decentralized in order to tailor sales efforts to customers in various regions. As opportunities arise, Canteen also seeks to expand its operations through the acquisition of small regional food service companies that can be integrated into its existing operations.

COMPETITION

The restaurant industry can be divided into three main categories: quick service (fast-food), midscale (family) and upscale (dinner house). The quick service segment (which includes Hardee's and El Pollo Loco) is overwhelmingly dominated by the large sandwich, pizza and chicken chains. The midscale segment (which includes Denny's and Quincy's) includes a much smaller number of national chains and many local and regional chains, as well as thousands of independent operators. The upscale segment consists primarily of small independents in addition to several regional chains.

The restaurant industry is highly competitive and affected by many factors, including changes in economic conditions affecting consumer spending, changes in socio-demographic characteristics of areas in which restaurants are located, changes in customer tastes and preferences and increases in the number of restaurants generally and in particular areas. Competition among a few major companies that own or operate fast-food restaurant chains is especially intense. Restaurants, particularly those in the fast-food segment, compete on the basis of name recognition and advertising, the quality and perceived value of their food offerings, the quality and speed of their service, the attractiveness of their facilities and, to a large degree in a recessionary environment, price and perceived value.

Denny's, which has a strong national presence, competes primarily with regional family chains such as IHOP, Big Boy, Shoney's, Friendly's and Perkins -- all of which are ranked among the top six midscale restaurant chains. According to an independent survey conducted during 1993, Denny's had a 14.4% share of the national market in the family segment.

Hardee's restaurants compete principally with four other national fast food chains: McDonald's, Burger King, Wendy's and Taco Bell. In addition, Hardee's restaurants compete with fast-food restaurants serving other kinds of foods, such as chicken outlets (e.g., Kentucky Fried and Bojangles), family restaurants (e.g., Shoney's and Friendly's) and dinner houses. Management believes that Hardee's has the highest breakfast sales per unit of any major fast-food restaurant chain.

Quincy's primary competitors include Ryan's and Western Sizzlin', both of which are based in the southeast. Quincy's also competes with other family restaurants and with dinner houses and fast-food outlets. Nationwide, the top five chains

are Sizzler, Ponderosa, Golden Corral, Ryan's, and Western Sizzlin'. According to NATION'S RESTAURANT NEWS (published August 9, 1993), Quincy's ranked sixth nationwide in system-wide sales and third in sales per unit among the steak chains.

All aspects of Canteen's operations are highly competitive. Competition takes a number of different forms, including pricing, capital investment, maintaining food and service standards and securing and maintaining accounts with firms and institutions. Canteen competes with several national and a large number of local and regional companies, some of which, including Marriott and ARA, are substantial in size and scope. In addition, firms and institutions may, as an alternative to using a food service company such as Canteen, operate vending and food service businesses themselves. Many Canteen facilities must also compete with local alternatives such as restaurants, sandwich shops, convenience stores, delicatessans and other public arenas, convention centers, and entertainment venues.

EMPLOYEES

At December 31, 1993, the Company had approximately 123,000 employees, of whom 88,000 were employed in restaurant operations and 34,000 were engaged in contract food, vending and recreation services. Less than 1% of the restaurant employees are union members. Many of the Company's restaurant employees work part time, and many are paid at or slightly above minimum wage levels. Approximately 20% of Canteen's employees are unionized. The Company has experienced no significant work stoppages and considers its relations with its employees to be satisfactory.

ITEM 2. PROPERTIES

Most of the Company's restaurants are free-standing facilities. An average Denny's restaurant ranges from 3,900 to 5,800 square feet and seats 100 to 175 customers. Denny's restaurants generally occupy 35,000 to 45,000 square feet of land. An average Hardee's restaurant operated by the Company has approximately 3,300 square feet and provides seating for 94 persons, and most have drive-thru facilities. Each of the Company's Hardee's restaurants occupies approximately 50,000 square feet of land. The average Quincy's restaurant has approximately 7,100 square feet and provides seating for 250 persons. Each Quincy's restaurant occupies approximately 63,000 square feet of land. A typical El Pollo Loco restaurant has 2,250 square feet and seats 66 customers.

The following table sets forth certain information regarding the Company's restaurant properties as of December 31, 1993:

<TABLE>
<CAPTION>

	LAND AND BUILDING OWNED	LAND LEASED AND BUILDING OWNED	LAND AND BUILDING LEASED
<S>	<C>	<C>	<C>
TYPE OF RESTAURANT			
DENNY'S	284	42	698
HARDEE'S	266	102	196
QUINCY'S	161	45	7
EL POLLO LOCO	12	42	85
Total	723	231	986

</TABLE>

The number and location of the Company's restaurants in each chain as of December 31, 1993 are presented below:

<TABLE>
<CAPTION>

	DENNY'S				EL POLLO LOCO	
STATE	OWNED	FRANCHISED LICENSED	HARDEE'S	QUINCY'S	OWNED	FRANCHISED LICENSED
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Alabama	1	9	152	47	--	--
Alaska	--	4	--	--	--	--
Arizona	34	23	--	--	--	--
Arkansas	5	1	1	--	--	--
California	255	82	--	--	137	59
Colorado	25	9	--	--	--	--
Connecticut	9	1	--	--	--	--
Delaware	3	--	--	--	--	--
Florida	103	50	50	41	--	--
Georgia	--	23	9	11	--	--
Hawaii	4	3	--	--	--	--
Idaho	4	2	--	--	--	--
Illinois	50	6	--	--	--	--
Indiana	19	5	--	--	--	--
Iowa	6	--	--	--	--	--

Kansas	8	3	--	--	--	--
Kentucky	3	16	--	1	--	--
Louisiana	8	2	1	--	--	--
Maine	--	3	--	--	--	--
Maryland	14	14	--	--	--	--
Massachusetts	10	--	--	--	--	--
Michigan	40	1	--	--	--	--
Minnesota	14	4	--	--	--	--
Mississippi	2	2	38	8	--	--
Missouri	30	5	--	--	--	--
Montana	--	1	--	--	--	--
Nebraska	4	2	--	--	--	--
Nevada	11	1	--	--	2	2
New Hampshire	2	1	--	--	--	--
New Jersey	15	2	--	--	--	--
New Mexico	2	11	--	--	--	--
New York	26	6	--	--	--	--
North Carolina	9	9	66	41	--	--
North Dakota	--	2	--	--	--	--
Ohio	39	14	18	1	--	--
Oklahoma	9	5	--	--	--	--
Oregon	16	5	--	--	--	--
Pennsylvania	52	5	2	--	--	--
Rhode Island	--	--	--	--	--	--
South Carolina	11	5	116	41	--	--
South Dakota	--	1	--	--	--	--
Tennessee	3	10	108	17	--	--
Texas	70	31	--	--	--	3
Utah	7	7	--	--	--	--
Vermont	--	3	--	--	--	--
Virginia	20	6	3	5	--	--
Washington	58	10	--	--	--	--
West Virginia	--	2	--	--	--	--
Wisconsin	13	5	--	--	--	--
Wyoming	--	6	--	--	--	--
Canada	10	13	--	--	--	--
International	--	59	--	--	--	6
Total	1,024	490	564	213	139	70

</TABLE>

At December 31, 1993, the Company owned seven warehouses in California, Illinois, Florida, Pennsylvania, Texas and Washington, and one manufacturing facility in Texas. At that date, Canteen owned approximately 94,600 vending machines in its food and vending service operations, of which approximately 6,700 were leased to distributors. In addition, Canteen owned approximately 42 buildings with approximately 704,000 square feet and leased approximately 934,000 square feet for warehousing and office space throughout the United States for use in its food and vending services and recreation services operations.

The Company also owns a 19-story, 187,000 square foot office tower, which serves as its corporate headquarters, located in Spartanburg, South Carolina. The Company's corporate offices currently occupy approximately 14 floors of the tower, with the balance leased to others.

See Item 13. Certain Relationships and Related Transactions -- Description of Indebtedness and Note 4 to the accompanying Consolidated Financial Statements for information concerning encumbrances on certain properties of the Company.

ITEM 3. LEGAL PROCEEDINGS

Trans World Airlines, Inc. ("TWA") commenced a lawsuit on October 8, 1986 against Transworld Corporation ("Transworld"), certain contingent liabilities of which were assumed by Flagstar, and against certain of its past and present directors and certain former TWA directors, in the Supreme Court of the State of New York, New York County, alleging fraud and breach of fiduciary obligations in the execution and subsequent termination of a tax allocation agreement between Transworld and its former subsidiary, TWA. TWA's complaint seeks the following remedies: (i) damages equal to $52 million for investment tax credits ("ITC") claimed by Transworld on its 1984 federal income tax return, (ii) damages equal to the "present value" of Transworld's potential liability to TWA as of December 31, 1983 for net operating losses and ITC claimed by Transworld, including the $52 million in ITC, (iii) the voiding of a tax allocation agreement and damages to be determined at trial, or (iv) the voiding of certain sections of the tax allocation agreement and the payment to TWA of certain amounts as provided in such tax allocation agreement. There has been no activity relating to this lawsuit since 1988.

FCI, Flagstar, El Pollo Loco and Denny's, along with several officers and directors of those companies, have been named as defendants in an action filed on August 28, 1991 in the Superior Court of Orange County, California. The plaintiffs are several current and former El Pollo Loco franchisees. They allege that the defendants, among other things, failed or caused a failure to promote, develop and expand the El Pollo Loco franchise system in breach of contractual obligations to the plaintiff franchisees and made certain misrepresentations to the plaintiffs concerning the El Pollo Loco system. Asserting various legal theories, the plaintiffs seek actual and punitive damages in excess of $90

million, together with declaratory and certain other equitable relief. FCI, Flagstar and the other defendants have filed answers in this action. FCI and Flagstar have also filed cross-complaints against various plaintiffs in the action for breach of contract and other claims. Discovery has not yet been completed. Accordingly, it is premature for the Company to express a judgment herein as to the likely outcome of the action. The defendants, through counsel, intend to defend the action vigorously.

The Company has received proposed deficiencies from the Internal Revenue Service (the "IRS") for federal income taxes and penalties totalling approximately $46.6 million. Proposed deficiencies of $34.3 million relate to examinations of certain income tax returns filed by Denny's for periods ending prior to Flagstar's purchase of Denny's on September 11, 1987. The deficiencies primarily involve the proposed disallowance of certain expenses associated with borrowings and other costs incurred at the time of the leveraged buy-out of Denny's in 1985 and the purchase of Denny's by Flagstar in 1987. The Company has filed protests of the proposed deficiencies with the Appeals Division of the IRS, stating that, with minor exceptions, it believes the proposed deficiencies are erroneous. The Company and the IRS have reached a preliminary agreement on substantially all of the issues included in the original proposed deficiency. Based on this preliminary agreement, the IRS has agreed to waive all penalties, and the Company estimates that its ultimate federal income tax deficiency will be less than $5 million. The remaining $12.3 million of proposed deficiencies relates to examinations of certain income tax returns filed by the Company for the four fiscal years ended December 31, 1989. The deficiencies primarily involve the proposed disallowance of deductions associated with borrowings and other costs incurred prior to, at and just following the time of the acquisition of Flagstar in 1989. The Company intends to vigorously contest the proposed deficiencies because it believes the proposed deficiencies are substantially incorrect.

On March 26, 1993, a consent decree was signed by Flagstar and its subsidiary Denny's, Inc. and by the U.S. Department of Justice with respect to a complaint filed by the Department of Justice on that same date in the U.S. District Court for the Northern District of California. Such complaint alleged that the Company, through Denny's, had engaged in a pattern or practice of discrimination against African-American customers. The Company denied any wrongdoing. The consent decree, which was approved by the court on April 1, 1993, enjoins the Company from racial discrimination and requires the Company to implement certain employee training and testing programs and provide public notice of Denny's non-discrimination policies. It carries no direct monetary penalties. In a related matter, on March 24, 1993, a public accommodations lawsuit was filed against the Company by certain private plaintiffs in the U.S. District Court for the Northern District of California alleging that certain Denny's restaurants in California have engaged in racially discriminatory practices and seeking certification as a class action in California, unspecified actual, compensatory and punitive damages, and injunctive relief. The Company is also a defendant in various other public accommodations actions brought in various jurisdictions. The principal additional action was filed on May 24, 1993 in Maryland. This action was filed in the U.S. District for the District of Maryland, alleging that a Denny's restaurant in Annapolis, Maryland engaged in racially discriminatory practices, and seeks certification as a class action covering all states except California, unspecified actual compensatory and punitive damages, and injunctive relief. Other individual public accommodations cases have also been filed, including some cases which allege substantial compensatory and punitive damages for each plaintiff, statutory damages and injunctive relief. Discovery in these actions has not yet been completed. Class certification hearings in the two

purported class actions are scheduled to occur in 1994. The Company believes that these actions lack merit and, unless there is an early resolution thereof, intends to defend them vigorously.

The Company is also the subject of pending and threatened employment discrimination claims principally in California and Alabama. In certain of these claims, the plaintiffs have threatened to seek to represent a class alleging racial discrimination in employment practices at Company restaurants and to seek actual, compensatory and punitive damages, and injunctive relief. The Company believes that these claims also lack merit and, unless there is an early resolution thereof, intends to defend them vigorously.

The parties in the foregoing actions have explored and continue to explore the possibility of reaching an early resolution of these matters in an effort to avoid the costs and risks of litigation. No assurances can be given, however, that these matters can be resolved on mutually acceptable terms.

Other proceedings are pending against the Company, in many cases involving ordinary and routine claims incidental to the business of the Company, and in others presenting allegations that are nonroutine and include compensatory or punitive damage claims. The ultimate legal and financial liability of the Company with respect to the matters mentioned above and these other proceedings cannot be estimated with certainty. However, the Company believes, based on its examination of these matters and its experience to date, that sufficient accruals have been established by the Company to provide for known contingencies.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

Not applicable.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

The common stock of FCI, $.50 par value per share (the "Common Stock"), is currently traded on the NASDAQ National Market System using the symbol "FLST." As of March 31, 1994, 42,369,319 shares of Common Stock were outstanding, and there were approximately 13,000 record and beneficial stockholders. FCI has not paid and does not expect to pay dividends on its outstanding Common Stock. Restrictions contained in the instruments governing the outstanding indebtedness of Flagstar restrict its ability to provide funds that might otherwise be used by FCI for the payment of dividends on its Common Stock. See Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations -- Liquidity and Capital Resources and Note 4 to the accompanying Consolidated Financial Statements of the Company. The closing sales prices indicated below for the Common Stock were obtained from the National Association of Securities Dealers, Inc. and have been adjusted on a retroactive basis to reflect FCI's 5-for-1 reverse stock split with respect to the Common Stock effected as of June 16, 1993.

<TABLE>
<CAPTION>

	HIGH	LOW
<S>	<C>	<C>
1992		
First quarter	23 3/4	14 1/16
Second quarter	20 15/16	13 3/4
Third quarter	19 1/16	13 7/16
Fourth quarter	20 5/8	15
1993		
First quarter	20 15/16	15 5/16
Second quarter	16 7/8	11
Third quarter	12 1/4	8 1/2
Fourth quarter	12	8 1/2

</TABLE>

ITEM 6. SELECTED FINANCIAL DATA

Set forth below are certain selected financial data concerning the Company for each of the five years ended December 31, 1993. Such data have been derived from the Consolidated Financial Statements of the Company for such periods which have been audited. The following information should be read in conjunction with the Consolidated Financial Statements of the Company and Notes thereto presented elsewhere herein and Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

<TABLE>
<CAPTION>

	PREDECESSOR(1)	SUCCESSOR(1)				
	JANUARY 1 TO JULY 20, 1989(2)	JULY 21 TO DECEMBER 31, 1989	YEAR ENDED DECEMBER 31, 1990	YEAR ENDED DECEMBER 31, 1991	YEAR ENDED DECEMBER 31, 1992	YEAR ENDED DECEMBER 31, 1993
<S>	<C>	<C>	<C>	<C>	<C>	<C>
			(IN MILLIONS, EXCEPT RATIOS)			
Income Statement data:						
Operating revenues	$ 1,916.8	$1,517.9	$3,626.5	$3,617.9	$3,720.3	$3,970.2
Operating income	105.1	27.0	238.3	224.0	246.4	(1,460.8)(3)
Income (loss) from continuing operations (4)	20.8	(77.1)	(67.8)	(67.6)	(51.8)	(1,648.2)
Earnings (loss) per share applicable to common shareholders:						
Continuing operations	0.43	(3.51)	(3.08)	(3.04)	(2.32)	(39.23)
Discontinued operations (4)	(0.02)	--	--	--	--	--
Net income (loss)(5)	0.41	(3.51)	(3.08)	(3.04)	(9.29)	(40.14)
Cash dividends per common share (6)	0.05	--	--	--	--	--
Ratio of earnings to fixed charges(7)	1.53x	--	--	--	--	--
Deficiency in the coverage of fixed charges to earnings before fixed charges(7)	--	85.7	78.3	85.9	58.6	1,729.7
Balance Sheet data (at end of period):						
Current assets	--	257.4	222.0	199.7	206.6	251.0
Working capital (deficiency)(8)	--	(616.4)	(318.4)	(356.9)	(284.1)	(304.6)
Net property and equipment	--	1,519.6	1,490.4	1,447.6	1,443.2	1,337.7
Total assets	--	3,637.3	3,507.8	3,394.5	3,390.0	1,797.3
Long-term debt	--	1,948.0	2,305.7	2,261.3	2,179.5	2,352.2

</TABLE>

(1) Certain amounts for the four years ended December 31, 1992 have been reclassified to conform to the 1993 presentation.

(2) FCI acquired Flagstar as of July 20, 1989 in a business combination accounted for as a purchase. As a result of the acquisition, the financial data for the Successor periods are presented on a different basis of accounting than that of the Predecessor period, and therefore, are not directly comparable.

(3) Operating income for the year ended December 31, 1993 reflects charges for the write-off of goodwill and other intangible assets of $1,474.8 million and the provision for restructuring charges of $192.0 million.
(4) The Company sold American Medical Services, Inc., The Rowe Corporation and Milnot Company in 1990 and Preferred Meal Systems, Inc. in 1991. These entities have been treated as discontinued operations for all periods indicated above.
(5) For the year ended December 31, 1992, net loss includes extraordinary losses of $6.25 per share related to premiums paid to retire certain indebtedness and to charge-off the related unamortized deferred financing costs and losses of $0.72 per share for the cumulative effect of a change in accounting principle related to implementation of Statement of Financial Accounting Standards No. 106. For the year ended December 31, 1993, net loss includes extraordinary losses of $0.62 per share related to the repurchase of Flagstar's 10% Convertible Junior Subordinated Debentures Due 2014 (the "10% Debentures") and to the charge-off of unamortized deferred financing costs related to a prepayment of Flagstar's senior term loan; net loss for 1993 also includes a charge of $0.29 per share related to a change of accounting method pursuant to Staff Accounting Bulletin No. 92.
(6) Flagstar's bank credit agreement prohibits, and its public debt indentures significantly limit, distribution to FCI of funds that might otherwise be used by it to pay Common Stock dividends. See Note 4 to the accompanying Consolidated Financial Statements appearing elsewhere herein.
(7) The ratio of earnings to fixed charges has been calculated by dividing pre-tax earnings by fixed charges. Earnings, as used to compute the ratio, equal the sum of income before income taxes and fixed charges excluding capitalized interest. Fixed charges are the total interest expenses including capitalized interest, amortization of debt expenses and a rental factor that is representative of an interest factor (estimated to be one third) on operating leases.

(8) A negative working capital position is not unusual for a restaurant operating company. The negative working capital amount at December 31, 1989 is principally a result of classifying a portion of the Company's acquisition financing as a current liability. The reduction in the working capital deficit at December 31, 1990 is due principally to the refinancing of that acquisition debt to long-term debt during 1990. The increase at December 31, 1991 is primarily attributable to an increase in current maturities of long-term debt. At December 31, 1992, the decrease in the working capital deficiency from December 31, 1991 is due primarily to decreased current maturities of the Company's bank debt as a result of the Recapitalization. The increase in the working capital deficiency from December 31, 1992 to December 31, 1993 is attributable primarily to an increase in restructuring and other liabilities which was partially offset by an increase in receivables and inventories from the acquisition of contract food service operations during 1993.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with Item 6. Selected Financial Data and the Consolidated Financial Statements and other more detailed financial information appearing elsewhere herein.

1993 COMPARED TO 1992

Operating revenues for 1993 increased by approximately $249.9 million (6.7%) as compared with 1992. This increase was the result of a $155.9 million (6.4%) increase in revenues from restaurant operations and a $94.0 million (7.4%) increase in revenues from Canteen's contract food service operations. Canteen's concession and recreation revenues increased by $35.0 million (12.2%) and its food and vending revenues increased by $59.0 million (6.0%) as compared with 1992, primarily as a result of regional acquisitions. Food and vending revenues from Canteen's existing customer base continue to be adversely impacted by reduced employment levels at Canteen's business and industrial accounts. Denny's revenues increased $80.8 million (5.6%) principally as a result of the following: an 11-unit increase in the number of Company-owned restaurants, the addition of 49 net new franchised units, and favorable outside sales at the Company's distribution and food processing operations. Revenues at Denny's, however, were adversely affected by severe weather conditions in the first quarter, which forced the temporary closing of many of its restaurants, by the delay in implementation of certain promotional programs, and, management believes, by the negative publicity relating to the litigation described above in Item 3. Legal Proceedings. As a result of these factors, Denny's increase in average unit sales of 0.1% included a decrease in customer traffic of 4.1% while the average check increased 4.4%. Hardee's accounted for a significant portion of the increase in restaurant operating revenues for the year with a $75.0 million (12.4%) increase in 1993 as compared with 1992, due to a 6.0% increase in average unit sales and a 36-unit increase in the number of restaurants. The increase in average unit sales resulted from an 7.2% increase in the average check offset, in part, by a decrease of 1.1% in customer traffic. The increases in average unit sales and average check at Hardee's are primarily attributable to the fresh fried chicken product and the continued development of Hardee's "Frisco" product line. Quincy's revenues decreased by $11.1 million (3.8%) in 1993 as compared with 1992, primarily due to a 2.5% decrease in average unit sales combined with a 4-unit decline in the number of units. The decrease in average unit sales resulted from a decrease in customer traffic of 7.5% which

was offset, in part, by a 5.3% increase in average check. The significant decrease in traffic at Quincy's as compared with 1992 reflects the impact of a number of programs that were in place in early 1992 which increased customer traffic in 1992, but which proved to be more costly than anticipated and were subsequently refined or discontinued, resulting in the comparative decline in 1993 traffic. Revenues of El Pollo Loco, which account for only 4.2% of total restaurant operating revenues, increased by $11.2 million (11.5%) in 1993 as compared to 1992 as a result of a full year's impact in 1993 of 11 franchised units which were acquired by the Company in the fourth quarter of 1992 and a 1.8% increase in average unit sales.

The Company's operating expenses before considering the effects of the write-off of goodwill and certain other intangible assets and the provision for restructuring charges, discussed below, increased by $290.3 million (8.4%) in 1993 as compared with 1992. This increase was primarily attributable to an increase of $190.3 million (8.5%) in operating expenses before the effects of the write-off of goodwill and certain other intangible assets and the provision for restructuring charges relating to the Company's restaurant operations, and a $98.5 million (8.0%) increase in the operating expenses before the effects of the write-off of goodwill and certain other intangible assets and the provision for restructuring charges relating to Canteen's contract food service operations. Canteen's increased expenses were primarily a result of the corresponding increase in operating revenues described above. Of the total increase in operating expenses relating to restaurant operations, a significant portion ($118.7 million) is attributable to Denny's. The significant increase in operating expenses before the effects of the write-off of goodwill and certain other intangible assets and the provision for restructuring charges at Denny's is due primarily to an increase in product costs of $84.8 million and an increase in payroll and

benefit expense of $30.0 million. These increases resulted from higher commodity costs, additional labor associated with a Denny's breakfast promotion (which was discontinued in the second quarter) and an initiative to improve Denny's service capabilities, one time charges of $8.3 million related to efforts to address claims of discrimination, $1.1 million for the write-off of an international joint venture, and an increase in the number of Denny's units. Management expects the discrimination claims at Denny's to have an ongoing cost impact on the Company at least until resolution of the matters described above in Item 3. Legal Proceedings. The increase in operating expenses before the effects of the write-off of goodwill and certain other intangible assets and the provision for restructuring charges at Hardee's of $66.4 million is mainly attributable to increased revenues and is comprised principally of an increase in payroll and benefits expenses of $21.0 million and an increase in product costs of $29.9 million. Conversely, the decrease in operating expenses before the effects of the write-off of goodwill and certain intangible assets and the provision for restructuring charges at Quincy's of $8.9 million is attributable to the decrease in revenues. Quincy's experienced decreases in payroll and benefits expense of $3.9 million and in product costs of $3.8 million. Corporate and other expenses before the effects of the write-off of goodwill and certain intangible assets and the provision for restructuring charges increased by $1.5 million in 1993 as compared with 1992, primarily due to an increase in payroll and benefits expense of $1.9 million.

The write-off of goodwill and certain other intangible assets, primarily tradenames and franchise agreements, represent noncash charges of $1,267.7 million and $207.1 million, respectively. Since the acquisition of Flagstar in 1989, the Company has not achieved the revenue and earnings projections that were prepared and utilized at the time of the acquisition. In assessing the recoverability of goodwill and other intangible assets in prior years, the Company developed projections of future operations which indicated the Company would become profitable within several years and fully recover the carrying value of its goodwill and other intangible assets. Actual results, however, have fallen short of these projections, primarily due to increased competition, intensive pressure on pricing due to discounting, declining customer traffic, adverse economic conditions, and relatively limited capital resources to respond to these changes. During the fourth quarter of 1993, management determined that projections of future operating results, based on the assumption that historical operating trends derived from the last four years would continue (rather than projections derived from those utilized in 1989 or projections based on assumptions that the restructuring plan described below will be successful), did not support the future amortization of the remaining goodwill balance and certain other intangible assets at December 31, 1993. See Notes 1 and 2 to the Consolidated Financial Statements for a description of the methodology employed to assess the recoverability of the Company's goodwill and other intangible assets.

Effective in the fourth quarter of 1993, the Company approved a restructuring plan that includes the sale or closure of restaurants, a reduction in personnel, and a reorganization of certain management structures. The provision for restructuring charges is the result of disappointing operating results and a comprehensive financial and operational review initiated in 1993 due to a re-engineering study that evaluated the Company's major business processes. The restructuring charge of $192 million includes primarily a non-cash charge of $156 million to write-down certain assets and incremental cash charges of $36 million for severance, relocation and other costs. See Note 3 to the Consolidated Financial Statements for further details.

The write-down of assets under the restructuring plan represents predominantly non-cash adjustments made to reduce the carrying value of approximately 240 of the Company's 1,376 Denny's, Quincy's, and El Pollo Loco restaurants. Approximately 105 Denny's and 45 El Pollo Loco restaurants will be sold to franchisees or closed over a twelve month period and have been written down to net realizable value. The Quincy's concept is over-penetrated in a number of its markets; thus, most of the 90 Quincy's units identified in the restructuring plan will be converted to another concept with some units closed. As a result of the conversion to another concept, the estimated amount of the units' carrying value with no future benefit has been written off. The write-down of assets also includes a charge of $22 million to establish a reserve for operating leases primarily related to restaurant units which will be sold to franchisees or closed. The 240 restaurant units identified in the restructuring plan had aggregate operating revenues during 1993 of approximately $227 million and a negative operating cash flow of approximately $2.4 million. Such units had a net remaining carrying value after the write-down of approximately $43 million.

The restructuring plan will consolidate certain Company operations and eliminate overhead positions in the field and in its corporate marketing, accounting, and administrative functions. Also, the Company's field management structure will be reorganized to eliminate a layer of management. The restructuring charge includes a provision of approximately $25 million for the related severance, relocation, and office closure costs. The Company's restructuring plan also includes the decision to fundamentally change the competitive positioning of Denny's, El Pollo Loco, and Quincy's. The Company anticipates that the restructuring plan will result in reduced general and administrative costs of approximately $10 million annually.

Interest and debt expense decreased by $37.7 million in 1993 as compared with 1992, primarily due to a reduction in the Company's weighted average borrowing rate following the Recapitalization, the principal elements of which were consummated in the fourth quarter of 1992. The decrease in interest and debt expense includes a net decrease of $68.3 million in non-cash charges related to the accretion of original issue discount on the Company's 17% Senior Subordinated Discount Debentures Due 2001 which were retired in the fourth quarter of 1992 as part of the Recapitalization. Non-cash interest expense related to the accretion of insurance liabilities also decreased by approximately $7.0 million in 1993 as a result of a change in the method of determining the discount rate applied to insurance liabilities retroactive to January 1, 1993, as discussed below. These decreases in non-cash interest expense were offset, in part, by an increase in cash interest of $38.8 million from the refinance debt which was issued as part of the Recapitalization.

The Company's accounting change pursuant to Staff Accounting Bulletin No. 92 resulted in a charge of $12.0 million, net of income tax benefits, for the cumulative effect of the change in accounting principle as of January 1, 1993. The impact of this change on the Company's 1993 operating results was to increase operating expenses and decrease interest expense by approximately $7.0 million, respectively.

For the year ended December 31, 1993, the Company recognized extraordinary losses totalling $26.4 million, net of income tax benefits of $0.2 million. The extraordinary losses resulted from the write-off of $26.5 million of unamortized deferred financing costs associated with the prepayment in September 1993 of $387.5 million of term facility indebtedness and a charge of $0.1 million in March 1993 related to the repurchase of $741,000 in principal amount of the 10% Debentures. During the year ended December 31, 1992, the Company recognized extraordinary losses totalling $155.4 million, net of income tax benefits of $85.1 million from (i) premiums paid to retire certain indebtedness in connection with the Recapitalization and the write-off of related unamortized deferred financing costs, resulting in a charge of $144.8 million, net of income tax benefits of $83.6 million, (ii) the write-off of unamortized deferred financing costs associated with the prepayment of a portion of the Company's indebtedness under its prior credit agreement from the proceeds of the offer and sale (the "Preferred Stock Offering") in July 1992 of FCI's $2.25 Series A Cumulative Convertible Exchangeable Preferred Stock, $.10 par value per share (the "Preferred Stock"), resulting in a charge of $8.8 million, net of income tax benefits of $1.3 million, and (iii) the defeasance of $7.6 million of mortgage notes payable resulting in a charge of $1.8 million, net of income tax benefits of $0.2 million.

1992 COMPARED TO 1991

Operating revenues for 1992 increased by approximately $102.3 million (2.8%) as compared with 1991. This increase was the result of a $104.3 million (4.5%) increase in revenues from restaurant operations that was partially offset by a $2.0 million (0.2%) decrease in revenues from Canteen's contract food service operations. Canteen's concession and recreation revenues increased by $22.4 million or 8.5% over 1991. However, Canteen's food and vending revenues decreased by $24.4 million or 2.4% as compared with 1991 as the food and vending segment continued to be adversely impacted by reduced employment levels, particularly in the western and northeastern sections of the United States. Denny's accounted for $20.0 million of the $104.3 million increase in revenues from restaurant operations. The increase in revenues of Denny's was primarily attributable to a 17-unit increase in the number of Company-owned restaurants. Average unit sales decreased 0.1% as a result of a 4.2% decrease in customer traffic, offset by a 4.3% increase in the average check. The decrease in traffic

during 1992 resulted from intense competition and discounting in the midscale market segment, limited television exposure during the second half of 1992, and the continuing weakness of the west coast economy. The increase in the average check at Denny's primarily reflects a shift in consumer preferences to higher-priced menu items. Denny's also added 52 new franchise units during the year. Hardee's accounted for $81.2 million of the increase in restaurant operating revenues, primarily due to an 11.5% increase in average unit sales and a 28-unit increase in the number of restaurants. The increase in average unit sales resulted from a 5.9% increase in the average check at the Company's Hardee's restaurants combined with an increase of 5.3% in customer traffic. These increases are believed to be attributable, in part, to the introduction in the Company's Hardee's restaurants of fresh fried chicken as a new menu item in 300 units and the introduction in July 1992 of the "Frisco Burger" sandwich in all units. Quincy's contributed $6.6 million to the increase in restaurant operating revenues. The increase at Quincy's reflects a 1.1% increase in average unit sales, primarily due to a 2.6% increase in customer traffic (principally for breakfast service), which was offset in part by a 1.5% decrease in the average check. Quincy's results also reflect a number of programs which were introduced in the first quarter and were designed to increase customer traffic. Such programs, which proved to be more costly than originally anticipated, were refined or eliminated in the second quarter. Revenues of El Pollo Loco, which accounted for only 4.0% of total restaurant operating revenues, decreased by $3.5 million as a result of a decrease in the number of Company-owned restaurants for the first three quarters of 1992 as compared to the same period in 1991.

The Company's overall operating expenses increased by $79.9 million in 1992 as compared with 1991. This increase was primarily attributable to an increase of $82.3 million (3.8%) in operating expenses of the restaurant operations, partially offset by a $7.0 million (0.6%) decrease in operating expenses of Canteen's contract food service operations. The increases in the operating expenses of the restaurant operations reflected the increased revenues and consisted primarily of increased payroll and benefit expenses at Denny's ($7.3 million), Hardee's ($22.6 million) and Quincy's ($0.8 million). Aggressive product cost management and favorable commodity prices reduced the effects of product costs which increased at Hardee's ($22.4 million) and Quincy's ($7.9 million), and decreased at Denny's ($10.6 million). The product cost increases at Quincy's were due in part to the programs discussed in the preceding paragraph. The decrease in Canteen's operating expenses was due principally to a $8.5 million decline in product costs. Canteen's operating expenses were also reduced in the first quarter by approximately $2.6 million of unusual credits resulting from settlements of various insurance matters. Corporate and other expenses increased by $4.6 million, primarily due to a full year's impact in 1992 of certain support function expenses that, in 1991, were reflected in the restaurants' and Canteen's operating expenses.

Interest and debt expense decreased by $4.9 million in 1992 as compared with 1991, due primarily to a net decrease in cash interest of $13.5 million in 1992 due to lower interest rates on outstanding variable rate indebtedness, principal payments made during the year (including prepayment of a portion of the Company's term loan under its prior credit agreement with proceeds of the Preferred Stock Offering) and the issuance of the Preferred Stock. This decrease was offset, in part, by an increase of $8.5 million in non-cash charges principally related to the accretion of discounts recorded on certain self-insurance liabilities.

For the year, the Company recognized extraordinary losses totalling $155.4 million, net of income tax benefits of $85.1 million. The extraordinary losses resulted primarily from premiums paid to retire certain indebtedness in connection with the Recapitalization and the write-off of related unamortized deferred financing costs, resulting in a charge of $144.8 million, net of income tax benefits of $83.6 million, and from the write-off of unamortized deferred financing costs associated with the prepayment of a portion of the Company's term loan under its prior credit agreement from the proceeds of the Preferred Stock Offering, resulting in a charge of $8.8 million, net of income tax benefits of $1.3 million. In addition, in May 1992 the Company defeased $7.6 million of mortgage notes payable resulting in a charge of $1.8 million, net of income tax benefits of $0.2 million.

LIQUIDITY AND CAPITAL RESOURCES

Historically, the Company has met its liquidity needs and capital requirements with internally generated funds and external borrowings. The Company expects to continue to rely on internally generated funds, supplemented by available working capital advances under its Amended and Restated Credit Agreement, dated as of October 26, 1992, among Flagstar and TWS Funding, Inc., as borrowers, certain lenders and co-agents named therein, and Citibank, N.A., as managing agent (as amended, from time to time, the "Restated Credit Agreement"), and other external borrowings, as its primary sources of liquidity and believes that funds from these sources will be sufficient for the next twelve months to meet the Company's working capital, debt service and capital expenditure requirements.

Although the Company reported net losses in 1992 and 1993, those losses have been attributable in major part to non-cash charges, consisting principally of the write-off of goodwill and certain intangible assets, depreciation of tangible assets, amortization of intangible assets and goodwill, accretion of original issue discount, non-cash charges for extraordinary items related to

refinancings and defeasance of indebtedness, and non-cash charges related to the cumulative effect

of changes in accounting principles. The following table sets forth, for each of the years indicated, a calculation of the Company's cash from operations available for debt repayment and capital expenditures:

<TABLE>
<CAPTION>

	YEAR ENDED DECEMBER 31,	
	1992	1993
<S>	<C>	<C>
	(IN MILLIONS)	
Net loss	$(225.0)	$(1,686.7)
Write-off of goodwill and certain intangible assets	--	1,474.8
Provision for restructuring charges	--	192.0
Non-cash charges	307.6	263.6
Deferred income tax benefits	(20.8)	(85.4)
Extraordinary items, net	155.4	26.4
Cumulative effect of changes in accounting principles, net	17.8	12.0
Changes in certain working capital items	(18.6)	1.4
Increase in other assets and increase (decrease) in other liabilities, net	6.6	(27.1)
Cash from operations available for debt repayment and capital expenditures	$ 223.0	$ 171.0

</TABLE>

The provision for restructuring charges of $192.0 million recorded during 1993 includes approximately $36.0 million in incremental cash charges. Such cash charges, less approximately $6.5 million expended in 1993, are expected to require funding predominantly over a period of approximately twelve months. Included in the $156 million of primarily non-cash charges is a reserve of $22 million for the present value of operating leases, net of estimated sublease rentals, related to restaurant units that will be sold to franchisees or closed and offices to be closed. This liability will be liquidated over the remaining terms of the operating leases. The Company plans to fund the cash portion of the restructuring through the sale of certain Denny's and El Pollo Loco restaurant units to franchisees, increased cash flows from operations as a result of reduced general and administrative expenses and increased royalties on newly franchised restaurants, and borrowings under the Restated Credit Agreement.

During 1993, the Company sold in a public offering (the "1993 Offering") $275 million aggregate principal amount of 10 3/4% Senior Notes Due 2001 (the "10 3/4% Notes") and $125 million aggregate principal amount of 11 3/8% Senior Subordinated Debentures Due 2003 (the "11 3/8% Debentures"). Proceeds of the 1993 Offering were used to reduce the term facility under the Restated Credit Agreement. Although the interest rates payable on the 10 3/4% Notes and 11 3/8% Debentures are higher than the rate paid by the Company under the term facility partially refinanced thereby, the 1993 Offering and the related amendment to the Restated Credit Agreement served to extend the scheduled maturities of the Company's long-term indebtedness and thereby provide the Company with additional financial flexibility.

The Restated Credit Agreement includes a working capital and letter of credit facility of up to $350.0 million with a working capital sublimit of $200 million and a letter of credit sublimit of $245 million. The amendment to the Restated Credit Agreement consummated in conjunction with the 1993 Offering included, among other things, a modification to the former requirement that working capital advances under the credit facility be repaid in full and not reborrowed for at least 30 consecutive days during any 13-month period but at least once during each year to provide that working capital advances under the credit facility be paid down to a maximum borrowing thereunder of $100 million in 1993, reducing to $50 million in 1998, for such 30 day period in each year. Such amendment also made less restrictive certain financial covenants under the Restated Credit Agreement. An additional amendment to the Restated Credit Agreement was consummated in 1993 for the Company to use up to $50 million of net cash proceeds from the disposition of Denny's and El Pollo Loco restaurant units to acquire new Denny's restaurant units and refurbish other existing units and to exclude from limitations on capital expenditures (as defined) and investments (as defined) up to $25.6 million of cash or debt assumed in the purchase of certain franchisee units. For additional information see Item 13. Certain Relationships and Related Transactions -- Description of Indebtedness.

The Restated Credit Agreement and the indentures governing the Company's outstanding public debt contain negative covenants that restrict, among other things, the Company's ability to pay dividends, incur additional indebtedness, further encumber its assets and purchase or sell assets. In addition, the Restated Credit Agreement includes provisions for the maintenance of a minimum level of interest coverage, limitations on ratios of indebtedness to earnings before interest, taxes, depreciation and amortization (EBITDA) and limitations on annual capital expenditures.

At December 31, 1993 scheduled debt maturities of long-term debt for the years 1994 through 1998 are as follows:

<TABLE>
<CAPTION>

	AMOUNT
<S>	<C>
	(IN MILLIONS)
1994	$ 41.7
1995	42.5
1996	55.3
1997	96.7
1998	119.6

</TABLE>

In addition to scheduled maturities of principal, approximately $265.0 million of cash will be required in 1994 to meet interest payments on long-term debt (including interest on variable rate term indebtedness under the Restated Credit Agreement of approximately $11.0 million, assuming an annual interest rate of 6.3%) and dividends on the Preferred Stock.

The Company's principal capital requirements are those associated with opening new restaurants and expanding its contract food service business, as well as those associated with remodeling and maintaining its existing restaurants and facilities. During 1993, total capital expenditures were approximately $225.5 million, of which approximately $83.0 million was used to open new restaurants, $22.0 million was used for new products equipment, $61.2 million was applied to expand and maintain the Company's contract food service business, and $59.3 million was expended to upgrade and maintain existing facilities. Of these expenditures, approximately $77.1 million were financed through capital leases and secured borrowings. Capital expenditures during 1994 are expected to total approximately $185 million, of which approximately $60 million is expected to be financed externally.

The Company is able to operate with a substantial working capital deficiency because (i) restaurant operations and most other food service operations are conducted primarily on a cash (and cash equivalent) basis with a low level of accounts receivable, (ii) rapid turnover allows a limited investment in inventories, and (iii) accounts payable for food, beverages and supplies usually become due after the receipt of cash from the related sales. At December 31, 1993 the Company's working capital deficiency was $304.6 million as compared with $284.1 million at the end of 1992. Such increase is attributable primarily to an increase in restructuring and other liabilities which was partially offset by an increase in receivables and inventories from the acquisition of contract food service operations during 1993.

During November 1992, the Financial Accounting Standards Board issued Statement No. 112 "Employers' Accounting for Postemployment Benefits" which requires that benefits provided to former or inactive employees prior to retirement be recognized as an obligation when earned, subject to certain conditions, rather than when paid. The Company does not expect Statement No. 112 to have a material impact on the Company's operations and will implement this statement during the first quarter of 1994.

On April 11, 1994, Standard & Poor's Corporation downgraded the long-term credit ratings on Flagstar's outstanding senior debt securities from B+ to B and on its subordinated debt securities and FCI's Preferred Stock from B- to CCC+. Moody's Investors' Service, Inc. has also indicated that it is reviewing the ratings of Flagstar's debt securities for a possible downgrade. As a result of this action, certain payments by the Company relating to a subsidiary's mortgage financing will become due and payable on a monthly, rather than semi-annual, basis. See Item 13. Certain Relationships and Related Transactions - Description of Indebtedness - Mortgage Financings. Although the Company has not yet had an opportunity to evaluate the effect of such downgrade, management does not currently anticipate a significant impact on the Company's liquidity or ongoing operations.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

See Index to Financial Statements and Financial Statement Schedules which appears on page F-1 herein.

FORM 11-K INFORMATION

FCI, pursuant to Rule 15d-21 promulgated under the Securities Exchange Act of 1934, as applicable, will file as an amendment to this Annual Report on Form 10-K the information, financial statements and exhibits required by Form 11-K with respect to the Flagstar Thrift Plan and the Denny's, Inc. Profit Sharing Retirement Plan.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The following table sets forth information with respect to the directors and executive officers of FCI. Each director of FCI is also a director of Flagstar.

<TABLE>
<CAPTION>

NAME	AGE	PRINCIPAL OCCUPATION
<S>	<C>	<C>
Michael Chu	45	Director of FCI and Flagstar; Director of Latin American Operations, ACCION International (1993-present); Executive of KKR and a Limited Partner of KKR Associates, the sole partner of TW Associates and KKR Partners II (1989-1993);

		Director of World Color Press, Inc., Commercial Printing Holding Co., FINANSOL Compania de Financiamiento Comercil and Banco Solidario S.A.
Vera King Farris.....	53	Director of FCI and Flagstar; President of The Richard Stockton College of New Jersey (1983-present); Director of Elizabethtown Gas Corporation.
Hamilton E. James.....	43	Director of FCI and Flagstar; Managing Director of Donaldson, Lufkin & Jenrette Securities Corporation (investment banking) (1987-present); Senior Vice President and Principal of Donaldson, Lufkin & Jenrette Securities Corporation (1982-1987); Director of Price/Costco Inc. and County Seat Stores, Inc.
Henry R. Kravis (a).....	50	Director of FCI and Flagstar; General Partner of KKR and KKR Associates; Director of AutoZone, Inc., Duracell International Inc., IDEX Corporation, K-III Communications Corporation, Owens-Illinois, Inc., Owens-Illinois Group, Inc., RJR Nabisco Holdings Corp., RJR Nabisco, Inc., Safeway Inc., The Stop & Shop Companies, Inc., Union Texas Petroleum Holdings, Inc., Walter Industries, Inc. and American Re Corporation.
Augustus K. Oliver.....	44	Director of FCI and Flagstar; General Partner of Gollust, Tierney and Oliver (investment banking) (1985-present); Director of Gollust, Tierney and Oliver International Ltd. (administrative and management services) (1988-present); Managing Director of Gollust, Tierney and Oliver, Inc. (investment banking) (1984-present); Partner of Skadden, Arps, Slate, Meagher & Flom (law firm) (1983-1984).
Paul E. Raether.....	47	Director of FCI and Flagstar; General Partner of KKR and KKR Associates; Director of Duracell International, Inc., Fred Meyer, Inc., IDEX Corporation, RJR Nabisco Holdings Corp., RJR Nabisco, Inc., The Stop & Shop Companies, Inc. and Walter Industries, Inc.
Jerome J. Richardson.....	57	Chairman of FCI and Flagstar (1992-present); Chief Executive Officer and Director of FCI (1989-present); President of FCI (1989-1992); Chief Executive Officer of Flagstar (1989-present); Director of Flagstar (1980-present); President of Flagstar (1987-1992); Chairman of Denny's (1989-present); President and Chief Executive Officer of Canteen (1989-present); Chairman of Flagstar Systems, Inc. (1990-present); President and Chief Executive Officer of Flagstar Systems, Inc. (1989-present); President and Chief Executive Officer of Denny's (1988); Senior Vice President of Flagstar (1986-1987); President of Spartan Food Systems, division of Flagstar (1986-1989); President of Flagstar Systems, Inc. (1962-1986); Director of Isotechnologies, Inc., NCAA Foundation and Sonat Inc.; Member of the Board of Visitors, Duke University Medical Center.
Clifton S. Robbins.....	36	Director of FCI and Flagstar; Executive of KKR and a Limited Partner of KKR Associates; Director of IDEX Corporation, RJR Nabisco Holdings Corp., RJR Nabisco, Inc. and The Stop & Shop Companies, Inc.
George R. Roberts (a).....	50	Director of FCI and Flagstar; General Partner of KKR and KKR Associates; Director of AutoZone, Inc., Duracell International Inc., IDEX Corporation, K-III Communications Corporation, Owens-Illinois, Inc., Owens-Illinois Group, Inc., Red Lion Properties, Inc., RJR Nabisco, Inc., RJR Nabisco Holdings Corp., Safeway Inc., The Stop & Shop Companies, Inc., Union Texas Petroleum Holdings, Inc., Walter Industries, Inc. and American Re Corporation.

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<TABLE>
<CAPTION>

NAME	AGE	PRINCIPAL OCCUPATION
<S>	<C>	<C>
L. Edwin Smart.....	70	Director of FCI and Flagstar; Counsel, Hughes, Hubbard & Reed (law firm which performed services for the Company in 1993) (1989-present); Chairman of the Board and Chief Executive Officer of Flagstar (1986-1987); Chairman of the Board and Chief Executive Officer of Transworld (1978-1986); Chairman of the Board of TWA (1977-1985); Chief Executive Officer of TWA (1977-1979); Vice Chairman of TWA (1976-1977); Senior Vice President of TWA (1967-1975); Director of The Continental Corporation and Sonat Inc.
Michael T. Tokarz.....	44	Director of FCI and Flagstar; General Partner of KKR and KKR Associates; Director of Homes Holdings Corporation, IDEX Corporation, K-III Communications Corporation, RJR Nabisco, Inc., RJR Nabisco Holdings Corp., Safeway Inc. and Walter Industries, Inc.
A. Ray Biggs.....	52	Vice President and Chief Financial Officer of FCI and Senior Vice President and Chief Financial Officer of Flagstar (1992-present); Partner, Deloitte & Touche (accounting firm which served as independent auditors for the Company in 1993) (1978-1992).
George E. Moseley.....	54	Vice President and Secretary of FCI and Flagstar (1991-present); Associate General Counsel of FCI and Flagstar (1990-present); General Counsel of Flagstar Systems, Inc. (1990-present); Vice President, Secretary and General Counsel of Reeves Brothers, Inc. (manufacturing concern) (1977-1989).
Robert L. Wynn, III.....	52	Vice President and General Counsel of FCI (1992-present); Senior Vice President and General Counsel of Flagstar (1992-present); General Counsel of Denny's (1991-present); Partner, Holcombe, Bomar, Wynn, Cothran and Gunn (law firm which performed services for the Company in 1993) (1969-1990).

</TABLE>

(a) Messrs. Kravis and Roberts are first cousins.

In connection with the Recapitalization, FCI and Flagstar agreed that their respective Boards of Directors would be expanded to eleven members and that a majority of each such board will consist of persons designated by affiliates of KKR. For additional information concerning agreements regarding the composition of the Board of Directors, see Item 12. Security Ownership of Certain Beneficial Owners and Management -- The Stockholder's Agreement.

EXECUTIVE OFFICERS OF FLAGSTAR

The following table sets forth information with respect to the executive officers of Flagstar (other than as identified above).

NAME	AGE	PRINCIPAL OCCUPATION
H. Stephen McManus (a).....	51	Executive Vice President, Restaurant Operations of Flagstar (1991-present); Senior Vice President of Flagstar (1989-1991); Chief Operating Officer of Hardee's (1990-1991); Senior Vice President of Flagstar Systems, Inc. (1990-1991); Vice President of Operations of Spartan Food Systems, division of Flagstar (1986-1989); Vice President of Operations of Flagstar Systems, Inc. (1984-1986).
Gregory M. Buckley.....	40	Senior Vice President of Flagstar and Chief Operating Officer of Quincy's (1993-present); Vice President, Central Division of Pizza Hut (1990-1993); President, Southeast Division of Progressive Corp. (1986-1990).
Jerry A. Houck.....	51	Senior Vice President, Construction and Real Estate of Flagstar (1990-present); Vice President of Construction and Real Estate of Flagstar Systems, Inc. (1988-1990); Vice President of Construction of Flagstar Systems, Inc. (1987-1988); Director of New Construction for Flagstar Systems, Inc. (1976-1987).
James R. Kibler.....	39	Senior Vice President of Flagstar and Chief Operating Officer of Hardee's (1991-present); Senior Vice President of Flagstar Systems, Inc. (1991-present); Vice President of Operations -- Denny's West Coast (1989-1991); Division Leader for Hardee's (1989); Region Leader for Hardee's (1979-1989).

NAME	AGE	PRINCIPAL OCCUPATION
Samuel H. Maw (a).....	60	Senior Vice President, Product Development and Distribution of Flagstar (1990-present); Chief Operating Officer of Canteen Corporation (1993-present); Senior Vice President of Flagstar (1989); President and Chief Executive Officer of Denny's (1988-1990); Senior Vice President of Spartan Food Systems, division of Flagstar (1987-1988); Vice President of Research and Development of Flagstar Systems, Inc. (1974-1986); Director of Isotechnologies, Inc.
Edna K. Morris.....	42	Senior Vice President, Human Resources of Flagstar (1993-present); Vice President, Education and Development of Flagstar (1992-1993); Senior Vice President/Human Resources of Hardee's Food Systems, Inc. (1987-1992); Director of Employee Relations of Hardee's Food Systems, Inc. (1987); Personnel Manager, Consolidated Diesel Company, a joint venture between J. I. Case and Cummins Engine Company (1981-1987); Personnel Manager, Manufacturing of Hardee's Food Systems, Inc. (1980-1981).
Raymond J. Perry.....	52	Senior Vice President of Flagstar and Chief Operating Officer of El Pollo Loco (1993-present); President of Kelly's Coffee & Fudge Factory (1991-1993); Executive Vice President of Carl's Jr. Restaurants (1989-1991); Group Vice President of Carl's Jr. Restaurants (1988-1989); Vice President of Operations of Carl's Jr. Restaurants (1986-1988).
C. Ronald Petty.....	49	Senior Vice President of Flagstar and Chief Operating Officer of Denny's (1993-present); Independent Consultant (1992-1993); President and Chief Executive Officer of Miami Subs Corporation (1990-1992); President and Chief Operating Officer of Burger King Corporation, US Division (1988-1990); President, International Division of Burger King Corporation (1986-1988).
C. Burt Duren.....	35	Vice President, Tax of Flagstar (1993-present); Treasurer of Flagstar (January 1994-present); Director of Tax of Flagstar (1989-1993); Senior Tax Manager, Deloitte & Touche (1988-1989).
Norman J. Hill.....	51	Vice President, Field Human Resources of Flagstar (1993-present); Vice President, Human Resources of Perkins Family Restaurants, L.P. (1986-1993).
Thomas R. Holt.....	37	Vice President, Information Services of Flagstar (1993-present); Director, Information Services of Flagstar (1991-1993); Director, Management Information Services of Flagstar Systems, Inc. (1988-1990); Manager, Information Services of Carpet and Rug Division of Fieldcrest Cannon (1987-1988).
James A. Marshall.....	44	Vice President and Associate General Counsel of Flagstar (1992-present); Director of Asset Management of Hardee's Food Systems, Inc. (1990-1992); Assistant General Counsel and Assistant Secretary of Hardee's Food Systems, Inc. (1985-1990).
Coleman J. Sullivan.....	44	Vice President, Communications of Flagstar (1990-present); Vice President of Brown Boxenbaum, Inc. (public relations firm) (1986-1990); Director, Financial Relations, Transworld (1984-1986).
Stephen W. Wood.....	35	Vice President, Compensation, Benefits and Employee Information Systems of Flagstar (1993-present); Senior Director, Compensation, Benefits and Employee Information Systems of Flagstar (1993); Director, Benefits and Executive Compensation of Hardee's Food Systems, Inc. (1991-1993); Consultant of Hewitt Associates (benefit consultants that performed services for the Company in 1993) (1990); McGuire, Woods, Battle & Boothe (law firm) (1984-1990).
Mark E. Young.....	36	Vice President and Controller of Flagstar (January 1994-present); Special Projects Manager, Finance of Flagstar (1993-January 1994); Vice President, Finance and Treasurer of BET USA Inc. (contract services) (1988-1992); Senior Manager, Deloitte & Touche (accounting firm which served as independent auditors for the Company in 1993) (1986-1988).

(a) Messrs. Maw and McManus are brothers-in-law.

See Item 12. Security Ownership of Certain Beneficial Owners and Management for certain additional information concerning directors, executive officers and certain beneficial owners of the Company.

ITEM 11. EXECUTIVE COMPENSATION

COMPENSATION OF OFFICERS

No executive officer of FCI is compensated directly by FCI in connection with services provided to the Company. All such executive compensation is paid by Flagstar. Set forth below is information for 1993, 1992 and 1991 with respect to compensation for services to the Company of Jerome J. Richardson, the Chief Executive Officer of the Company, and each of the five most highly compensated executive officers (other than the Chief Executive Officer) of the Company during 1993.

SUMMARY COMPENSATION TABLE

<TABLE>
<CAPTION>

NAME AND PRINCIPAL POSITION	YEAR	ANNUAL COMPENSATION (1) SALARY($)(2)	BONUS($)	LONG-TERM COMPENSATION AWARDS SECURITIES UNDERLYING OPTIONS (#)(3)	ALL OTHER COMPENSATION ($)(4)
<S>	<C>	<C>	<C>	<C>	<C>
Jerome J. Richardson	1993	$ 824,355	--	--	$ 13,652
Chief Executive Officer	1992	$ 776,804	$750,000	600,000	$ 15,286
of Flagstar	1991	$ 641,663	$500,000	--	$ 16,739
A. Ray Biggs	1993	$ 198,132	--	60,000	--
Senior Vice President	1992	$ 166,468	$104,500	6,000(5)	--
and Chief Financial	1991	--	--	--	--
Officer of Flagstar					
David F. Hurwitt	1993	$ 230,664	--	35,000(6)	--
Formerly Senior Vice	1992	$ 179,347	$103,125	7,200(5)	--
President, Marketing	1991	--	--	--	--
of Flagstar					
Samuel H. Maw	1993	$ 280,861	--	80,000	--
Senior Vice President,	1992	$ 273,024	$124,888	--	--
Product Development	1991	$ 245,361	$ 66,300	--	--
and Distribution of Flagstar and					
Chief Operating Officer of Canteen					
Corporation					
H. Stephen McManus	1993	$ 238,495	--	80,000	--
Executive Vice President,	1992	$ 215,271	$104,545	--	--
Restaurant Operations	1991	$ 173,687	$ 57,400	--	--
of Flagstar					
Alan R. Plassche	1993	$ 201,773	--	(6)	--
Formerly Senior Vice	1992	$ 124,705	$ 67,035	--	--
President of Flagstar and	1991	--	--	--	--
Chief Operating Officer					
of Canteen Corporation					

</TABLE>

(1) The amounts shown for each named executive officer exclude perquisites and other personal benefits that did not exceed, in the aggregate, the lesser of either $50,000 or 10% of the total of annual salary and bonus reported for the named executive officer for any year included in this table.

(2) The amounts shown for 1993 include accruals of $62,082, $26,823 and $9,027 for Messrs. Richardson, Maw and McManus, respectively, under a supplemental executive retirement plan. The amounts shown for 1992 include accruals of $58,053, $30,119 and $11,920 for Messrs. Richardson, Maw and McManus, respectively, under the same plan, while the amounts shown for 1991 include accruals of $34,421, $25,220 and $5,966 for Messrs. Richardson, Maw and McManus, respectively.

(3) For additional information concerning the grant of options in 1993, see Item 11. Executive Compensation -- Stock Options below. Options to purchase Common Stock were granted to Mr. Richardson on December 15, 1992 pursuant to the 1989 Non-Qualified Stock Option Plan of FCI, as adopted December 1, 1989 and thereafter amended (the "1989 Option Plan"), and his employment agreement dated as of August 11, 1992, upon the termination of his prior option to purchase 160,000 shares of Common Stock. Such options become exercisable at the rate of 20% per year

beginning on November 16, 1993, conditioned upon his continued employment with the Company. Pursuant to Mr. Richardson's employment agreement, all shares of Common Stock that Mr. Richardson acquires upon any exercise of such options shall be subject to the Richardson Shareholder Agreement (as defined herein). See Item 11. Executive Compensation -- Employment Agreements -- Richardson Employment Agreement and Item 12. Security Ownership of Certain Beneficial Owners and Management -- Richardson Shareholder Agreement for additional information.

(4) The amounts shown for Mr. Richardson are all split-dollar insurance premium payments paid by the Company for the years indicated.

(5) Options granted in 1992 to Messrs. Biggs and Hurwitt were canceled in 1993 in connection with the issuance of new options having a lower exercise price. For additional information, see Item 11. Executive Compensation -- Stock Options.

(6) All options granted to Mr. Hurwitt in 1993 were terminated upon termination of his employment with the Company as of March 31, 1994. Mr. Plassche

received options to purchase 80,000 shares of Common Stock in 1993. Such options were terminated, however, upon termination of his employment with the Company as of November 15, 1993.

STOCK OPTIONS

Set forth below is information with respect to individual grants of stock options made during 1993 to Messrs. Biggs, Hurwitt, Maw, McManus and Plassche. No stock options were granted in 1993 to Mr. Richardson.

OPTION GRANTS IN 1993

<TABLE>
<CAPTION>

INDIVIDUAL GRANTS					POTENTIAL REALIZABLE VALUE AT ASSUMED ANNUAL RATES OF STOCK PRICE APPRECIATION FOR OPTION TERM	
NAME	NUMBER OF SECURITIES UNDERLYING OPTIONS GRANTED (#)(1)	% OF TOTAL OPTIONS GRANTED TO EMPLOYEES IN 1993	EXERCISE OR BASE PRICE ($/SH)	EXPIRATION DATE	5% ($)	10% ($)
<S>	<C>	<C>	<C>	<C>	<C>	<C>
A. Ray Biggs	60,000	2.4%	$11.25	06-29-03	$425,250	$1,073,250
David F. Hurwitt	35,000	1.4%	$11.25	06-29-03	$248,063	$ 626,063
Samuel H. Maw	80,000	3.2%	$11.25	06-29-03	$567,000	$1,431,000
H. Stephen McManus	80,000	3.2%	$11.25	06-29-03	$567,000	$1,431,000
Alan R. Plassche	80,000	3.2%	$11.25	06-29-03	$567,000	$1,431,000

</TABLE>

(1) Such options were granted on June 29, 1993 pursuant to the 1989 Option Plan. The exercise price for such options was established at the market price for the Common Stock at the date of grant. Such grant was effected in conjunction with, in the case of Messrs. Biggs, Hurwitt, Maw and McManus, the termination of prior options to purchase 6,000, 7,200, 8,400 and 7,200 shares, respectively. Such options are exercisable at the rate of 40% as of June 29, 1995 and 20% per year thereafter, conditioned upon continued employment with the Company. Under the 1989 Option Plan, the exercise price of shares of Common Stock purchased upon the exercise of an option may be paid in cash or by surrender of other shares of Common Stock having a fair market value on the date of exercise equal to such exercise price, or in a combination of cash and such shares. Upon termination of employment of a holder, all of such holder's options not then exercisable expire and terminate, but all of such holder's exercisable options remain exercisable for one year; PROVIDED that, if such termination is voluntary or without cause, such holder's exercisable options generally remain exercisable for sixty days, and PROVIDED FURTHER that if such termination is for cause, such exercisable options shall expire and terminate as of the date of termination. Mr. Hurwitt's and Mr. Plassche's options were later terminated in connection with the termination of their employment with the Company.

The following table sets forth information with respect to the 1993 year-end values of unexercised options, all of which were granted by the Company pursuant to the 1989 Option Plan, held by Jerome J. Richardson, the Chief Executive Officer of the Company, and each of the other persons named in the Summary Compensation Table above:

AGGREGATED OPTION EXERCISES IN 1993 AND FISCAL YEAR-END OPTION VALUES

<TABLE>
<CAPTION>

NAME	NUMBER OF SECURITIES UNDERLYING UNEXERCISED OPTIONS AT FISCAL YEAR-END (#) EXERCISABLE/ UNEXERCISABLE	VALUE OF UNEXERCISED IN-THE-MONEY OPTIONS AT FISCAL YEAR-END ($) EXERCISABLE/ UNEXERCISABLE
<S>	<C>	<C>
Jerome J. Richardson	120,000/480,000	-- / --
A. Ray Biggs	-- /60,000	-- / --
David F. Hurwitt	-- /35,000	-- / --
Samuel H. Maw	-- /80,000	-- / --
H. Stephen McManus	-- /80,000	-- / --
Alan R. Plassche	-- / --	-- / --

</TABLE>

No options held by the foregoing officers were exercised in 1993.

RETIREMENT PLANS

Separate retirement plans are maintained by Flagstar subsidiaries, Canteen Corporation and Flagstar Systems, Inc. Each plan is described below.

The following table shows the estimated annual benefits for a single life annuity that could be payable under the Canteen Retirement Plan (as defined) and Flagstar Retirement Plan (as defined), each as amended, upon a person's normal retirement at age 65 if that person were in one of the following classifications of assumed compensation and years of credited service:

<TABLE>

<CAPTION>

AVERAGE ANNUAL REMUNERATION OVER A FIVE-YEAR PERIOD	YEARS OF SERVICE 15	20	25	30	35
<S>	<C>	<C>	<C>	<C>	<C>
$ 200,000	$ 43,410	$ 57,881	$ 72,351	$ 86,821	$100,000
250,000	54,660	72,881	91,101	109,321	125,000
300,000	65,910	87,881	109,851	131,821	150,000
350,000	77,160	102,881	128,601	154,321	175,000
400,000	88,410	117,881	147,351	176,821	200,000
500,000	110,910	147,881	184,851	221,821	250,000
600,000	133,410	177,881	222,351	266,821	300,000
700,000	155,910	207,881	259,851	311,821	350,000
800,000	178,410	237,881	297,351	356,821	400,000
900,000	200,910	267,881	334,851	401,821	450,000
1,000,000	223,410	297,881	372,351	446,821	500,000
1,200,000	268,410	357,881	447,351	536,821	600,000
1,400,000	313,410	417,881	522,351	626,821	700,000
1,600,000	358,410	477,881	597,351	716,821	800,000

</TABLE>

The Canteen Corporation Retirement Plan for Salaried Employees (the "Canteen Retirement Plan") is noncontributory and covers salaried employees of the Company's Canteen operations (and its predecessors) and certain of Canteen's subsidiaries other than "highly compensated employees" as defined in the Internal Revenue Code of 1986, as amended (the "Code"). Highly compensated employees were excluded from future service accruals effective January 1, 1989.

A participant's annual benefit under the Canteen Retirement Plan at normal retirement age is calculated by multiplying the number of years of participation in the Canteen Retirement Plan (not to exceed 35 years) by the sum of one percent of the average Compensation (as defined below) paid during 60 consecutive calendar months chosen to produce the highest average ("Average Compensation" for purposes of this paragraph) plus an additional one-half of one percent of the Average Compensation in excess of the average Social Security wage base. Benefits payable cannot exceed 50% of

Average Compensation. Plan benefits are normally in the form of a life annuity or, if the retiree is married, a joint and survivor annuity. An employee becomes a participant as of any January 1 following the later of the date of employment or the attainment of age twenty and one-half. "Compensation" for purposes of this paragraph consists of all remuneration paid by the employer to the employee for services rendered as reported or reportable on Form W-2 for federal income tax withholding purposes (including the amount of any 1992 year-end bonus paid in 1993), excluding severance pay, pay during layoff, relocation allowance, cost of living differentials, special overseas premiums, compensation resulting from participation in, or cancellation of, stock option plans, contributions by the employer to the Canteen Retirement Plan or any other benefit plan and imputed income resulting from the use of the corporate aircraft or company cars. Except for limited purposes described in the plan, Compensation also shall include any deferred compensation under a Section 401(k) plan maintained by the employer and salary reduction amounts under a Section 125 plan maintained by the employer. The funding of the Canteen Retirement Plan is based upon actuarial determinations.

Ancillary to the Canteen Retirement Plan is a nonqualified plan for key executive employees to provide future service benefits and benefits in excess of the annual maximum benefits limit under the Code to highly compensated employees. "Compensation" and "Average Compensation" are defined in this ancillary plan the same way they are defined in the Canteen Retirement Plan. The supplemental executive retirement plan provides additional benefits to certain key executives. Benefits payable under the ancillary plan are included in the table above.

The Flagstar Pension Plan (the "Flagstar Retirement Plan"), which is noncontributory, generally covers all employees of Flagstar and its subsidiaries (other than its Canteen and Denny's subsidiaries) who have attained the age of 21 and who have completed twelve consecutive months of service. There are two entry dates per year for new employees, January 1 and July 1. As a result of a plan amendment effective January 1, 1989, a participant's annual retirement benefit under the Flagstar Retirement Plan at normal retirement age is calculated by multiplying the number of years of participation in the Flagstar Retirement Plan (not to exceed 35 years) by the sum of one percent of the average Compensation (as defined below) paid during 60 consecutive calendar months chosen to produce the highest average ("Average Compensation" for the purposes of this paragraph) plus an additional one-half of one percent of the Average Compensation in excess of the average Social Security wage base. Benefits payable cannot exceed 50% of the Average Compensation. Plan benefits are normally in the form of a life annuity or, if the retiree is married, a joint and survivor annuity. "Compensation" for the purposes of this paragraph consists of all remuneration paid by the employer to the employee for services rendered as reported or reportable on Form W-2 for federal income tax withholding purposes (including the amount of any 1992 year-end bonus paid in 1993), excluding severance pay, pay during layoff, relocation allowance, cost of living differentials, special overseas premiums, compensation resulting from participation in, or cancellation of, stock option plans, contributions by the employer to the Flagstar Retirement Plan or any other benefit plan and imputed

income resulting from the use of the corporate aircraft or company cars. Except for limited purposes described in the plan, Compensation also shall include any deferred compensation under a Section 401(k) plan maintained by the employer and salary reduction amounts under a Section 125 plan maintained by the employer. The funding of the Flagstar Retirement Plan is based on actuarial determinations.

Ancillary to the Flagstar Retirement Plan is a nonqualified plan for key executive employees to provide future service benefits and benefits in excess of the annual maximum benefits limit under the Code to certain key employees. "Compensation" and "Average Compensation" are defined in this ancillary plan the same way they are defined in the Flagstar Retirement Plan. A supplemental executive retirement plan provides additional benefits to certain key executives. Benefits payable under the ancillary plan are included in the table above.

The annual limit for both qualified plans for 1993 was $115,641, except that, for those plan participants whose accrued benefits exceeded $90,000 prior to January 1, 1983, the annual limit is equal to the 1982 accrued benefit. All benefits under the nonqualified plans are paid out of the general funds of the employer.

Except for the addition of 1992 bonuses paid in 1993, the Compensation included under the Canteen and Flagstar Retirement Plans (including the ancillary nonqualified plans) generally corresponds with the annual compensation of the named executive officers in the Summary Compensation Table above. Includable Compensation for 1993 for Messrs. Richardson, Biggs and Hurwitt was $1,016,323, $220,199 and $286,721, respectively.

As of December 31, 1993, the estimated credited years of service under the Flagstar Retirement Plan for Messrs. Richardson, Biggs, Hurwitt, Maw and McManus at normal retirement age was 40, 14, 11, 29 and 36, respectively.

The early retirement provisions of the Canteen and Flagstar Retirement Plans were amended effective January 1, 1989 to provide an improved benefit for long service employees. Employees with age and service equalling or exceeding 85 and who are within five years of the Social Security normal retirement age will receive no reduction of accrued benefits. Employees who are at least 55 years of age with 15 years of service will receive a reduction of three percent in accrued benefits for the first five years prior to normal retirement date and six percent for the next five years. Accrued benefits for employees retiring with less than 15 years of service will be actuarially reduced beginning at age 55. Vesting of retirement benefits was also changed to comply with the law from ten-year cliff vesting at Canteen and 12-year graduating vesting at Flagstar to five-year cliff vesting for both plans.

FLAGSTAR THRIFT PLAN

The Flagstar Thrift Plan (the "Thrift Plan") is designed to encourage and facilitate systematic savings by eligible employees. The Thrift Plan is available to salaried employees who are not governed by a collective bargaining agreement and who are employed by Flagstar or any subsidiary that adopts the Thrift Plan with the consent of the Board of Directors. Participation in the Thrift Plan is voluntary. The Thrift Plan may be amended by the Board of Directors from time to time, but such amendments may not diminish the securities or cash in the account of a participant.

A participant in the Thrift Plan generally may choose either of two options for contributions: an after-tax option or a pre-tax option. An employee may not make both after-tax and pre-tax contributions in the same month.

A salaried employee is eligible to participate in the Thrift Plan if the employee (i) has attained 21 years of age, (ii) has completed one year of service (as defined) and (iii) is not subject to a collective bargaining agreement. Under the after-tax option, each participant specifies a percentage of compensation (as defined in the Thrift Plan) to be contributed to the Thrift Plan, which contribution is made by payroll deduction. No participant may contribute more than 10% of annual compensation. Flagstar contributes a matching amount equivalent to 25% of the participant's monthly contribution, subject to certain statutory limits. Contributions of the participants and Flagstar are invested in investment vehicles designated by the plan administrator. A participant is able to withdraw certain eligible contributions once per calendar year or at early retirement age, upon normal retirement, upon termination of employment, upon disability or at death.

Under the pre-tax option, an eligible employee may make a contribution to the Thrift Plan on a pre-tax basis, pursuant to Section 401(k) of the Code, by deferring up to 10% of such employee's compensation (as defined in the Thrift Plan) but not more than $8,994 (for 1993, the amount being indexed annually) per year, which is then contributed by Flagstar to the Thrift Plan. Flagstar currently matches 25% of the employee pre-tax contribution up to 6% of the employee's compensation (as defined in the Thrift Plan) plus 75% of the first $500 of employee pre-tax contributions. Contributions are invested in investment vehicles designated by the plan administrator. Flagstar's matching contributions are invested pursuant to participants' investment directions for their pre-tax and after-tax contributions. A participant is able to withdraw pre-tax matching contributions (and earnings thereon) once per quarter, provided such contributions were made prior to January 1, 1988. A participant may withdraw his own pre-tax contributions (including earnings thereon through December 31, 1988) upon the showing of an immediate and substantial financial hardship as defined in the plan. Upon the attainment of age 59 1/2, as well as upon the occurrence of retirement, death, disability or termination of service, a participant

generally may withdraw all contributions and earnings thereon. Flagstar's contributions vest upon contribution.

Effective June 14, 1990, Common Stock again became an optional investment vehicle under the Thrift Plan. Participants may direct the investment of up to 25% of their own contributions and the matching contributions in Common Stock. Participants also may transfer amounts from other investment vehicles into Common Stock. In no event, however, may a participant transfer amounts into Common Stock that would result in the ownership of Common Stock exceeding 25% of the participant's total interest in the Thrift Plan.

On October 26, 1988, the Board of Directors approved certain amendments to the Thrift Plan. These amendments were necessitated by changes in the federal tax laws and became effective on January 1, 1989. As a result of the amendments, highly compensated employees, as defined by the Code and the regulations thereunder and including the executive officers of Flagstar, are no longer eligible to make pre-tax or after-tax contributions to the Thrift Plan. In lieu of this benefit, such employees received certain salary increases.

Under the Thrift Plan, shares of the Common Stock attributable to participating employees' contributions and contributions by Flagstar will be voted by the plan trustee in accordance with the employee's instructions and, absent such instructions, in the trustee's discretion.

EMPLOYMENT AGREEMENTS

RICHARDSON EMPLOYMENT AGREEMENT

Concurrently with the execution of a Stock and Warrant Purchase Agreement dated August 11, 1992 by and between TW Associates and FCI (the "Purchase Agreement"), Mr. Richardson and Flagstar entered into an employment agreement (the "Employment Agreement"), which took effect on November 16, 1992, and which provides that Flagstar will employ Mr. Richardson as Chief Executive Officer and Chairman of the Board of Flagstar until November 16, 1997 or his earlier death or termination of employment by reason of permanent disability, voluntary termination of employment or involuntary termination for cause (as defined). The Employment Agreement prohibits Mr. Richardson from soliciting employees of Flagstar or its affiliates and from engaging in certain competitive activities generally during his term of employment and for a period of three years after termination of employment. The Employment Agreement further prohibits Mr. Richardson from using or disclosing certain "confidential" or "proprietary" information for purposes other than carrying out his duties with the Company.

Under the Employment Agreement, Mr. Richardson is entitled to receive (i) an annual base salary at the rate of $750,000 per year from November 16, 1992 through December 31, 1993 and at a rate determined by the Compensation and Stock Option Committee of Flagstar's Board of Directors annually thereafter, (ii) an annual performance bonus targeted to equal his base salary if Flagstar and Mr. Richardson achieve budgeted financial and other performance targets, to be established annually by the Compensation and Stock Option Committee, and (iii) subject to the termination of the ten-year option that Mr. Richardson received from FCI in 1989 to purchase 160,000 shares of Common Stock at $20.00 per share (the "Prior Option") (and provided that he continues to be employed by the Company unless his employment is terminated as a result of a "Termination Without Cause" (as defined therein)), the grant of a new option or options to purchase 600,000 shares of Common Stock, to be exercisable at the rate of 20% per year beginning on November 16, 1993 and subject to exercise prices of $15.00 per share for 100,000 shares and $17.50 per share for 500,000 shares. In December 1992, Mr. Richardson terminated his Prior Option and was granted such options to purchase 600,000 shares of Common Stock. The Employment Agreement also entitles Mr. Richardson to participate in all of the Company's benefit plans. As a condition to Mr. Richardson entering into the Employment Agreement which extends his term of employment with Flagstar for an additional three years, FCI advanced funds (the "Richardson Loan") to refinance approximately $13,900,000 outstanding principal and certain interest due on a 1989 loan from NationsBank of North Carolina, N.A. to Mr. Richardson. Mr. Richardson used the proceeds of the 1989 loan to finance his purchase of approximately 800,000 shares of Common Stock. For additional information concerning the Richardson Loan, see Item 13. Certain Relationships and Related Transactions.

In the event of Mr. Richardson's termination of employment during the term of the Employment Agreement, Flagstar is required to make payments as follows based upon the cause of termination of employment: (i) if by reason of death, Mr. Richardson's surviving spouse is entitled to be paid an amount equal to Mr. Richardson's base salary for a one-year period after his death; (ii) if by reason of permanent disability, Mr. Richardson is entitled to be paid one-half of his base salary and annual bonus for a period of two years after termination of employment; and (iii) if by Flagstar other than for "cause," or by Mr. Richardson following a material breach by Flagstar of a material provision of the Employment Agreement (each, a "Termination Without Cause"), Mr. Richardson is entitled to be paid immediately upon such termination a lump sum amount equal to his base salary and bonuses (deemed to be $1,500,000, in the aggregate, per year) and his other benefits for the remaining term of the agreement.

OTHER EMPLOYMENT AGREEMENTS

Mr. Biggs has in effect a three (3) year employment agreement with Flagstar to serve at the direction of the Chief Executive Officer of Flagstar, subject to earlier termination upon his death or termination of employment by reason of permanent disability, voluntary termination of employment or involuntary termination for cause (as defined). The agreement prohibits Mr. Biggs from soliciting employees of Flagstar or its affiliates and from engaging in certain

competitive activities generally during the term of his employment and for a period of one year after termination of employment. The agreement further prohibits Mr. Biggs from using or disclosing certain "confidential" or "proprietary" information for purposes other than carrying out his duties with the Company.

Under the agreement, Mr. Biggs is entitled to receive (i) an annual base salary at the rate of $190,000 per year (subject to increase in the Company's discretion based on annual reviews and annual cost of living adjustments) and (ii) an

annual cash bonus determined under the terms of the Company's senior management incentive compensation plan provided certain performance targets are met. The agreement also entitles Mr. Biggs to participate in all of the Company's benefit plans.

In the event of Mr. Biggs' termination of employment during the term of his employment agreement, Flagstar is required to make payments as follows based upon the cause of termination of employment: (i) if by reason of death, Mr. Biggs' surviving spouse is entitled to be paid an amount equal to Mr. Biggs' base salary for a one-year period after his death, together with accrued but unpaid bonuses then owing to Mr. Biggs; (ii) if by reason of permanent disability, Mr. Biggs is entitled to be paid one-half of his base salary for a period of two years after termination of employment, together with accrued but unpaid bonuses then owing to Mr. Biggs; and (iii) if by Flagstar other than for "cause," Mr. Biggs is entitled to be paid immediately upon such termination a lump sum amount equal to his base salary and bonuses and his other benefits for the remaining term of the agreement.

Prior to the March 31, 1994 termination of his employment, Mr. Hurwitt was party to an employment agreement having terms and conditions providing his base salary (subject to annual increases in the Company's discretion and certain cost of living adjustments), a potential annual bonus under the Company's senior management incentive plan, and termination and restrictive covenant provisions similar to those for Mr. Biggs. In connection with the termination of Mr. Hurwitt's employment with the Company, Mr. Hurwitt received an amount equal to one year's base salary (consistent with his employment agreement) and an additional severance benefit (consistent with the Company's severance policy). See the Summary Compensation Table above.

COMPENSATION AND STOCK OPTION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

Messrs. Raether, Robbins and Tokarz served on the Company's Compensation and Stock Option Committee during 1993. Mr. Smart served on the former Compensation Committee until September 1993. Mr. Smart formerly served as an officer of Flagstar. He is currently counsel to Hughes, Hubbard & Reed, a law firm which performed services for the Company in 1993. Messrs. Tokarz and Robbins serve as officers of certain subsidiaries of the Company. Messrs. Raether and Tokarz are general partners and Mr. Robbins is an executive of KKR. In 1993, KKR received an annual financial advisory fee of $1,250,000.

Pursuant to the Purchase Agreement, Associates has agreed that it will not, directly or indirectly, sell, assign, pledge, hypothecate or otherwise transfer any of the shares of Common Stock acquired under the Purchase Agreement or the Common Stock issuable upon exercise of the Warrants (as defined herein) prior to December 31, 1994 (or such later date as is specified in the Purchase Agreement) except (i) in connection with a sale of or acceptance of an offer to purchase 90% or more of the outstanding shares of Common Stock, (ii) in connection with a merger or other similar extraordinary corporate transaction which results in a change of control of FCI and involves an entity which immediately prior thereto is not an affiliate of TW Associates or KKR Partners II, any partner thereof or FCI, or (iii) to certain affiliates of Associates or any partner thereof.

The Purchase Agreement further provides that, until November 16, 1995, FCI shall maintain in full force and effect its existing directors' and officers' liability insurance policy with respect to events occurring prior to November 16, 1992 (or, if such insurance is not available at a reasonable cost, as much such insurance as is available to it at a reasonable cost). FCI and its subsidiaries will maintain in effect the provisions in their respective charters and bylaws which provide for indemnification of FCI's and its subsidiaries' officers and directors with respect to events occurring prior to November 16, 1992. Associates also agreed not to engage in a Rule 13e-3 Transaction (as defined in Rule 13e-3 under the Securities Exchange Act of 1934, as amended) prior to March 31, 1995 without the approval of a majority of the disinterested directors of FCI and a fairness opinion from an investment banking firm selected by such directors.

Pursuant to the Purchase Agreement, FCI has agreed to indemnify and hold harmless Associates and its affiliates, directors, officers, advisors, agents and employees to the fullest extent lawful, from and against any and all losses, damages, claims, liabilities and actions arising out of or in connection with the Recapitalization and all expenses of investigating, preparing or defending any such claim or action (including reasonable legal fees and expenses); PROVIDED, however, that nothing contained in such indemnification provision is to be construed as a guarantee by FCI with respect to the value of the shares of Common Stock acquired under the Purchase Agreement or indemnification of Associates against any diminution in value thereof which may occur; and PROVIDED, FURTHER, that no indemnified party will be entitled to indemnification by FCI with respect to any of the foregoing arising solely from the bad faith or gross negligence (as finally determined by a court of competent jurisdiction) of such indemnified party or any of the affiliates, directors, officers, agents or

employees of such indemnified party.

See Item 12. Security Ownership of Certain Beneficial Owners and Management for additional information concerning other agreements among Associates, Gollust, Tierney & Oliver ("GTO"), DLJ Capital Corporation ("DLJ Capital"), Mr. Richardson and FCI.

COMPENSATION OF DIRECTORS

Directors of the Company other than Mr. Richardson are entitled to an annual retainer of $40,000. Directors are also reimbursed for expenses incurred in attending meetings of the Board of Directors and its committees.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth, as of March 31, 1994, the beneficial ownership of the Common Stock by each stockholder known by the Company to own more than 5% of the outstanding shares, by each director of FCI, by each officer of the Company included in the Summary Compensation Table in Item 11. Executive Compensation above, and by all directors and executive officers of FCI and Flagstar as a group. Except as otherwise noted, the persons named in the table below have sole voting and investment power with respect to all shares shown as beneficially owned by them. The number of shares and options indicated herein (including shares issuable upon the exercise of stock options), as well as corresponding option exercise and market prices, have been adjusted to give effect to the five-for-one reverse stock split of the Common Stock effected by FCI as of June 16, 1993.

<TABLE>
<CAPTION>

BENEFICIAL OWNER	AMOUNT AND NATURE OF BENEFICIAL OWNERSHIP	PERCENTAGE OF COMMON STOCK
<S>	<C>	<C>
KKR Associates (and related entities) 9 West 57th Street New York, NY 10019 (1)	19,999,999(2)	47.20%
Gollust, Tierney and Oliver (and related entities) 500 Park Avenue New York, NY 10022 (3)	11,251,052	26.55%
DLJ Capital Corporation (and related entities) 140 Broadway New York, NY 10005	3,041,562	7.18%
Michael Chu	--	--
Vera King Farris	100	*
Hamilton E. James	34,187(4)	*
Henry R. Kravis (1)	--	--
Augustus K. Oliver (3)	--	--
Paul E. Raether (1)	--	--
Jerome J. Richardson	938,164(5)(6)	2.21%
Clifton S. Robbins	--	--
George R. Roberts (1)	--	--
L. Edwin Smart	12,066(4)(7)	*
Michael T. Tokarz (1)	--	--
A. Ray Biggs	--	--
David F. Hurwitt	60	*
Samuel H. Maw	22,092(5)	*
H. Stephen McManus	17,661(5)	*
Alan R. Plassche	--	--
All directors and executive officers as a group (29 persons)	1,059,908(5)(8)	2.50%

</TABLE>

* Less than one percent.

(1) Shares shown as owned by KKR Associates are owned of record by TW Associates (19,913,333 shares) and KKR Partners II (86,666 shares). KKR Associates is the sole general partner and possesses sole voting and investment power as to each of TW Associates and KKR Partners II. Messrs. Kravis, Raether, Roberts and Tokarz (directors of FCI and Flagstar) and Messrs. Robert J. MacDonnell, Michael W. Michelson and Saul A. Fox, as the general partners of KKR Associates, may be deemed to share beneficial ownership of the shares shown as beneficially owned by KKR Associates. Such persons disclaim beneficial ownership of such shares.

(2) Excludes 15,000,000 shares of Common Stock underlying warrants (the "Warrants"), which become exercisable in 1995, acquired by TW Associates (14,935,000 shares) and KKR Partners II (65,000 shares) under the Purchase Agreement. The Warrants were issued pursuant to the Warrant Agreement dated November 16, 1992 by and between FCI and Associates (the "Warrant Agreement"). Each Warrant entitles the holder thereof to purchase one fully paid and nonassessable share of Common Stock at an initial exercise price (the "Exercise Price") of $17.50, subject to adjustment from time to time upon the occurrence of certain events. Any or all of the Warrants may be exercised at any time after December 31, 1994 (or the date to which such

date may be extended in accordance with certain provisions of the Stockholders' Agreement (as defined herein) or March 31, 1995 if GTO has complied with its obligations thereunder to sell specified amounts of its Common Stock) (the "Warrant Effectiveness Date") and until November 16, 2000. Notwithstanding the foregoing, in the event (a) a sale of or acceptance of an offer to purchase 90% or more of the outstanding shares of Common Stock, or (b) a merger or other similar extraordinary corporate transaction involving an entity which immediately prior thereto is not an affiliate of Associates or any partner thereof or of FCI which modifies the outstanding Common Stock and which results in a change of control of FCI occurs on or prior to the Warrant Effectiveness Date, each Warrant will become exercisable immediately prior to such sale or acceptance or consummation of such transaction.

(3) The Saurer Group Investments Ltd., North Atlantic Continental Capital Ltd. and The Common Fund (who are parties to certain investment management arrangements with GTO) own, respectively, 403,014, 301,358 and 1,872,540 of the shares listed. GTO disclaims beneficial ownership of such shares. GTO and related entities own the balance of the shares listed. Mr. Oliver is a general partner of GTO and as such may be deemed to share beneficial ownership of the shares owned by GTO. Mr. Oliver disclaims beneficial ownership of such shares.

(4) Excludes shares underlying options that are not currently exercisable, but includes 7,500 shares that each of Messrs. James and Smart has a right to acquire upon the exercise of currently exercisable options granted by the Company in 1990. Mr. James also has a limited investment in GTO or related entities, or both. Shares listed for Mr. James exclude shares held by DLJ Capital.

(5) Includes shares held by the trustee of the Thrift Plan as of January 31, 1994 for the individual accounts of employee participants. Under the Thrift Plan, shares attributable to participating employees' contributions and Company contributions are voted by the trustee in accordance with the employees' instructions, while shares as to which no instructions are received are voted by the trustee in its discretion. Of shares held in the Thrift Plan for the accounts of directors and executive officers of FCI and Flagstar, approximately 3,364, 222 and 1,596 are credited to the accounts of Messrs. Richardson, Maw and McManus, respectively, and 6,808 are credited to the accounts of all directors and executive officers as a group.

(6) Includes 120,000 shares that Mr. Richardson has the right to acquire upon the exercise of currently exercisable options under the 1989 Option Plan.

(7) Includes 4,166 shares that Mr. Smart has the right to acquire upon conversion of the 10% Debentures.

(8) Excludes shares owned by KKR Associates through TW Associates and KKR Partners II, as set forth above. Messrs. Kravis, Raether, Roberts and Tokarz are general partners of KKR Associates, the sole general partner of TW Associates and KKR Partners II. They also are directors of FCI and Flagstar. Each of Messrs. Kravis, Raether, Roberts and Tokarz disclaims beneficial ownership of those shares listed above as owned by KKR Associates. Also excludes shares held by GTO and related entities, as set forth above. Mr. Oliver is a general partner of GTO and also is a director of FCI and Flagstar. Mr. Oliver disclaims beneficial ownership of those shares listed above as owned by GTO and related entities.

THE STOCKHOLDERS' AGREEMENT. Concurrently with the execution of the Purchase Agreement, GTO and certain of its affiliates (collectively, the "GTO Group"), DLJ Capital, Mr. Richardson, TW Associates (the "Stockholder Parties") and FCI entered into an agreement (the "Stockholders' Agreement") pursuant to which the Stockholder Parties have agreed not to transfer or sell shares of Common Stock held by them prior to December 31, 1994 (or, in certain circumstances, March 31, 1995), except in connection with the sale of 90% or more of the outstanding Common Stock and except for transfers in connection with extraordinary corporate transactions, transfers in certain cases to certain affiliates of GTO or Associates and sales to the public by GTO commencing on or after June 30, 1993. The GTO Group has agreed not to purchase any additional Common Stock.

Pursuant to the Stockholders' Agreement, each of the Stockholder Parties has agreed to nominate and vote all shares of Common Stock owned by it to elect as directors (a) six persons designated by Associates, (b) Mr. Richardson (for so long as Mr. Richardson remains Chief Executive Officer of FCI), (c) one representative designated by each of the GTO Group and DLJ Capital (for so long as the GTO Group and DLJ Capital, respectively, continue to own at least 2% of the outstanding shares of Common Stock on a fully-diluted basis) and (d) two independent directors. The Stockholder Parties have further agreed to increase by two the number of directors constituting the entire Board of Directors of FCI and to nominate (if requested) and vote to elect as directors two additional persons to be designated by Associates if at any time the holders of the Preferred Stock, voting together as a class with all other classes or series of preferred stock ranking junior to or on a parity with the Preferred Stock, are entitled to elect two additional directors; PROVIDED that the two Associates' designees so elected shall resign and the size of the FCI Board of Directors shall be reduced accordingly at such time as the directors elected by preferred stockholders shall resign or their term shall end.

Under the Stockholders' Agreement, the GTO Group is granted the right to make two written requests to FCI for registration of shares of Common Stock

owned by the GTO Group under the Securities Act of 1933, as amended (the "Securities Act"), exercisable on or after June 30, 1993, and is obligated, if the trading price of the Common Stock exceeds $20.00 per share for fifteen consecutive trading days and a registration statement of FCI under the Securities Act is effective for specified periods, to dispose of up to 50% of its shares of Common Stock prior to September 30, 1994. FCI may, but is not obligated to, file and maintain an effective shelf registration (the "Shelf Registration") with respect to the shares of Common Stock to be disposed of by the GTO Group. At any time after December 31, 1994 (or, in certain circumstances, March 31, 1995), (i) DLJ Capital may make two written requests to FCI for registration under the Securities Act of all or any part of the shares of Common Stock owned by DLJ Capital, and (ii) the holders of a majority of all shares of Common Stock and Warrants issued to Associates and all shares of Common Stock issued or issuable to Associates upon exercise of any Warrant (the "Associates Registrable Securities") may make five written requests to FCI for registration of all or part of such securities under the Securities Act. In addition, the GTO Group, DLJ Capital and Associates have customary "piggyback" registration rights to include their securities, subject to certain limitations, in any other registration statement filed by FCI (other than the Shelf Registration and certain demand registrations by the GTO Group), pursuant to any of the foregoing requests or otherwise under the Securities Act. If Associates exercises its demand or "piggyback" registration rights and Mr. Richardson is then employed by the Company, then Mr. Richardson has the right to have included in any registration statement relating to the exercise of such rights by Associates the same percentage of his Common Stock as the fully-diluted percentage of Associates Registrable Securities registered thereunder. If at any time Mr. Richardson shall have the right to participate in a "piggyback" registration and Mr. Richardson elects not to exercise such "piggyback" registration right, he may make one written request to FCI for registration under the Securities Act of up to the number of shares of Common Stock that he had the right to include, but did not so include, in such one or more registrations pursuant to his "piggyback" registration rights. The Company has agreed to pay all expenses in connection with the performance of its obligations to effect demand or "piggyback" registrations under the Securities Act of securities covered by the registration rights of the Stockholder Parties, and to indemnify and hold harmless, to the full extent permitted by law, each holder of such securities against liability under the securities laws.

The Stockholders' Agreement will terminate upon the sale of all shares of Common Stock now owned or hereafter acquired by the GTO Group, DLJ Capital, Mr. Richardson or Associates; PROVIDED that, (i) at such time as the GTO Group or DLJ Capital shall own less than 2% of the outstanding Common Stock on a fully-diluted basis, the GTO Group or DLJ Capital, as the case may be, shall be released from its respective obligations and forfeit its respective rights under the Stockholders' Agreement, and (ii) at such time after December 31, 1994, or the date to which such date may be extended in accordance with the provisions of the Stockholders' Agreement, as GTO or a related entity shall cease to have investment advisory authority over the shares of Common Stock now owned or hereafter acquired by certain affiliates of GTO, and the GTO Group shall have complied with the provisions of the Stockholders' Agreement requiring it to dispose

of certain of its shares of Common Stock under certain circumstances, each such affiliate will be released from its respective obligations and forfeit its respective rights under the Stockholders' Agreement.

In any event, the provisions of the Stockholders' Agreement with respect to voting arrangements and restrictions will terminate no later than ten years from the date of the Stockholders' Agreement, subject to extension in accordance with applicable law by the agreement of the remaining parties to the Stockholders' Agreement.

RICHARDSON SHAREHOLDER AGREEMENT. Shares of Common Stock currently owned by Mr. Richardson ("Owned Stock") and shares that he would acquire upon exercise of any stock options granted to him by the Company under the 1989 Option Plan ("Option Stock") are subject to various rights and restrictions contained in a shareholder agreement (the "Richardson Shareholder Agreement") executed by Mr. Richardson and FCI concurrently with the execution of the Purchase Agreement.

In general, the Richardson Shareholder Agreement provides that, (i) subject to Mr. Richardson's registration rights under the Stockholders' Agreement, Mr. Richardson may not sell or transfer the Owned Stock or Option Stock until after November 16, 1997, unless Mr. Richardson's employment terminates by reason of death or permanent disability, or is terminated by Flagstar without "cause" and FCI elects to require payment of the balance of the principal and accrued interest on the Richardson Loan (as defined herein) (in which case he may transfer the Owned Stock), (ii) before November 16, 1997, with respect to any Owned Stock permitted to be transferred pursuant to clause (i) above, and after November 16, 1997 with respect to the Option Stock, Mr. Richardson may not transfer any such Owned Stock or Option Stock without first offering to sell it to FCI at the price offered by a third party, (iii) upon Mr. Richardson's death or permanent disability while he is employed by Flagstar or following his retirement after November 16, 1997, Mr. Richardson and his estate each have a one-time right, exercisable within six months after death or permanent disability, to elect to require FCI, except under certain circumstances, to purchase all or part of Mr. Richardson's Option Stock at its market value and to cash out the value of his exercisable options based on the excess of such value

over the exercise price, and FCI may elect to require Mr. Richardson and his estate to sell such stock and cash out such options at such prices, (iv) if Mr. Richardson's employment is terminated by him voluntarily or by Flagstar with "cause," then FCI may repurchase 20% (if he voluntarily terminates his employment between July 26, 1993 and July 26, 1994) or all (if his employment is terminated for "cause" prior to July 26, 1994), as the case may be, of the Owned Stock at $20.00 per share and (v) if Mr. Richardson's employment is terminated for any reason other than his death or permanent disability or his retirement on or after November 16, 1997, FCI may repurchase all but not less than all of Mr. Richardson's Option Stock at the lesser of (i) its market value or (ii) the sum of the exercise price of the options pursuant to which such stock was acquired, plus a multiple of 20% of any excess of such market value over such exercise price for each year of his employment after November 16, 1992, and, in the event of an exercise by FCI of any option to repurchase (described above), FCI shall cash out his exercisable options at a price equal to the excess of the applicable repurchase price over the option exercise price; PROVIDED that, if Mr. Richardson's employment is terminated as a result of a termination without cause pursuant to the Employment Agreement (as defined herein), the exercisability of Mr. Richardson's option with respect to 160,000 shares of Common Stock will be determined on the basis of the vesting schedule applicable to options granted to Mr. Richardson and in effect prior to December 15, 1992, and the market value of the shares for the purpose of cashing out the value of his exercisable options is to be reduced on a per share basis by the difference between $20.00 and the exercise price of his current options.

The Richardson Shareholder Agreement provides that all shares of Owned Stock and Option Stock shall be deemed to be "Registrable Securities" under the Stockholders' Agreement and shall be entitled to registration rights as set forth herein. For additional information, see Item 11. Executive Compensation -- Employment Agreements -- Richardson Employment Agreement.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

CERTAIN TRANSACTIONS

Pursuant to the Employment Agreement, the Company advanced funds to Mr. Richardson during 1992 to refinance approximately $13.9 million of his outstanding bank indebtedness. Interest and principal on the Richardson Loan is payable, subject to acceleration upon Mr. Richardson's earlier termination of employment for any reason, on November 16, 1997, and interest thereon accrues at the rate prescribed for five-year term loans under Section 7872 of the Code (5.6% per annum) as of the date the loan by the Company was made. The Richardson Loan is secured by 812,000 shares of Common Stock and certain other collateral as is required to comply with margin regulations. See Item 11. Executive Compensation -- Employment Agreements -- Richardson Employment Agreement.

GTO received fees of $250,000 in 1993 for certain financial advisory services. Under an existing agreement, GTO will be entitled to an additional $250,000 for such services in 1994.

DLJ served as an underwriter in connection with the Company's issuance of certain indebtedness in 1993 in consideration for an underwriting discount of $4,059,000.

In connection with his employment with the Company, Mr. Buckley, the Chief Operating Officer of Quincy's, received a non-interest bearing home equity advance from the Company in the amount of $113,000. Such advance was repaid in full by Mr. Buckley in 1994.

For information concerning certain transactions in which KKR (and their affiliates) have an interest, see Item 11. Executive Compensation -- Compensation and Stock Option Committee Interlocks and Insider Participation.

DESCRIPTION OF INDEBTEDNESS

The following summary of the principal terms of the indebtedness of the Company does not purport to be complete and is qualified in its entirety by reference to the documents governing such indebtedness, including the definitions of certain terms therein, copies of which have been filed as exhibits to this Annual Report. Whenever particular provisions of such documents are referred to herein, such provisions are incorporated herein by reference, and the statements are qualified in their entirety by such reference.

THE RESTATED CREDIT AGREEMENT

In connection with the Recapitalization, Flagstar entered into the Restated Credit Agreement, pursuant to which senior debt facilities were established consisting (after certain adjustments and prepayments subsequent to the closing of the Recapitalization) of (i) a $171.3 million senior term loan (the "Term Facility"), and (ii) a $350 million senior revolving credit facility (the "Revolving Credit Facility" and, together with the Term Facility, the "Bank Facilities"), with sublimits for working capital advances and standby letters of credit, and a swing line facility of up to $30 million. The proceeds of the Term Facility were used principally to refinance comparable facilities under a prior credit agreement and the balance was used to finance the redemption of certain debt securities pursuant to the Recapitalization and to pay certain transaction costs. Proceeds of the Revolving Credit Facility may be used solely to provide working capital to the Company.

The Restated Credit Agreement provides generally that Flagstar must repay the Term Facility over six years in increasing quarterly installments (subject to the effects of a reallocation of a portion of a 1993 prepayment that would otherwise have been applied to scheduled principal installments that mature after December 31, 1996 to installments due on or prior to such date) and that

the working capital advances under the Revolving Credit Facility must be paid down to a maximum amount (ranging from $100 million in 1993 to $50 million in 1998) and not reborrowed for at least 30 consecutive days during any thirteen-month period but at least once during each fiscal year. Under the Restated Credit Agreement, Flagstar is required to prepay advances outstanding under the Term Facility (or, if no advances are outstanding thereunder, to permanently reduce the Revolving Credit Facility) with the aggregate amount of Net Cash Proceeds (as defined therein) received from (i) the sale, lease, transfer or other disposition of assets of the Company (other than dispositions of assets permitted by the terms of the Restated Credit Agreement and other dispositions of assets not exceeding $5,000,000 in any fiscal year or $1,000,000 in any transaction or series of related transactions) and (ii) the sale or issuance by FCI or any of its subsidiaries of any Debt (as defined therein) (other than Debt permitted by the terms of the Restated Credit Agreement and to the extent the Net Cash Proceeds are applied to refinance certain existing Subordinated Debt).

The Restated Credit Agreement contains covenants customarily found in credit agreements for leveraged financings that restrict, among other things, (i) liens and security interests other than liens securing the obligations under the Restated Credit Agreement, certain liens existing as of the date of effectiveness of the Restated Credit Agreement, certain liens in connection with the financing of capital expenditures, certain liens arising in the ordinary course of business, including certain liens in connection with intercompany transactions and certain other exceptions; (ii) the incurrence of Debt, other than Debt in respect of the Recapitalization, Debt under the Loan Documents (as defined therein), the 10 3/4% Notes, the 11 3/8% Debentures, certain capital lease obligations, certain Debt in existence on the date of the Restated Credit Agreement, certain Debt in connection with the financing of capital expenditures, certain Debt in connection with Investments (as defined therein) in new operations, properties and franchises, certain trade letters of credit, certain unsecured borrowings in the ordinary course of business, certain intercompany indebtedness and certain other

exceptions; (iii) lease obligations, other than obligations in existence as of the effectiveness of the Restated Credit Agreement, certain leases entered into in the ordinary course of business, certain capital leases, certain intercompany leases and certain other exceptions; (iv) mergers or consolidations, except for certain intercompany mergers or consolidations and certain mergers to effect certain transactions otherwise permitted under the Restated Credit Agreement; (v) sales of assets, other than certain dispositions of inventory and obsolete or surplus equipment in the ordinary course of business, certain dispositions in the ordinary course of business of properties no longer used or useful to the business of the Company, certain intercompany transactions, certain dispositions in connection with sale and leaseback transactions and certain exchanges of real property, fixtures and improvements for other real property, fixtures and improvements; (vi) investments, other than certain intercompany indebtedness, certain investments made in connection with joint venture or franchise arrangements, certain loans to employees, investments in new operations, properties or franchises subject to certain limitations and certain other exceptions; (vii) payment of dividends or other distributions with respect to capital stock of Flagstar, other than dividends from Flagstar to FCI to enable FCI to repurchase Common Stock and FCI stock options from employees in certain circumstances, payments to FCI with respect to fees and expenses incurred in the ordinary course of business by FCI in its capacity as a holding company for Flagstar, payments under a tax sharing agreement among FCI, Flagstar and its subsidiaries and certain other exceptions; (viii) sales or dispositions of the capital stock of subsidiaries other than sales by certain subsidiaries of Flagstar to Flagstar or certain other subsidiaries and certain other exceptions; (ix) the conduct by Flagstar or certain of its subsidiaries of business inconsistent with its status as a holding company or single purpose subsidiary, as the case may be, or entering into transactions inconsistent with such status; and (x) the prepayment of Debt, other than certain payments of Debt in existence on the date of the Restated Credit Agreement, certain payments to retire Debt in connection with permitted dispositions of assets, certain prepayments of advances under the Restated Credit Agreement and certain other exceptions.

The Restated Credit Agreement also contains covenants that require Flagstar and its subsidiaries on a consolidated basis to meet certain financial ratios and tests described below:

TOTAL DEBT TO EBITDA RATIO. Flagstar and its subsidiaries on a consolidated basis are required not to permit the ratio of (a) Adjusted Total Debt (as defined below) outstanding on the last day of any fiscal quarter to (b) EBITDA (as defined below) for the Rolling Period (as defined below) ending on such day to be more than a specified ratio, ranging from a ratio of 5.70:1.00 applicable upon the effectiveness of the Restated Credit Agreement to a ratio of 4.30:1.00 applicable on or after December 31, 1997.

SENIOR DEBT TO EBITDA RATIO. Flagstar and its subsidiaries on a consolidated basis are required not to permit the ratio of (a) Adjusted Senior Debt (as defined below) outstanding on the last day of any fiscal quarter to (b) EBITDA for the Rolling Period ending on such day to be more than a specified ratio, ranging from a ratio of 3.50:1.00 applicable upon the effectiveness of the Restated Credit Agreement to a ratio of 2.75:1.00 on or after December 31, 1996.

INTEREST COVERAGE RATIO. Flagstar and its subsidiaries on a consolidated

basis are required not to permit the ratio, determined on the last day of each fiscal quarter for the Rolling Period then ended, of (a) EBITDA less Cash Capital Expenditures (as defined below) to (b) Adjusted Cash Interest Expense to be less than a specified ratio, ranging from a ratio of 1.20:1.00 applicable upon the effectiveness of the Restated Credit Agreement to a ratio of 1.60:1.00 on or after December 31, 1997.

CAPITAL EXPENDITURES TEST. Flagstar and its subsidiaries are prohibited from making capital expenditures in excess of $195,000,000, $210,000,000 and $250,000,000 in the aggregate for the fiscal years ending in December 1992 through 1994, respectively, and $275,000,000 in the aggregate for each of the fiscal years 1995 through 1998.

"Adjusted Cash Interest Expense" is defined in the Restated Credit Agreement to mean, for any Rolling Period (as defined below), Cash Interest Expense (as defined below) for such Rolling Period.

"Adjusted Senior Debt" is defined in the Restated Credit Agreement to mean Senior Debt (as defined therein) outstanding on the last day of any fiscal quarter.

"Adjusted Total Debt" is defined in the Restated Credit Agreement to mean Total Debt (as defined below) outstanding on the last day of any fiscal quarter.

"Capex Financing" is defined in the Restated Credit Agreement to mean, with respect to any capital expenditure, the incurrence by certain subsidiaries of Flagstar of any Debt (including capitalized leases) secured by a mortgage or other lien on the asset that is the subject of such capital expenditure, to the extent that the Net Cash Proceeds of such Debt do not exceed the amount of such capital expenditure.

"Cash Capital Expenditures" is defined in the Restated Credit Agreement to mean, for any period, without duplication, capital expenditures of the Company for such period, LESS (without duplication) (i) the Net Cash Proceeds of all Capex Financings during such period and (ii) the aggregate amount of the principal component of all obligations of the Company in respect of capitalized leases entered into during such period.

"Cash Interest Expense" is defined in the Restated Credit Agreement to mean, for any Rolling Period, without duplication, interest expense net of interest income, whether paid or accrued during such Rolling Period (including the interest component of capitalized lease obligations) on all Debt, INCLUDING, without limitation, (a) interest expense in respect of advances under the Restated Credit Agreement, the 10 7/8% Notes and the Subordinated Debt (as defined therein), (b) commissions and other fees and charges payable in connection with letters of credit, (c) the net payment, if any, payable in connection with all interest rate protection contracts and (d) interest capitalized during construction, but EXCLUDING, in each case, interest not payable in cash (including amortization of discount and deferred debt expenses), all as determined in accordance with generally accepted accounting principles as in effect on December 31, 1991.

"EBITDA" of any person is defined in the Restated Credit Agreement to mean, for any period, on a consolidated basis, net income (or net loss) PLUS the sum of (a) interest expense net of interest income, (b) income tax expense, (c) depreciation expense, (d) amortization expense, (e) extraordinary or unusual losses included in net income (net of taxes to the extent not already deducted in determining such losses) and (f) in the case of the fiscal quarter ending in December 1992 only, an amount (not to exceed $18,500,000) equal to the aggregate amount of fees paid in connection with the Recapitalization that are not otherwise excluded in determining net income (or net loss), LESS extraordinary or unusual gains included in net income (net of taxes to the extent not already deducted in determining such gains), in each case determined in accordance with generally accepted accounting principles as in effect on December 31, 1991.

"Funded Debt" is defined in the Restated Credit Agreement to mean the principal amount of Debt in respect of advances under the Bank Facilities and the principal amount of all Debt that should, in accordance with generally accepted accounting principles as in effect on December 31, 1991, be recorded as a liability on a balance sheet and matures more than one year from the date of creation or matures within one year from such date but is renewable or extendible, at the option of the debtor, to a date more than one year from such date or arises under a revolving credit or similar agreement that obligates the lender or lenders to extend credit during a period of more than one year from such date, including, without limitation, all amounts of Funded Debt required to be paid or prepaid within one year from the date of determination.

"Rolling Period" is defined in the Restated Credit Agreement to mean, for any fiscal quarter, such quarter and the three preceding fiscal quarters.

"Total Debt" outstanding on any date is defined in the Restated Credit Agreement to mean the sum, without duplication, of (a) the aggregate principal amount of all Debt of Flagstar and its subsidiaries, on a consolidated basis, outstanding on such date to the extent such Debt constitutes indebtedness for borrowed money, obligations evidenced by notes, bonds, debentures or other similar instruments, obligations created or arising under any conditional sale or other title retention agreement with respect to property acquired or obligations as lessee under leases that have been or should be, in accordance with generally accepted accounting principles, recorded as capital leases, (b) the aggregate principal amount of all Debt of Flagstar and its subsidiaries, on a consolidated basis, outstanding on such date constituting direct or indirect guarantees of certain Debt of others and (c) the aggregate principal amount of all Funded Debt of Flagstar and its subsidiaries on a consolidated basis

consisting of obligations, contingent or otherwise, under acceptance, letter of credit or similar facilities; PROVIDED that advances under the Revolving Credit Facility shall be included in Total Debt only to the extent of the average outstanding principal amount thereof outstanding during the 12-month period ending on the date of determination.

Under the Restated Credit Agreement, an event of default will occur if, among other things, (i) any person or group of two or more persons acting in concert (other than KKR, GTO and their respective affiliates) acquires, directly or indirectly, beneficial ownership of securities of FCI representing, in the aggregate, more of the votes entitled to be cast by all voting stock of FCI than the votes entitled to be cast by all voting stock of FCI beneficially owned, directly or indirectly, by KKR and its affiliates, (ii) any person or group of two or more persons acting in concert (other than KKR and its affiliates) acquires by contract or otherwise, or enters into a contract or arrangement that results in its or their acquisition of the power to exercise, directly or indirectly, a controlling influence over the management or policies of Flagstar or FCI or (iii) Flagstar shall cease at any time to be a wholly-owned subsidiary of FCI. If such an event of default were to occur, the lenders under the Related Credit Agreement would be entitled to exercise a number of remedies, including acceleration of all amounts owed under the Restated Credit Agreement.

PUBLIC DEBT

As part of the Recapitalization, Flagstar consummated on November 16, 1992 the sale of $300 million aggregate principal amount of 10 7/8% Senior Notes Due 2002 (the "10 7/8% Notes") and issued pursuant to an exchange offer for previously outstanding debt issues $722.4 million principal amount of 11.25% Senior Subordinated Debentures Due 2004 (the "11.25% Debentures"). On September 23, 1993, Flagstar consummated the sale of $275 million aggregate principal amount of the 10 3/4% Notes and $125 million aggregate principal amount of the 11 3/8% Debentures. The 10 7/8% Notes and the 10 3/4% Notes are general unsecured obligations of Flagstar and rank PARI PASSU in right of payment with Flagstar's obligations under the Restated Credit Agreement. The 11.25% Debentures are general unsecured obligations of Flagstar and are subordinate in right of payment to the obligations of Flagstar under the Restated Credit Agreement, the 10 7/8% Notes and the 10 3/4% Notes. The 11.25% Debentures rank PARI PASSU in right of payment with the 11 3/8% Debentures. All such debt is senior in right of payment to the 10% Debentures.

THE SENIOR NOTES. Interest on the 10 7/8% Notes is payable semi-annually in arrears on each June 1 and December 1. They will mature on December 1, 2002. The 10 7/8% Notes will be redeemable, in whole or in part, at the option of Flagstar, at any time on or after December 1, 1997, initially at a redemption price equal to 105.4375% of the principal amount thereof to and including November 30, 1998, at a decreased price thereafter to and including November 30, 1999 and thereafter at 100% of the principal amount thereof, together in each case with accrued interest.

Interest on the 10 3/4% Notes is payable semi-annually in arrears on each March 15 and September 15. They will mature on September 15, 2001. The 10 3/4% Notes may not be redeemed prior to maturity, except that prior to September 15, 1996, the Company may redeem up to 35% of the original aggregate principal amount of the 10 3/4% Notes, at 110% of their principal amount, plus accrued interest, with that portion, if any, of the net proceeds of any public offering for cash of the Common Stock that is used by FCI to acquire from the Company shares of common stock of the Company.

THE SENIOR SUBORDINATED DEBENTURES. Interest on the 11.25% Debentures is payable semi-annually in arrears on each May 1 and November 1. They will mature on November 1, 2004. The 11.25% Debentures will be redeemable, in whole or in part, at the option of Flagstar, at any time on or after November 1, 1997, initially at a redemption price equal to 105.625% of the principal amount thereof to and including October 31, 1998, at decreasing prices thereafter to and including October 31, 2002 and thereafter at 100% of the principal amount thereof, together in each case with accrued interest.

Interest on the 11 3/8% Debentures is payable semi-annually in arrears on each March 15 and September 15. They will mature on September 15, 2003. The 11 3/8% Debentures will be redeemable, in whole or in part, at the option of the Flagstar, at any time on or after September 15, 1998, initially at a redemption price equal to 105.688% of the principal amount thereof to and including September 14, 1999, at 102.844% of the principal amount thereof to and including September 14, 2000 and thereafter at 100% of the principal amount thereof, together in each case with accrued interest.

THE 10% DEBENTURES. Interest on the 10% Debentures is payable semi-annually in arrears on each May 1 and November 1. The 10% Debentures mature on November 1, 2014. Unless previously redeemed, the 10% Debentures are convertible at any time at the option of the holders thereof by exchange into shares of Common Stock at a conversion price of $24.00 per share, subject to adjustment. The 10% Debentures are redeemable, in whole or in part, at the option of the Company upon payment of a premium. The Company is required to call for redemption on November 1, 2002 and on November 1 of each year thereafter, through and including November 1, 2013, $7,000,000 principal amount of the 10% Debentures. A "Change of Control" having occurred on November 16, 1992, holders of the 10% Debentures had the right, under the indenture relating thereto, to require the Company, subject to certain conditions, to repurchase such securities at 101% of their principal amount together with interest accrued to the date of purchase. On February 19, 1993, FCI made such an offer to repurchase the $100 million of

10% Debentures then outstanding. As of March 24, 1993 the Company repurchased $741,000 principal amount of the 10% Debentures validly tendered and accepted pursuant to such offer.

MORTGAGE FINANCINGS

A subsidiary of Flagstar had issued and outstanding, at December 31, 1993, $208.5 million in aggregate principal amount of 10 1/4% Guaranteed Secured Bonds due 2000. Interest is payable semi-annually in arrears on each November 15 and May 15. As a result of the recent downgrade of Flagstar's outstanding debt securities, certain payments by the Company which fund such interest payments are now due and payable on a monthly basis. Principal payments total $2.9 million annually through 1995; $12.5 million annually through 1999; and $152.7 million in 2000. The bonds are secured by a financial guaranty insurance policy issued by Financial Security Assurance, Inc. and by collateral assignment of mortgage loans on 237 Hardee's and 148 Quincy's restaurants.

Another subsidiary of Flagstar has outstanding $160 million aggregate principal amount of 11.03% Notes due 2000. Interest is payable quarterly in arrears, with the principal maturing in a single installment payable in July 2000. These notes are redeemable, in whole, at the subsidiary's option, upon payment of a premium. They are secured by a pool of cross-collateralized mortgages on approximately 240 Denny's restaurant properties.

PART IV

ITEM 14. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K.

(a)(1) -- Financial Statements:
See the Index to Financial Statements and Financial Statement Schedules which appears on page F-1 hereof.

(2) -- Financial Statement Schedules:
See the Index to Financial Statement Schedules which appears on page F-26 hereof.

(3) -- Exhibits:
Certain of the exhibits to this Report, indicated by an asterisk, are hereby incorporated by reference to other documents on file with the Commission with which they are physically filed, to be a part hereof as of their respective dates.

<TABLE>
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EXHIBIT NO.	DESCRIPTION
* 3.1	Restated Certificate of Incorporation of FCI and amendment thereto dated November 16, 1992 (incorporated by reference to Exhibit 3.1 to FCI's 1992 Form 10-K, File No. 0-18051 (the "1992 Form 10-K")).
<C>	<S>
* 3.2	Certificate of Designations for the $2.25 Series A Cumulative Convertible Exchangeable Preferred Stock of FCI (incorporated by reference to Exhibit 3.2 to the 1992 Form 10-K).
3.3	Certificate of Ownership and Merger of FCI dated June 16, 1993.
3.4	Certificate of Amendment to the Restated Certificate of Incorporation of FCI dated June 16, 1993.
* 3.5	By-Laws of FCI as amended November 12, 1992 (incorporated by reference to Exhibit 3.3 to the 1992 Form 10-K).
* 4.1	Specimen certificate of Common Stock of FCI (incorporated by reference to Exhibit 4.5 to the Registration Statement on Form S-1 (No. 33-29769) of FCI (the "Form S-1")).
* 4.2	Specimen certificate of $2.25 Series A Cumulative Convertible Exchangeable Preferred Stock of FCI (incorporated by reference to Exhibit 4.25 to the Registration Statement on Form S-1 (No. 33-47339) of FCI (the "Preferred Stock S-1")).
* 4.3	Indenture between Flagstar and United States Trust Company of New York, as Trustee, relating to the 10% Debentures (including the form of security) (incorporated by reference to Exhibit 4.9 to the Registration Statement on Form S-4 (No. 33-48923) of Flagstar (the "11.25% Debentures S-4")).
* 4.4	Supplemental Indenture, dated as of August 7, 1992, between Flagstar and United States Trust Company of New York, as Trustee, relating to the 10% Debentures (incorporated by reference to Exhibit 4.9A to the 11.25% Debentures S-4).
* 4.5	Indenture of Mortgage, Deed of Trust, Security Agreement, Financing Statement, Fixture Filing, and Assignment of Leases and Rents, from Denny's Realty, Inc. to State Street Bank and Trust Company, dated July 12, 1990 (incorporated by reference to Exhibit 4.9 to Post-effective Amendment No. 1 to the Registration Statement on Form S-1 (No. 33-29769) of FCI (the "Form S-1 Amendment")).
* 4.6	Lease between Denny's Realty, Inc. and Denny's, Inc., dated as of December 29, 1989, as amended and restated as of July 12, 1990 (incorporated by reference to Exhibit 4.10 to the Form S-1 Amendment).
* 4.7	Indenture dated as of July 12, 1990 between Denny's Realty, Inc. and State Street Bank and Trust Company relating to certain mortgage notes (incorporated by reference to Exhibit 4.11 to the Form S-1 Amendment).
* 4.8	Mortgage Note in the amount of $10,000,000 of Denny's Realty, Inc., dated as of July 12, 1990 (incorporated by reference to Exhibit 4.15 to the 11.25% Debentures S-4).
* 4.9	Mortgage Note in the amount of $52,000,000 of Denny's Realty, Inc., dated as of July 12, 1990 (incorporated by reference to Exhibit 4.16 to the 11.25% Debentures S-4).
* 4.10	Mortgage Note in the amount of $98,000,000 of Denny's Realty, Inc., dated as of July 12, 1990 (incorporated by reference to Exhibit 4.17 to the 11.25% Debentures S-4).
* 4.11	Indenture between Secured Restaurants Trust and The Citizens and Southern National Bank of South Carolina, dated as of November 1, 1990, relating to certain Secured Bonds (incorporated by reference to Exhibit 4.18 to the 11.25% Debentures S-4).
* 4.12	Amended and Restated Trust Agreement between Spartan Holdings, Inc., as Depositor for Secured Restaurants Trust, and Wilmington Trust Company, dated as of October 15, 1990 (incorporated by reference to Exhibit 3.3 to the Registration Statement on Form S-11 (No. 33-36345) of Secured Restaurants Trust (the "Form S-11")).
* 4.13	Indenture between Flagstar and First Trust National Association, as Trustee, relating to the 10 7/8% Notes

(incorporated by reference to Exhibit 4.13 to the 1992 Form 10-K).

* 4.14	Supplemental Indenture between Flagstar and First Trust National Association, as Trustee, relating to the 10 7/8% Notes (incorporated by reference to Exhibit 4.14 to the 1992 Form 10-K).
* 4.15	Form of 10 7/8% Note (incorporated by reference to Exhibit 4.15 to the 1992 Form 10-K).

</TABLE>

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EXHIBIT NO.	DESCRIPTION
<C>	<S>
* 4.16	Indenture between Flagstar and NationsBank of Georgia, National Association, as Trustee, relating to the 11.25% Debentures (incorporated by reference to Exhibit 4.16 to the 1992 Form 10-K).
* 4.17	Form of 11.25% Debenture (incorporated by reference to Exhibit 4.17 to the 1992 Form 10-K).
* 4.18	Amended and Restated Credit Agreement, dated as of October 26, 1992, among Flagstar and TWS Funding, Inc., as borrowers, certain lenders and co-agents named therein, and Citibank, N.A., as managing agent (incorporated by reference to Exhibit 28.1 to the Current Report on Form 8-K of Flagstar filed as of November 20, 1992 (the "Form 8-K")).
* 4.19	Closing Agreement dated as of November 12, 1992, among Flagstar and TWS Funding Inc., as borrowers, certain lenders and co-agents named therein, and Citibank, N.A., as managing agent (incorporated by reference to Exhibit 28.2 to the Form 8-K).
* 4.20	First Amendment to the Amended and Restated Credit Agreement dated as of December 23, 1992 (incorporated by reference to Exhibit 4.20 to the 1992 Form 10-K).
* 4.21	Second Amendment to the Amended and Restated Credit Agreement dated as of August 5, 1993 (incorporated by reference to Exhibit 4.23 to the Registration Statement on Form S-2 (No. 33-49843) of Flagstar (the "Form S-2")).
4.22	Third Amendment to the Amended and Restated Credit Agreement dated as of December 15, 1993.
4.23	Indenture between Flagstar and First Trust National Association, as Trustee, relating to the 10 3/4% Notes.
4.24	Form of 10 3/4% Note (included in Exhibit 4.23).
4.25	Indenture between Flagstar and NationsBank of Georgia, National Association, as Trustee, relating to the 11 3/8% Debentures.
4.26	Form of 11 3/8% Debenture (included in Exhibit 4.25).
*10.1	Flagstar's Executive Incentive Compensation Plan (incorporated by reference to Flagstar's 1986 Form 10-K, Exhibit 10(iii), File No. 1-9364).
*10.2	Warrant Agreement, dated November 16, 1992, among FCI, TW Associates and KKR Partners II (incorporated by reference to Exhibit 10.41 to the 1992 Form 10-K).
*10.3	Consent Order dated March 26, 1993 between the U.S. Department of Justice, Flagstar and Denny's, Inc. (incorporated by reference to Exhibit 10.42 to the Form S-2).
*10.4	Fair Share Agreement dated July 1, 1993 between FCI and the NAACP (incorporated by reference to Exhibit 10.43 to the Form S-2).
*10.5	Amendment No. 2 to Stockholders' Agreement, dated as of April 6, 1993, among FCI, GTO and certain affiliated partnerships, DLJ Capital, Jerome J. Richardson and Associates (incorporated by reference to Exhibit 10 to Flagstar's Quarterly Report on Form 10-Q for the quarter ended March 31, 1993, File No. 1-9364).
10.6	Employment Agreement between Flagstar and A. Ray Biggs dated February 10, 1992.
*10.7	Form of Agreement providing certain supplemental retirement benefits (incorporated by reference to Exhibit 10.7 to the 1992 Form 10-K).
*10.8	Form of Supplemental Executive Retirement Plan Trust of Flagstar (incorporated by reference to Exhibit 10.8 to the 1992 Form 10-K).
*10.9	FCI 1989 Non-Qualified Stock Option Plan, as adopted December 1, 1989 and amended November 16, 1992 (incorporated by reference to Exhibit 10.9 to the 1992 Form 10-K).
*10.10	FCI 1990 Non-Qualified Stock Option Plan, as adopted July 31, 1990 (incorporated by reference to Exhibit 10.9 to the Form S-1 Amendment).
*10.11	Form of Non-Qualified Stock Option Award Agreement pursuant to FCI 1990 Non-Qualified Stock Option Plan (incorporated by reference to Exhibit 10.10 to the Form S-1 Amendment).
*10.12	Form of Mortgage related to Secured Restaurants Trust transaction (incorporated by reference to Exhibit 10.1 to the Form S-11).
*10.13	Mortgage Note in the amount of $521,993,982, made by Flagstar Enterprises, Inc. in favor of Spartan Holdings, Inc., dated as of February 1, 1990, as amended and restated November 15, 1990 (incorporated by reference to Exhibit 10.12 to the 11.25% Debentures S-4).
*10.14	Mortgage Note in the amount of $210,077,402, made by Quincy's Restaurants, Inc. in favor of Spartan Holdings, Inc., dated as of February 1, 1990, as amended and restated November 15, 1990 (incorporated by reference to Exhibit 10.13 to the 11.25% Debentures S-4).
*10.15	Loan Agreement between Secured Restaurants Trust and Spardee's Realty, Inc., dated as of November 1, 1990 (incorporated by reference to Exhibit 10.14 to the 11.25% Debentures S-4).
*10.16	Loan Agreement between Secured Restaurants Trust and Quincy's Realty, Inc., dated as of November 1, 1990 (incorporated by reference to Exhibit 10.15 to the 11.25% Debentures S-4).
*10.17	Insurance and Indemnity Agreement, dated as of November 1, 1990, related to Secured Restaurants Trust transaction (incorporated by reference to Exhibit 10.16 to the 11.25% Debentures S-4).
*10.18	Intercreditor Agreement, dated as of November 1, 1990, related to Secured Restaurants Trust transaction (incorporated by reference to Exhibit 10.17 to the 11.25% Debentures S-4).

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EXHIBIT NO.	DESCRIPTION
<C>	<S>
*10.19	Bank Intercreditor Agreement, dated as of November 1, 1990, related to Secured Restaurants Trust transaction (incorporated by reference to Exhibit 10.18 to the 11.25% Debentures S-4).
*10.20	Indemnification Agreement, dated as of November 1, 1990, related to Secured Restaurants Trust transaction (incorporated by reference to Exhibit 10.19 to the 11.25% Debentures S-4).
*10.21	Liquidity Agreement, dated as of November 1, 1990, related to Secured Restaurants Trust transaction (incorporated

by reference to Exhibit 10.20 to the 11.25% Debentures S-4).

*10.22 Financial Guaranty Insurance Policy, issued November 15, 1990, related to Secured Restaurants Trust transaction (incorporated by reference to Exhibit 10.21 to the 11.25% Debentures S-4).

*10.23 Amended and Restated Lease between Quincy's Realty, Inc. and Quincy's Restaurants, Inc., dated as of November 1, 1990 (incorporated by reference to Exhibit 10.22 to the 11.25% Debentures S-4).

*10.24 Amended and Restated Lease between Spardee's Realty, Inc. and Spardee's Restaurants, Inc., dated as of November 1, 1990 (incorporated by reference to Exhibit 10.23 to the 11.25% Debentures S-4).

*10.25 Collateral Assignment Agreement, dated as of November 1, 1990, related to Secured Restaurants Trust transaction (incorporated by reference to Exhibit 10.24 to the 11.25% Debentures S-4).

*10.26 Form of Assignment of Leases and Rents related to Secured Restaurants Trust transaction (incorporated by reference to Exhibit 10.12 to the Form S-11).

*10.27 Spartan Guaranty, dated as of November 1, 1990, related to Secured Restaurants Trust transaction (incorporated by reference to Exhibit 10.26 to the 11.25% Debentures S-4).

*10.28 Form of Hardee's License Agreement related to Secured Restaurants Trust transaction (incorporated by reference to Exhibit 10.14 to the Form S-11).

*10.29 Stock Pledge Agreement among Flagstar Enterprises, Inc. and Secured Restaurants Trust, dated as of November 1, 1990 (incorporated by reference to Exhibit 10.28 to the 11.25% Debentures S-4).

*10.30 Stock Pledge Agreement among Quincy's Restaurants, Inc. and Secured Restaurants Trust, dated as of November 1, 1990 (incorporated by reference to Exhibit 10.29 to the 11.25% Debentures S-4).

*10.31 Management Agreement, dated as of November 1, 1990, related to the Secured Restaurants Trust transaction (incorporated by reference to Exhibit 10.30 to the 11.25% Debentures S-4).

*10.32 Form of Collateral Assignment of Security Documents related to Secured Restaurants Trust transaction (incorporated by reference to Exhibit 10.17 to the Form S-11).

*10.33 Flagstar Indemnity Agreement, dated as of November 1, 1990, related to Secured Restaurants Trust transaction (incorporated by reference to Exhibit 10.32 to the 11.25% Debentures S-4).

*10.34 Subordinated Promissory Note, dated July 28, 1992, from Flagstar to FCI (incorporated by reference to Exhibit 10.33 to the 11.25% Debentures S-4).

*10.35 Development Agreement between the Company and Hardee's Food Systems, Inc., dated January 1992 (incorporated by reference to Exhibit 10.33 to the Preferred Stock S-1).

*10.36 Stock and Warrant Purchase Agreement, dated as of August 11, 1992, between FCI and TW Associates (incorporated by reference to Exhibit 10.38 to the 11.25% Debentures S-4).

*10.37 Stockholders' Agreement, dated as of August 11, 1992, among FCI, GTO (on behalf of itself and certain affiliated partnerships), DLJ Capital, Jerome J. Richardson and TW Associates (incorporated by reference to Exhibit 10.39 to the 11.25% Debentures S-4).

*10.38 Technical Amendment to the Stockholders' Agreement dated as of September 30, 1992, among FCI , GTO and certain affiliated partnerships, DLJ Capital, Jerome J. Richardson and TW Associates (incorporated by reference to Exhibit 10.39A to the 11.25% Debentures S-4).

*10.39 Richardson Shareholder Agreement, dated as of August 11, 1992, between FCI and Jerome J. Richardson (incorporated by reference to Exhibit 10.40 to the 11.25% Debentures S-4).

*10.40 Employment Agreement, dated as of August 11, 1992, between Flagstar and Jerome J. Richardson (incorporated by reference to Exhibit 10.41 to the 11.25% Debentures S-4).

10.41 Employment Agreement, dated as of March 16, 1992, between Flagstar and David F. Hurwitt.

11 Computation of Earnings (Loss) Per Share.

12 Computation of Ratio of Earnings to Fixed Charges.

*21 Subsidiaries of Flagstar (incorporated by reference to Exhibit 22 to the Preferred Stock S-1).

23 Consent of Deloitte & Touche.

</TABLE>

* Certain of the exhibits to this Annual Report on Form 10-K, indicated by an asterisk, are hereby incorporated by reference to other documents on file with the Commission with which they are physically filed, to be part hereof as of their respective dates.

(b) FCI filed no reports on Form 8-K during the fourth quarter of 1993.

FLAGSTAR COMPANIES, INC.

INDEX TO FINANCIAL STATEMENTS AND FINANCIAL STATEMENT SCHEDULES

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INDEPENDENT AUDITORS' REPORT

FLAGSTAR COMPANIES, INC.

We have audited the accompanying consolidated balance sheets of Flagstar Companies, Inc. and subsidiaries (the Company), as of December 31, 1992 and 1993, and the related statements of consolidated operations and consolidated cash flows for each of the three years in the period ended December 31, 1993. Our audits also included the financial statement schedules listed in the index at page F-26. These financial statements and financial statement schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial statement schedules based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 1992 and 1993 and the results of its operations and its cash flows for each of the three years in the period ended December 31, 1993, in conformity with generally accepted accounting principles. Also, in our opinion, such financial statement schedules, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly in all material respects the information set forth therein.

As discussed in Notes 8 and 1 to the consolidated financial statements, the Company changed its method of accounting for other postretirement benefits, effective January 1, 1992, to conform with Statement of Financial Accounting Standards No. 106 and also changed its method of accounting for self-insurance liabilities, effective January 1, 1993.

DELOITTE & TOUCHE
Greenville, South Carolina
March 25, 1994

FLAGSTAR COMPANIES, INC.
STATEMENTS OF CONSOLIDATED OPERATIONS
(IN THOUSANDS EXCEPT PER SHARE AMOUNTS)

<TABLE>
<CAPTION>

	YEAR ENDED DECEMBER 31, 1991	YEAR ENDED DECEMBER 31, 1992	YEAR ENDED DECEMBER 31, 1993
<S>	<C>	<C>	<C>
Operating revenues	$ 3,617,934	$3,720,281	$ 3,970,205
Operating expenses:			
Product cost	1,259,777	1,266,901	1,389,668
Payroll & benefits	1,250,548	1,293,478	1,378,507
Depreciation & amortization expense	218,132	227,191	247,003
Commissions & royalties	123,833	130,903	148,828
Other	541,684	555,384	600,118
Write-off of goodwill and other intangible assets (Note 2)	--	--	1,474,831
Provision for restructuring charges (Note 3)	--	--	192,003
	3,393,974	3,473,857	5,430,958
Operating income (loss)	223,960	246,424	(1,460,753)
Other charges:			
Interest and debt expense (Note 4)	308,837	303,908	266,167
Other -- net	797	874	2,464
	309,634	304,782	268,631
Loss before income taxes, extraordinary items, and cumulative effect of changes in accounting principles	(85,674)	(58,358)	(1,729,384)
Benefit from income taxes (Note 6)	(18,099)	(6,583)	(81,149)
Loss before extraordinary items and cumulative effect of changes in accounting principles	(67,575)	(51,775)	(1,648,235)
Extraordinary items, net of income tax benefits of: 1992 -- $85,053; 1993 -- $196 (Note 12)	--	(155,401)	(26,405)
Loss before cumulative effect of changes in accounting principles	(67,575)	(207,176)	(1,674,640)
Cumulative effect of changes in accounting principles, net of income tax benefits of: 1992 -- $8,785 (Note 8); 1993 -- $90 (Note 1)	--	(17,834)	(12,010)
Net loss	(67,575)	(225,010)	(1,686,650)
Dividends on preferred stock	--	(6,064)	(14,175)
Net loss applicable to common shareholders	$ (67,575)	$ (231,074)	$(1,700,825)
Loss per share applicable to common shareholders (Note 11):			
Loss before extraordinary items and cumulative effect of changes in accounting principle	$ (3.04)	$ (2.32)	$ (39.23)
Extraordinary items, net	--	(6.25)	(.62)
Loss before cumulative effect of changes in accounting principle	(3.04)	(8.57)	(39.85)
Cumulative effect of changes in accounting principle, net	--	(0.72)	(.29)
Net loss	$ (3.04)	$ (9.29)	$ (40.14)
Average outstanding and equivalent common shares	22,212	24,883	42,370

</TABLE>

See notes to consolidated financial statements.

FLAGSTAR COMPANIES, INC.
CONSOLIDATED BALANCE SHEETS
(IN THOUSANDS)

<TABLE>
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	DECEMBER 31, 1992	DECEMBER 31, 1993

<S>	<C>	<C>
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 39,266	$ 45,046
Receivables, less allowance for doubtful accounts of: 1992 -- $9,385; 1993 -- $7,538	71,348	97,811
Merchandise and supply inventories	91,041	101,621
Other	4,925	6,499
	206,580	250,977
Property:		
Property owned (at cost) (Note 4):		
Land	273,059	271,986
Buildings and improvements	875,026	814,703
Merchandising equipment	213,105	226,323
Other property and equipment	466,702	455,749
Total property owned	1,827,892	1,768,761
Less accumulated depreciation	491,316	576,174
Property owned -- net	1,336,576	1,192,587
Buildings and improvements, vehicles, and other equipment held under capital leases (Note 5)	149,074	205,564
Less accumulated amortization	42,425	60,469
Property held under capital leases -- net	106,649	145,095
	1,443,225	1,337,682
Other Assets:		
Goodwill, net of accumulated amortization: 1992 -- $123,301 (Note 2)	1,305,284	--
Other intangible assets, net of accumulated amortization: 1992 -- $58,980; 1993 -- $33,868 (Note 2)	267,775	66,882
Deferred financing costs -- net	114,543	91,085
Other (including loan receivable from officer of: 1992 -- $14,026; 1993 -- $14,815) (Note 13)	52,559	50,659
	1,740,161	208,626
	$3,389,966	$ 1,797,285
LIABILITIES		
Current Liabilities:		
Short-term borrowings (Note 4)	$ 39,000	$ --
Current maturities of long-term debt (Note 4)	71,969	41,668
Accounts payable	116,549	145,370
Accrued salaries and vacations	66,857	67,134
Accrued insurance	77,863	76,557
Accrued taxes	22,661	30,190
Accrued interest	28,365	41,225
Accrued restructuring cost (Note 3)	--	33,527
Other	67,368	119,919
	490,632	555,590
Long-Term Liabilities:		
Debt, less current maturities (Note 4)	2,179,496	2,352,178
Deferred income taxes (Note 6)	130,935	23,861
Liability for self-insured claims	72,380	84,713
Other non-current liabilities and deferred credits	227,156	203,492
	2,609,967	2,664,244
Commitments and Contingent Liabilities (Note 9)		
Shareholders' Equity (Deficit) (Note 10):		
$2.25 Series A Cumulative Convertible Exchangeable Preferred Stock:		
$0.10 par value; 1992 and 1993, 25,000 shares authorized; 6,300 shares issued and outstanding, $25 per share liquidation preference	630	630
Common stock:		
$0.50 par value; 1992 -- 100,000 shares authorized, 42,370 issued and outstanding; 1993 -- 200,000 shares authorized, 42,369 issued and outstanding	21,185	21,185
Paid-in capital	724,545	724,545
Deficit	(456,993)	(2,157,818)
Minimum pension liability adjustment (Note 7)	--	(11,091)
	289,367	(1,422,549)
	$3,389,966	$ 1,797,285

</TABLE>

See notes to consolidated financial statements.

FLAGSTAR COMPANIES, INC.
STATEMENTS OF CONSOLIDATED CASH FLOWS
(IN THOUSANDS)

<TABLE>
<CAPTION>

	YEAR ENDED DECEMBER 31, 1991	YEAR ENDED DECEMBER 31, 1992	YEAR ENDED DECEMBER 31, 1993
<S>	<C>	<C>	<C>
Cash Flows from Operating Activities:			
Net loss	$ (67,575)	$ (225,010)	$(1,686,650)
Adjustments to Reconcile Net Loss to Cash Flows from Operating Activities:			
Write-off of goodwill and intangible assets	--	--	1,474,831
Provision for restructuring charges	--	--	192,003
Depreciation and amortization of property	162,658	170,795	183,105
Amortization of goodwill	35,775	35,744	36,053
Amortization of other intangible assets	19,699	20,652	27,845

Amortization of deferred financing costs	13,910	11,998	11,815
Interest accretion on debt	67,573	68,283	--
Deferred income tax benefit	(27,036)	(20,803)	(85,409)
Other	2,746	130	4,730
Extraordinary items, net	--	155,401	26,405
Cumulative effect of changes in accounting principle, net	--	17,834	12,010
Changes in Assets and Liabilities Net of Effects from Acquisitions and Restructuring:			
Decrease (increase) in assets:			
Receivables	(2,067)	(6,916)	(24,605)
Inventories	(6,929)	(1,217)	(4,802)
Other current assets	4,750	412	(1,555)
Other assets	--	(207)	(2,468)
Increase (decrease) in liabilities:			
Accounts payable	(9,113)	(9,615)	21,786
Accrued salaries and vacations	(2,511)	10,910	277
Accrued taxes	4,219	(10,186)	4,475
Other accrued liabilities	(16,898)	(1,987)	5,847
Other noncurrent liabilities and deferred credits	7,669	6,831	(24,718)
Net cash flows from operating activities	186,870	223,049	170,975
Cash Flows from Investing Activities:			
Purchase of property	(109,484)	(135,525)	(133,128)
Proceeds from dispositions of property	3,732	11,010	36,454
Proceeds from dispositions of assets held for sale	5,170	--	--
Purchase of other businesses	--	(15,940)	(32,895)
Loan to officer	--	(13,922)	--
Purchase of other long-term assets	(2,719)	(2,995)	(31,602)
Net cash flows used in investing activities	(103,301)	(157,372)	(161,171)

See notes to consolidated financial statements.

FLAGSTAR COMPANIES, INC.
STATEMENTS OF CONSOLIDATED CASH FLOWS (CONTINUED)
(IN THOUSANDS)

	YEAR ENDED DECEMBER 31, 1991	YEAR ENDED DECEMBER 31, 1992	YEAR ENDED DECEMBER 31, 1993
<S>	<C>	<C>	<C>
Cash Flows from Financing Activities:			
Net working capital advances under credit agreements	$ (25,000)	$ 4,000	$ 54,000
Long-term debt issued in connection with refinancings	--	872,505	400,778
Other long-term borrowings	--	--	22,146
Premiums paid in connection with refinancings	--	(150,593)	--
Deferred financing costs	(8,870)	(92,521)	(14,916)
Long-term debt payments	(55,700)	(1,138,750)	(451,855)
Cash dividends on preferred stock	--	(2,520)	(14,175)
Sale of common stock and warrants	--	300,000	--
Sale of preferred stock	--	157,500	--
Stock issuance costs	--	(14,039)	--
Other	6	(85)	(2)
Net cash flows used in financing activities	(89,564)	(64,503)	(4,024)
Increase (decrease) in cash and cash equivalents	(5,995)	1,174	5,780
Cash and Cash Equivalents at:			
Beginning of period	44,087	38,092	39,266
End of period	$ 38,092	$ 39,266	$ 45,046
Supplemental Cash Flow Information:			
Income taxes paid	$ 12,755	$ 10,229	$ 4,917
Interest paid	$ 221,254	$ 190,071	$ 220,173
Non-cash financing activities:			
Debt issued in exchange for $700,880 of debt tendered in exchange offers	$ --	$ 722,411	$ --
Capital lease obligations	$ 19,220	$ 36,200	$ 75,842
Other financings	$ 1,594	$ 4,841	$ 1,278
Dividends declared but not paid	$ --	$ 3,544	$ 3,544
Issuance of common stock	$ 5,324	$ --	$ --

See notes to consolidated financial statements.

FLAGSTAR COMPANIES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

INTRODUCTION

Flagstar Companies, Inc. (Company) was incorporated under the laws of the State of Delaware on September 24, 1988 to effect the acquisition of Flagstar Corporation (Flagstar). Prior to June 16, 1993 the Company and Flagstar had been known, respectively, as TW Holdings, Inc. and TW Services, Inc.

The acquisition was accounted for under the purchase method of accounting as of July 20, 1989. Accordingly, the Company has allocated its total purchase

cost of approximately $1.7 billion to the assets and liabilities of Flagstar based upon their respective fair values, which were determined by valuations and other studies. As discussed in Note 2, during 1993 the Company determined that goodwill and certain intangible assets arising principally from the acquisition were impaired resulting in a $1.5 billion write-off.

On November 16, 1992, a recapitalization of the Company and Flagstar was substantially completed which included the issuance of 20 million shares of common stock and warrants to acquire an additional 15 million shares of common stock at $17.50 per share to TW Associates, L.P., an affiliate of Kohlberg Kravis Roberts & Co. (KKR) in exchange for $300 million, the consummation of a Restated Bank Credit Agreement, the consummation of the offers to exchange the 17% Senior Subordinated Discount Debentures Due 2001 (the 17% Debentures) and the 15% Subordinated Debentures Due 2001 (the 15% Debentures) for 11.25% Senior Subordinated Debentures Due 2004, the consummation of the sale of $300 million aggregate principal amount of Senior Notes, the call for redemption of all 17% Debentures and all 15% Debentures not acquired pursuant to the Exchange Offers, and the call for redemption of all of the outstanding 14.75% Senior Notes Due 1998 (the 14.75% Senior Notes).

On December 16, 1992 the 17% Debentures and 15% Debentures that were not exchanged were called for redemption on November 16, 1992, were redeemed at 110% of accreted value or principal amount. In addition, the 14.75% Senior Notes were redeemed including a make-whole premium.

On March 24, 1993 the Company repurchased, pursuant to the change in control provision of the indenture, $741,000 in principal amount from the holders of its 10% Convertible Debentures such securities at 101% of their principal amount plus unpaid accrued interest.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Accounting policies and methods of their application that significantly affect the determination of financial position, cash flows and results of operations are as follows:

(a) CONSOLIDATED FINANCIAL STATEMENTS. The Consolidated Financial Statements include the accounts of the Company, Flagstar, and all its subsidiaries. Certain 1992 amounts have been reclassified to conform to the 1993 presentation.

(b) CASH AND CASH EQUIVALENTS. For purposes of the Statements of Consolidated Cash Flows, the Company considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents.

(c) INVENTORIES. Merchandise and supply inventories are valued primarily at the lower of average cost or market.

(d) PROPERTY AND DEPRECIATION. Property and equipment owned are depreciated principally on the straight-line method over its estimated useful life. Property held under capital leases (at capitalized value) is amortized over its estimated useful life, limited generally by the lease period. The following estimated useful service lives were in effect during all periods presented in the financial statements:
Merchandising equipment -- Principally five to ten years
Buildings -- Fifteen to forty years
Other equipment -- Two to ten years
Leasehold improvements -- Estimated useful life limited by the lease period.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES -- Continued

(e) GOODWILL AND OTHER INTANGIBLE ASSETS. The excess of cost over the fair value of net assets of companies acquired had been amortized over a 40-year period on the straight-line method prior to being written-off at December 31, 1993. Other intangible assets consist primarily of costs allocated in the acquisition to tradenames, franchise and other operating agreements. Such assets are being amortized on the straight-line basis over the useful lives of the franchise or the contract period of the operating agreements. Certain tradenames, franchise and other operating agreements were amortized over periods up to 40 years on the straight-line basis prior to being written-off at December 31, 1993. The Company assesses the recoverability of goodwill and other intangible assets by projecting future net income, before the effect of amortization of goodwill and other intangible assets, over the remaining amortization period of such assets. The Company's large debt burden requires approximately 60% of the Company's annual cash flow for current interest cost, as a result, it is appropriate to reduce operating income by interest expense to evaluate the recoverability of goodwill and other intangibles. The results of this evaluation allow the Company to assess whether the amortization of the goodwill or other intangible assets balance over its remaining life can be recovered through expected non-discounted future results. The projected future results used in the evaluation performed in 1993 are based on the four year historical trends since the 1989 leveraged buy out. Management believes that the projected future results are the most likely scenario assuming historical trends continue. See Note 2 for further discussion of the write-off of goodwill and other intangible assets.

(f) DEFERRED FINANCING COSTS. Costs related to the issuance of debt are

deferred and amortized as a component of interest and debt expense over the terms of the respective debt issues using the interest method.

(g) PREOPENING COSTS. The Company capitalizes certain costs incurred in conjunction with the opening of restaurants and food services locations and amortizes such costs over a twelve month period from the date of opening.

(h) INCOME TAXES. Income taxes are accounted for under the provisions of Statement of Financial Accounting Standards No. 109 "Accounting for Income Taxes."

(i) INSURANCE. The Company is primarily self insured for workers compensation, general liability, and automobile risks which are supplemented by stop loss type insurance policies. The liabilities for estimated incurred losses are discounted to their present value based on expected loss payment patterns determined by independent actuaries or experience. During 1993, the Company changed its method of determining the discount rate applied to insurance liabilities retroactive to January 1, 1993 pursuant to Staff Accounting Bulletin (SAB) No. 92 issued by the staff of the Securities and Exchange Commission in June 1993 concerning the accounting for environmental and other contingent liabilities. The SAB requires, among other things, that a risk free rate (approximately 4% at December 31, 1993) be used to discount such liabilities rather than a rate based on average cost of borrowing which had been the Company's practice. As a result of this change, the Company recognized an additional liability, measured as of January 1, 1993 through a one-time charge of $12,100,000 (net of income tax benefits of $90,000). The effect of this accounting change on 1993 operating results, in addition to recording the cumulative effect for years prior to 1993, was to increase insurance expense and decrease interest expense by approximately $7,000,000 (see Note 15). The total discounted self-insurance liabilities recorded at December 31, 1992 and 1993 were $120.7 million and $139.5 million, respectively. The related undiscounted amounts at such dates were $142.8 million and $151.9 million, respectively.

(j) POSTRETIREMENT BENEFITS. In 1992, the Company adopted the provisions of Statement of Financial Accounting Standards No. 106 "Employers' Accounting for Postretirement Benefits Other than Pensions." This new standard requires that the Company's expected cost of retiree health benefits be charged to expense during the years of employee service. Previously, such costs were expensed as paid. See Note 8 for a further description of the accounting for postretirement benefits other than pensions.

(k) POSTEMPLOYMENT BENEFITS. During November 1992, the Financial Accounting Standards Board issued Statement No. 112 "Employers' Accounting for Postemployment Benefits" which requires that benefits provided to former

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES -- Continued

or inactive employees prior to retirement be recognized as an obligation when earned, subject to certain conditions, rather than when paid. The Company does not expect Statement No. 112 to have a material impact on its operations and will implement this statement during the first quarter of 1994.

NOTE 2 WRITE-OFF OF GOODWILL AND OTHER INTANGIBLE ASSETS

For the year ended December 31, 1993, the Company's consolidated statement of operations reflects non-cash charges totaling $1,474.8 million, including $1,267.7 million and $207.1 million for the write-off of goodwill and other intangible assets, primarily tradenames and franchise agreements, respectively.

Since the acquisition of Flagstar in 1989, the Company has not achieved the revenue and earnings projections prepared at the time of the acquisition. In assessing the recoverability of goodwill and other intangible assets in prior years, the Company developed projections of future operations which indicated the Company would become profitable within several years and fully recover the carrying value of the goodwill and other intangible assets.

However, actual results have fallen short of these projections primarily due to increased competition, intensive pressure on pricing due to discounting, declining customer traffic, adverse economic conditions, and relatively limited capital resources to respond to these changes. During the fourth quarter of 1993, management determined that the most likely projections of future operating results would be based on the assumption that historical operating trends derived from the last four years would continue rather than projections based on assumptions that the restructuring plan (described in Note 3) will be successful. Thus, the Company has determined that the projected financial results would not support the future amortization of the remaining goodwill balance and certain other intangible assets at December 31, 1993.

The methodology employed to assess the recoverability of the Company's goodwill and other intangible assets involved a detail six year projection of operating results extrapolated forward 30 years, which approximates the maximum remaining amortization period for such assets as of December 31, 1993. The Company then evaluated the recoverability of goodwill on the basis of this projection of future operations. Based on this projection over the next six years, the Company would have a net loss each year before income taxes and

amortization of goodwill and other intangibles. Extension of these trends to include the entire 36 year amortization period indicates that there would be losses each year, unless the restructuring plan or other activities are successful in reversing the present operating trends; thus, the analysis indicates that there is insufficient net income to recover the goodwill and other intangible asset balances at December 31, 1993. Accordingly, the Company wrote off the goodwill balance and certain other intangible asset balances including tradename and franchise agreements for its Denny's, Quincy's, and El Pollo Loco restaurant operations and tradename and location contracts for its contract food and vending services operations. See Note 14 for a description of the Company's operations.

The projections generally assumed that historical trends experienced by the Company over the past four years would continue. The current mix between company-owned and franchised restaurants was assumed to continue, customer traffic for Denny's, Quincy's, and El Pollo Loco was assumed to decline at historical rates, average check amounts for Denny's, Hardee's, Quincy's, and El Pollo Loco were assumed to increase indefinitely at historical rates due to inflation and changes in product mix, volume for Canteen was assumed to decline at historical rates, and pricing for Canteen was assumed to increase at historical rates, as a result of inflation. Capital expenditures are assumed to continue at a level necessary to repair and maintain current facilities and systems. No new unit growth was assumed. Variable costs for food and labor are assumed to remain at their historical percentage of revenues. Other costs are assumed to increase at the historical inflation rate consistent with revenue pricing increases. Through the year 1999, the Company's projections indicate that interest expense will exceed operating income, which is determined after deducting annual depreciation expense; however, operating income before depreciation is adequate to cover interest expense. A continuation of this trend for the next 30 years does not generate cash to repay the current debt and management assumes it will be refinanced at constant interest rates.

NOTE 3 PROVISION FOR RESTRUCTURING CHARGES

Effective the fourth quarter of 1993, as a result of a comprehensive financial and operational review initiated in 1993, the Company approved a restructuring plan. The plan involves the sale or closure of restaurants, reduction in personnel, a reorganization of certain management structures, and a decision to fundamentally change the competitive positioning of Denny's, El Pollo Loco, and Quincy's. The plan resulted in a restructuring charge, which is comprised of the following:

<TABLE>
<S> <C>

Write-down of assets	$156,179
Severance and relocation	24,995
Other	10,829
Total	$192,003

</TABLE>

The write-down of assets represents predominantly non-cash adjustments made to reduce to net realizable value approximately 240 of the Company's 1,376 Denny's, Quincy's, and El Pollo Loco restaurants. These 240 restaurants have been identified for sale to franchisees, conversion to another concept, or closure. The write-down of assets also includes a charge of $22 million to establish a reserve for operating leases related to restaurant units which will be sold to franchisees or closed and offices which will be closed.

Approximately $36 million of the restructuring charges represent incremental cash charges of which approximately $6.5 million had been incurred and paid in 1993. The reorganization of the field management structure of the restaurant group and the contract food services group will result in elimination of a layer of supervisory management and consolidation of field offices resulting in related severance and relocation costs. In addition, the Company will eliminate a number of positions in the corporate marketing, accounting, and administrative functions.

NOTE 4 DEBT

Short-term borrowings of $39.0 million at December 31, 1992 represent advances under the working capital facility of the Company's credit agreement (Restated Credit Agreement). Interest on the advances under the working capital facility at December 31, 1992 accrued at a weighted average rate of 7.1% per annum and was based on prime or LIBOR. During 1993, an amendment to the Restated Credit Agreement was consummated and included a modification to the requirement that working capital advances under the credit facility be repaid in full and not reborrowed for at least 30 consecutive days during any 13-month period to provide that working capital advances under the credit facility be paid down to a maximum borrowing thereunder of $100 million in 1993 reducing to $50 million in 1998 for such 30 day period in each year. Accordingly, the $93.0 million outstanding under the working capital portion of the revolving credit facility at December 31, 1993, is classified as long-term debt. The Restated Credit Agreement includes a working capital and letter of credit facility up to a total of $350.0 million with a working capital sublimit of $200.0 million and a letter of credit sublimit of $245.0 million. All amounts outstanding under the facility must be repaid by November 16, 1998. See also discussion below.

FLAGSTAR COMPANIES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

NOTE 4 DEBT -- Continued

Long-term debt consists of the following:

<TABLE>
<CAPTION>

	DECEMBER 31, 1992	DECEMBER 31, 1993
<S>	<C>	<C>
	(IN THOUSANDS)	
Restated Credit Agreement:		
Borrowings under working capital facility, interest varies with prime and LIBOR at December 31, 1993 -- 6.5%	$ --	$ 93,000
Senior term loan, due in installments through 1998, interest varies with prime and LIBOR at December 31, 1992 -- 6.4375% and December 31, 1993 -- 5.9375%	572,505	171,295
Notes and Debentures:		
10.75% Senior Notes due September 15, 2001, interest payable semi-annually	--	275,000
10.875% Senior Notes due December 1, 2002, interest payable semi-annually	300,000	300,000
11.25% Senior Subordinated Debentures due November 1, 2004, interest payable semi-annually	722,411	722,411
11.375% Senior Subordinated Debentures due September 15, 2003, interest payable semi-annually	--	125,000
10% Convertible Junior Subordinated Debentures due 2014 (10% Convertible Debentures), interest payable semi-annually; convertible into Company common stock any time prior to maturity at $24.00 per share	100,000	99,259
Mortgage Notes Payable:		
10.25% Guaranteed Secured Bonds due 2000	211,404	208,508
11.03% Notes due 2000	160,000	160,000
10.51% Note, due December 1, 1993	11,200	--
Other notes payable, mature over various terms to 20 years, payable in monthly or quarterly installments with interest rates ranging from 6.5% to 15.0% (a)	26,882	25,348
Capital lease obligations (see Note 5)	141,264	190,808
Notes payable secured by equipment, mature over various terms up to 7 years, payable in monthly installments with interest rates ranging from 8.5% to 9.64%(b)	1,053	21,912
Sundry indebtedness	4,746	1,305
Total	2,251,465	2,393,846
Less current maturities (c)	71,969	41,668
	$2,179,496	$2,352,178

</TABLE>

(a) Collateralized by restaurant and other properties with a net book value of $41.7 million at December 31, 1993.
(b) Collateralized by equipment with a net book value of $23.5 million at December 31, 1993.
(c) Aggregate annual maturities during the next five years of long-term debt are as follows (in thousands): 1994 -- $41,668; 1995 -- $42,450; 1996 -- $55,293; 1997 -- $96,732, and 1998 -- $119,609.

The Restated Credit Agreement provides for a senior term loan and a senior revolving credit facility. The Company had drawings under the senior term loan of $572.5 million during 1992 and $778,000 during 1993. The borrowings under the Restated Credit Agreement are secured by the stock of certain operating subsidiaries and the Company's trade and service marks and are guaranteed by certain operating subsidiaries. Such guarantees are further secured by certain operating subsidiary assets.

The Restated Credit Agreement and indentures under which the debt securities have been issued contain a number of restrictive covenants. Such covenants restrict, among other things, the ability of Flagstar and its subsidiaries to incur indebtedness, create liens, engage in business activities which are not in the same field as that in which the Company currently operates, mergers and acquisitions, sales of assets, transactions with affiliates and the payment of dividends. In addition, the Restated Credit Agreement contains affirmative and negative financial covenants including provisions for the maintenance of a minimum level of interest coverage (as defined), limitations on ratios of indebtedness (as defined) to earnings before interest, taxes, depreciation and amortization (EBITDA), and limitations on annual capital expenditures.

During September 1993, net proceeds of $387.5 million from the issuance of $275 million of 10.75% Senior Notes and $125 million of 11.375% Senior Subordinated Debentures were used to reduce the Company's senior term loan. In

NOTE 4 DEBT -- Continued

connection with the reduction of the senior term loan, the Restated Credit Agreement was amended to include, among other things, the following: an increase in the amount of annual capital expenditures permitted for remodeling and expansion of operations, modification of financial ratios of debt to EBITDA and of interest coverage, a rescheduling of the remaining principal installments under the senior term loan, and modification of the requirement that working capital advances under the credit facility be repaid in full and not reborrowed for at least 30 consecutive days during any 13-month period but at least once

during each year to provide that working capital advances under the credit facility be paid down to a maximum borrowing thereunder of $100 million in 1993 reducing to $50 million in 1998 for such 30 day period in each year.

The Company was in compliance with the terms of the Restated Credit Agreement at December 31, 1993. Under the most restrictive provision of the Restated Credit Agreement (ratio of total debt to EBITDA, as defined), at December 31, 1993, the Company could incur approximately $44.0 million of additional indebtedness.

At December 31, 1993, the 10.25% guaranteed bonds were secured by, among other things, mortgage loans on 385 restaurants, a lien on the related restaurant equipment, assignment of intercompany lease agreements, and the stock of the issuing subsidiaries. At December 31, 1993, the restaurant properties and equipment had a net book value of $347.8 million. In addition, the bonds are insured with a financial guaranty insurance policy written by a company that engages exclusively in such coverage. Principal and interest on the bonds is payable semiannually. Principal payments total $2.9 million annually through 1995; $12.5 million annually through 1999; and $152.7 million in 2000. The Company through its operating subsidiaries covenants that it will maintain the properties in good repair and expend annually to maintain the properties at least $15.8 million in 1994 and increasing each year to $23.7 million in 2000.

The 11.03% mortgage notes are secured by a pool of cross collateralized mortgages on 240 restaurants with a net book value at December 31, 1993 of $228.1 million. In addition, the notes are collateralized by, among other things, a security interest in the restaurant equipment, the assignment of intercompany lease agreements and the stock of the issuing subsidiary. Interest on the notes is payable quarterly with the entire principal due at maturity in 2000. The notes are redeemable, in whole, at the issuer's option beginning in July 1993. The Company through its operating subsidiary covenants that it will use each property as a food service facility, maintain the properties in good repair and expend at least $5.3 million per annum and not less than $33 million, in the aggregate, in any five year period to maintain the properties.

At December 31, 1993, the Company has $400 million aggregate notional amount in effect of reverse interest rate exchange agreements with maturities ranging from thirty-six to seventy-two months. The Company receives interest on such notional amount at fixed rates (average rate of 5.64% at December 31, 1993) and pays interest at six months LIBOR in arrears based floating rates on like notional amount. Subsequent to December 31, 1993, an additional $400 million aggregate notional amount of reverse interest rate exchange agreements with maturities of thirty-six months became effective. The Company will receive interest on the notional amount at average fixed rates of 5.29% and pay interest at six months LIBOR in arrears based floating rates on like notional amount. Also at December 31, 1993 the Company has a $50 million aggregate notional amount interest rate exchange agreement which matures within twelve months. The Company pays interest on such notional amount (9.76% at December 31, 1993) and is paid interest at LIBOR based floating rates (3.30% at December 31, 1993) on like notional amount. The net payments on all such agreements are reflected in interest and debt expense.

The estimated fair value of the Company's long-term debt (excluding capital lease obligations) approximates the principal amount of such debt outstanding at December 31, 1993. Such computations are based on market quotations for the same or similar debt issues or the estimated borrowing rates available to the Company. The estimated fair value of the $50 million notional amount interest rate exchange agreement at December 31, 1993 is $2.8 million which represents an unrealized loss and is the amount at which such exchange agreement could be settled based on estimates obtained from dealers. At December 31, 1993, the estimated fair value of the $400 million notional amount of reverse interest rate exchange agreements was zero. The fair value of accounts receivable, short-term borrowings, and accounts payable approximate their carrying value.

NOTE 5 LEASES AND RELATED GUARANTEES

The Company's operations utilize property, facilities, equipment and vehicles leased from others. In addition, certain owned and leased property, facilities and equipment are leased to others.

Buildings and facilities leased from others primarily are for restaurants and support facilities. At December 31, 1993, 974 restaurants were operated under lease arrangements which generally provide for a fixed basic rent, and, in some instances, contingent rental based on a percentage of gross operating profit or gross revenues. Initial terms of land and restaurant building leases generally are not less than twenty years exclusive of options to renew. Leases of other equipment primarily consist of merchandising equipment, computer systems and vehicles, etc.

As lessor, leasing operations principally consist of merchandising equipment under noncancelable leases for a term of eight years to franchised distributors of a subsidiary. Numerous miscellaneous sublease agreements also exist.

Information regarding the Company's leasing activities at December 31, 1993 is as follows:

<TABLE>
<CAPTION>

OPERATING LEASES

	CAPITAL LEASES		MINIMUM LEASE
	MINIMUM LEASE PAYMENTS	MINIMUM SUBLEASE PAYMENTS	PAYMENTS NET OF SUBLEASE RENTALS OF IMMATERIAL AMOUNTS
<S>	<C>	<C>	<C>
		(IN THOUSANDS)	
Year:			
1994	$ 45,035	$ 1,836	$ 52,800
1995	39,756	1,822	50,074
1996	34,833	1,730	46,579
1997	30,116	1,566	43,030
1998	23,322	1,360	38,652
Subsequent years	149,004	3,337	229,155
Total	$322,066	$11,651	$ 460,290
Less imputed interest	131,258		
Present value of capital lease obligations	$190,808		

</TABLE>

The total rental expense included in the determination of operating income for the three years ended December 31, 1991, 1992 and 1993 is as follows:

<TABLE>
<CAPTION>

	YEAR ENDED DECEMBER 31, 1991	YEAR ENDED DECEMBER 31, 1992	YEAR ENDED DECEMBER 31, 1993
<S>	<C>	<C>	<C>
		(IN THOUSANDS)	
Basic rents	$ 49,114	$ 51,373	$ 56,699
Contingent rents	13,305	12,842	12,306
Total	$ 62,419	$ 64,215	$ 69,005

</TABLE>

Total rental expense does not include sublease rental income of $10,068,000, $9,437,000 and $8,998,000 for the three years ended December 31, 1991, 1992, and 1993, respectively.

NOTE 6 INCOME TAXES

A summary of the provision (benefit) from income taxes attributable to loss before extraordinary items and cumulative effect of change in accounting principle is as follows:

<TABLE>
<CAPTION>

	YEAR ENDED DECEMBER 31, 1991	YEAR ENDED DECEMBER 31, 1992	YEAR ENDED DECEMBER 31, 1993
<S>	<C>	<C>	<C>
		(IN THOUSANDS)	
Current:			
Federal	$ 4,374	$ 9,452	$ 1,423
State, Foreign and Other	4,563	4,768	2,837
	8,937	14,220	4,260
Deferred:			
Federal	(24,183)	(17,955)	(75,897)
State, Foreign and Other	(2,853)	(2,848)	(9,512)
	(27,036)	(20,803)	(85,409)
Benefit from income taxes	$(18,099)	$ (6,583)	$(81,149)
The total benefit from income taxes related to:			
Loss before extraordinary items and cumulative effect of changes in accounting principles	$(18,099)	$ (6,583)	$(81,149)
Extraordinary items	--	(85,053)	(196)
Cumulative effect of changes in accounting principles	--	(8,785)	(90)
Total benefit from income taxes	$(18,099)	$ (100,421)	$(81,435)

</TABLE>

The deferred federal tax benefit for the year ended December 31, 1993 includes a reduction for the utilization of regular tax net operating loss carryforwards of approximately $9.5 million. In addition, the deferred federal tax benefit for the year ended December 31, 1993, has been offset by approximately $2.7 million due to the 1% corporate tax rate increase included in the Omnibus Budget Reconciliation Act of 1993.

NOTE 6 INCOME TAXES -- Continued

The following represents the approximate tax effect of each significant type of temporary difference and carryforward giving rise to the deferred income tax liability or asset:

<TABLE>
<CAPTION>

	DECEMBER 31, 1992	1993
<S>	<C>	<C>
	(IN THOUSANDS)	
Deferred tax assets:		
Amortization (including write-down) of intangible assets	$ --	$ 3,055
Self-insurance reserves	48,892	15,229
Capitalized leases	7,834	726
Post-retirement benefits	14,749	3,914
Other accruals and reserves (includes restructuring reserves)	58,491	31,583
Alternative minimum tax credit carryforwards	12,418	13,330
General business credit carryforwards	4,751	4,751
Net operating loss carryforwards	71,583	72,539
Less: valuation allowance	--	(110,644)
Total deferred tax assets	218,718	34,483
Deferred tax liabilities:		
Depreciation of fixed assets	270,801	58,344
Amortization of intangible assets	78,852	--
Total deferred tax liabilities	349,653	58,344
Total deferred income tax liability	$130,935	$ 23,861

</TABLE>

The Company has provided a valuation allowance for the portion of the deferred tax asset for which it is more likely than not that a tax benefit will not be realized.

The difference between the statutory federal income tax rate and the effective tax rate on loss before extraordinary items and cumulative effect of accounting changes is as follows:

<TABLE>
<CAPTION>

	YEAR ENDED DECEMBER 31, 1991	YEAR ENDED DECEMBER 31, 1992	YEAR ENDED DECEMBER 31, 1993
<S>	<C>	<C>	<C>
Statutory rate	34%	34%	35%
Differences:			
State, foreign, and other taxes, net of federal income tax benefit	(1)	(3)	--
Amortization and write-off of goodwill	(14)	(20)	(26)
Portion of losses not benefited as a result of the establishment of valuation allowance	--	--	(4)
Other net permanent differences between the tax return and the statement of consolidated operations	2	--	--
Effective tax rate	21%	11%	5%

</TABLE>

At December 31, 1993, the Company has available, to reduce income taxes that become payable in the future, general business credit carryforwards of approximately $4.7 million which expire in approximately 2000, and alternative minimum tax (AMT) credits of $13.3 million. The AMT credits may be carried forward indefinitely. In addition, the Company has available regular income tax net operating loss carryforwards of $207.2 million, of which approximately $14.4 million expires in 2006 and $192.8 million expires in 2007. Due to the Recapitalization of the Company which occurred during 1992, the Company's ability to utilize general business credits, AMT credits and net operating loss carryforwards which arose prior to 1992 will be limited to a specified annual amount. The annual limitation for the utilization of the tax credit

NOTE 6 INCOME TAXES -- Continued

carryforwards is approximately $8 million and the annual limitation for the utilization of the net operating loss carryforwards is approximately $24 million. The usage of the net operating loss carryforward which arose in 1992 of $192.8 million is not expected to be subject to any annual limitation.

NOTE 7 EMPLOYEE BENEFIT PLANS

The Company maintains several defined benefit plans which cover a substantial number of employees. Benefits are based upon each employee's years of service and average salary. The Company's funding policy is based on the minimum amount required under the Employee Retirement Income Security Act of 1974. The Company also maintains defined contribution plans.

Total net pension cost of defined benefit plans for the years ended December 31, 1991, 1992, and 1993 amounted to $4,576,000, $4,311,000 and $6,103,000, respectively, of which $3,172,000, $2,231,000 and $3,906,000 related to funded defined benefit plans and $1,404,000, $2,080,000 and $2,197,000 related to nonqualified unfunded supplemental defined benefit plans for executives.

The components of net pension cost of the funded and unfunded defined benefit plans for the three years ended December 31, 1991, 1992, and 1993 determined under SFAS 87 follow:

<TABLE>
<CAPTION>

	YEAR ENDED DECEMBER 31,	YEAR ENDED DECEMBER 31,	YEAR ENDED DECEMBER 31,

	1991	1992	1993
<S>	<C>	<C>	<C>
		(IN THOUSANDS)	
Service cost-benefits earned during the year	$ 4,707	$ 4,979	$ 5,794
Interest cost on projected benefit obligations	6,980	7,932	8,779
Actual return on plan assets	(15,350)	(3,125)	(7,134)
Net amortization and deferral	8,239	(5,475)	(1,336)
Net pension cost	$ 4,576	$ 4,311	$ 6,103

The following table sets forth the funded status of the plans and amounts recognized in the Company's balance sheet for its defined benefit plans:

	DECEMBER 31,	
	1992	1993
<S>	<C>	<C>
	(IN THOUSANDS)	
Actuarial present value of accumulated benefit obligations:		
Vested benefits	$75,388	$ 94,403
Non-vested benefits	2,319	2,238
Accumulated benefit obligations	$77,707	$ 96,641
Plan assets at fair value	$91,449	$ 96,279
Projected benefit obligation	89,943	111,650
Funded status	1,506	(15,371)
Unrecognized net loss from past experience different from that assumed	7,791	23,345
Unrecognized prior service cost	634	548
Unrecognized net asset at January 1, 1987 being recognized over 15 years	(415)	(232)
Additional liability	(272)	(10,761)
Prepaid (accrued) pension costs	$ 9,244	$ (2,471)

As of December 31, 1992 and 1993, the accrued pension liability related to unfunded plans was $9,940,000 and $10,817,000, respectively, the accumulated benefit obligation was $6,310,000 and $7,711,000, respectively, and the projected benefit obligation was $12,118,000 and $13,758,000, respectively.

NOTE 7 EMPLOYEE BENEFIT PLANS -- Continued

Significant assumptions used in determining net pension cost and funded status information for all the periods shown above are as follows:

	1992	1993
<S>	<C>	<C>
Discount rate	8.5%	7.5%
Rates of salary progression	5.0-5.5%	4.0%
Long-term rates of return on assets	10.0%	10.0%

In addition, the Company has defined contribution plans whereby eligible employees can elect to contribute from 1%-15% of their compensation to the plans. These plans include profit sharing and savings plans under which the Company makes matching contributions, with certain limitations. Amounts charged to income under these plans were $6,706,000, $7,406,000 and $5,327,000 for the years ended December 31, 1991, 1992, and 1993, respectively.

Incentive compensation plans provide for awards to management employees based on meeting or exceeding certain levels of income as defined by such plans The amounts charged to income under the plans for the years ended December 31, 1991, 1992, and 1993 were as follows: $2,605,000, $5,344,000 and zero. In addition to these incentive compensation plans, certain operations have incentive plans in place under which regional, divisional and local management participate.

The 1989 Stock Option Plan permits a Committee of the Board of Directors to grant options to key employees of the Company and its subsidiaries to purchase shares of common stock of the Company at a stated price established by the Committee. Such options are exercisable at such time or times either in whole or part, as determined by the Committee. During 1992, the 1989 Stock Option Plan was amended to authorize grants of up to 3,000,000 shares and 651,400 shares were granted. Options of 866,180 and 612,480, respectively, were outstanding as of December 31, 1992 and 1993 of which 136,764 and 131,870, respectively, were exercisable. Such options have exercise prices of $15.00 to $20.00 per share and twenty percent of the shares under option to become exercisable beginning one year from the date of grant and an additional twenty percent each year thereafter until all options are exercisable. During 1993 certain participants of the 1989 Stock Option Plan received replacement grant options of 1,092,990 at an exercise price of $11.25 per share which provide for fifty percent of the shares under option to become exercisable beginning two years after the date of grant and an additional twenty-five percent each year thereafter, until all the options are exercisable. The replacement grant options issued during 1993 were part of a grant to approximately 6,400 of the Company's field managers and administrative employees each of whom received options to purchase two hundred

shares of the Company's common stock under the same terms as the recipients of the replacement grant options. At December 31, 1993, options for 1,273,800 shares with an exercise price of $11.25 per share were outstanding of which none were exercisable. If not exercised, the options expire ten years from the date of grant.

In 1990, the Board of Directors adopted a 1990 Non-qualified Stock Option Plan (the 1990 Option Plan) for its directors who do not participate in management and are not affiliated with GTO (see Note 13). Such plan authorizes the issuance of up to 30,000 shares of common stock. The plan is substantially similar in all respects to the 1989 Option Plan described above. The Committee of the Board administering the 1990 Option Plan granted options for 30,000 shares as of July 31, 1990 at $29.05 per share, the market price per share on the date of grant. At December 31, 1992 and 1993, respectively, options outstanding under the 1990 Option Plan totalled 20,000 shares.

NOTE 8 OTHER POSTRETIREMENT BENEFITS

The Company adopted, in the fourth quarter of 1992, Statement of Financial Accounting Standards No. 106 "Employers' Accounting for Postretirement Benefits Other Than Pensions" retroactive to January 1, 1992. This statement requires the accrual of the cost of providing postretirement benefits, including medical and life insurance benefits, during the active service period of covered employees. The Company has recognized the accumulated liability, measured as of January 1, 1992 through a one-time charge of $17,834,000 (net of income tax benefit of $8,785,000). This charge excludes amounts accrued in prior years related to the acquisition of the Company. The effect of this accounting change on 1992

NOTE 8 OTHER POSTRETIREMENT BENEFITS -- Continued

operating results, in addition to recording the cumulative effect for years prior to 1992, was to recognize additional benefits expense of $3,983,000. Accordingly, the operating results for the first three quarters of 1992 have been restated to reflect this change (see Note 15). Prior to 1992, the Company recognized the cost of postretirement benefits in the year the benefits were paid.

The Plan, which provides certain medical and life insurance benefits for eligible retired employees, is unfunded. The Company's contract food service employees become eligible for such benefits upon at least 15 years of credited service (as defined in the Plan) and retirement at age 55 or later. The Plan also requires monthly medical contributions by retired participants based upon age, credited service, and salary at retirement. Dependent benefits cease after the death of the retiree. Life insurance benefits provided are non-contributory.

The Company amended the Plan in 1993. The amendment decreased the Company's accumulated benefit obligation at January 1, 1993 by approximately $17,535,000 which is being accounted for by amortization to income over future periods. The amendment curtails life and medical benefits for certain eligible employee groups and phases out the Company's subsidy of the cost of coverage for certain eligible employee groups over a five year period beginning in 1993.

The components of net periodic postretirement benefit cost determined under SFAS 106 follow:

<TABLE>
<CAPTION>

	YEAR ENDED DECEMBER 31,	
	1992	1993
<S>	<C>	<C>
	(IN THOUSANDS)	
Service cost-benefits earned during the year	$2,221	$ 22
Interest cost on accumulated postretirement benefit obligation	2,967	1,428
Net amortization	--	(1,639)
Net postretirement benefit cost (income)	$5,188	$ (189)

</TABLE>

The amount charged to expense for years prior to adoption of SFAS 106 was $1,035,000 for the year ended December 31, 1991. For this period, the cost of providing benefits for the Company's retired participants is not separable from the cost of benefits for the Company's active participants.

The following table sets forth the amounts recognized in the Company's consolidated balance sheet:

<TABLE>
<CAPTION>

	DECEMBER 31,	
	1992	1993
<S>	<C>	<C>
	(IN THOUSANDS)	
Actuarial present value of accumulated postretirement benefit obligation:		
Retirees	$19,706	$17,676
Other fully eligible plan participants	5,198	386
Other active plan participants	13,891	329
Unrecognized prior service cost (unamortized effect of plan amendment)	--	16,074
Unrecognized net gain	--	3,151
Accumulated postretirement benefit obligation	$38,795	$37,616

</TABLE>

For measuring the expected postretirement benefit obligation, a 20% annual rate of increase in the cost of covered health care and death benefits was assumed for 1994. This rate was assumed to decrease to 6.5% in 1997 and remain at that level thereafter. The health care cost trend rate assumption has a significant effect on the amounts reported. For example, increasing the assumed health care cost trend rate by 1% each year would increase the accumulated postretirement benefit obligation as of December 31, 1993 by $3,385,000 and would increase the aggregate of the service and interest components of net periodic postretirement benefit cost for the year then ended by $131,000.

The weighted average discount rate used in determining the accumulated postretirement obligation was 8.5% at December 31, 1992 and 7.5% at December 31, 1993.

NOTE 9 COMMITMENTS AND CONTINGENCIES

There are various claims and pending legal actions against or indirectly involving the Company, including actions concerned with financing matters, civil rights of employees and customers, taxes, sales of franchise rights, and other matters. Certain of these are seeking damages in substantial amounts. The amounts of liability, if any, on these direct or indirect claims and actions at December 31, 1993, over and above any insurance coverage in respect to certain of them, are not specifically determinable at this time.

Flagstar has received proposed deficiencies from the Internal Revenue Service (IRS) for federal income taxes and penalties totalling approximately $46.6 million. Proposed deficiencies of $34.3 million relate to examinations of certain income tax returns filed by Denny's for periods ending prior to Flagstar's purchase of Denny's on September 11, 1987. These deficiencies primarily involve the proposed disallowance of certain expenses associated with borrowings and other costs incurred at the time of the leveraged buyout of Denny's in 1985 and the purchase of Denny's by Flagstar in 1987. Flagstar filed protests of the proposed deficiencies with the Appeals Division of the IRS stating that it believed the proposed deficiencies were erroneous. Flagstar and the IRS have reached a preliminary agreement on substantially all of the issues included in the original proposed deficiency. Based on this preliminary agreement, the IRS has agreed to waive all penalties and Flagstar estimates that its ultimate federal income tax deficiency will be less than $5 million. The remaining $12.3 million of proposed deficiencies relate to examinations of certain income tax returns filed by the Company and Flagstar for the four fiscal periods ended December 31, 1989. The deficiencies primarily involve the proposed disallowance of deductions associated with borrowings and other costs incurred prior to, at and just following the time of the acquisition of Flagstar in 1989. The Company intends to vigorously contest the proposed deficiencies because it believes the proposed deficiencies are substantially incorrect.

On March 26, 1993, a consent decree was signed by the Company and the U.S. Department of Justice resolving a complaint filed by the Department of Justice that alleged that the Company, through Denny's had engaged in a pattern or practice of discrimination against African-American customers. The Company denied any allegation of wrongdoing. The consent decree, which carries no direct monetary penalties, enjoins the Company from racial discrimination and requires the Company to implement certain employee training and testing programs and provide public notice of Denny's nondiscrimination policies. In a related matter, on March 24, 1993, a public accommodations lawsuit was filed against the Company in California. The lawsuit alleges that certain Denny's restaurants in California have engaged in racially discriminatory practices, and seeks certification as a class action, unspecified actual, compensatory and punitive damages, and injunctive relief.

On May 24, 1993 and July 8, 1993 two additional public accommodations lawsuits were filed against the Company. The May 24, 1993 action alleges that a Denny's restaurant in Annapolis, Maryland engaged in racially discriminatory practices, and seeks certification as a class action covering all states except California, unspecified actual compensatory and punitive damages, and injunctive relief. Other individual public accommodations cases have also been filed, including some cases which allege substantial compensatory and punitive damages for each plaintiff, statutory damages, and injunctive relief.

The Company is also the subject of pending and threatened employment discrimination claims principally in California and Alabama. In certain of these claims, the plaintiffs have threatened to seek to represent a class alleging racial discrimination in employment practices at Company restaurants and to seek actual, compensatory and punitive damages, and injunctive relief.

It is the opinion of Management (including General Counsel), after considering a number of factors, including but not limited to the current status of the litigation (including any settlement discussions), the views of retained counsel, the nature of the litigation or proposed tax deficiencies, the prior experience of the consolidated companies, and the amounts which the Company has accrued for known contingencies that the ultimate disposition of these matters will not materially affect the consolidated financial position or results of operations of the Company.

NOTE 10 SHAREHOLDERS' EQUITY (DEFICIT)

<TABLE>
<CAPTION>

<S>	TOTAL OTHER EQUITY <C>	DEFICIT <C>	TOTAL SHAREHOLDERS' EQUITY (DEFICIT) <C>
		(IN THOUSANDS)	
Balance December 31, 1990	$297,572	$ (158,344)	$ 139,228
Activity:			
Net Loss	--	(67,575)	(67,575)
Issuance of Common Stock	5,324	--	5,324
Balance December 31, 1991	302,896	(225,919)	76,977
Activity:			
Net Loss	--	(225,010)	(225,010)
Issuance of Preferred Stock, net	150,160	--	150,160
Issuance of Common Stock and Warrants, net	293,304	--	293,304
Dividends on Preferred Stock	--	(6,064)	(6,064)
Balance December 31, 1992	746,360	(456,993)	289,367
Activity:			
Net Loss	--	(1,686,650)	(1,686,650)
Dividends on Preferred Stock	--	(14,175)	(14,175)
Minimum pension liability adjustment	(11,091)	--	(11,091)
Balance December 31, 1993	$735,269	$(2,157,818)	$ (1,422,549)

</TABLE>

On June 16, 1993, the Company's shareholders approved an amendment to the Restated Certificate of Incorporation authorizing the issuance of 200,000,000 shares of $0.50 par value common stock and 25,000,000 shares of $2.25 Series A Cumulative Convertible Exchangeable Preferred Stock (Preferred Stock) and authorizing a five-for-one reverse stock split. Such amendment increases the par value of the common stock to $0.50 per share from $0.10 per share. All references in the financial statements with respect to the number of shares of common stock and related per share amounts have been restated to reflect the reverse stock split.

Each share of the $2.25 Series A Cumulative Convertible Exchangeable Preferred Stock (Preferred Stock) is convertible at the option of the holder, unless previously redeemed, into 1.359 shares of common stock. The Preferred Stock may be exchanged at the option of the Company, in up to two parts, at the earlier of any dividend payment date after November 16, 1992 or July 15, 1994 for the Company's 9% Convertible Subordinated Debentures (Exchange Debentures) due July 15, 2017 in a principal amount equal to $25.00 per share of Preferred Stock. Each Exchange Debenture, if issued, would be convertible at the option of the holder into 1.359 shares of common stock of the Company. The Preferred Stock may be redeemed at the option of the Company, in whole or in part, on or after July 15, 1994 at $26.80 per share if redeemed during the twelve month-period beginning July 15, 1994, and thereafter at prices declining annually to $25.00 per share on or after July 15, 2002.

The warrants outstanding at December 31, 1993 entitle the holder to purchase 15 million shares of Company common stock at $17.50 per share, subject to adjustment for certain events, and may be exercised at any time after December 31, 1994 through November 16, 2000.

NOTE 11 LOSS PER SHARE APPLICABLE TO COMMON SHAREHOLDERS

The $2.25 Preferred Stock and 10% Convertible Debentures, which are convertible into the common stock of the Company (see Note 4), are considered "other potentially dilutive securities" which may become dilutive in the future and be included in the calculation of fully diluted loss per share. The outstanding warrants as well as the stock options issued to management and directors are common stock equivalents.

Loss per common share during the periods presented have been based on the weighted average number of Company shares outstanding and give consideration to the issuance of common shares during the periods presented. In addition, the

NOTE 11 LOSS PER SHARE APPLICABLE TO COMMON SHAREHOLDERS -- Continued

loss per share amounts have been adjusted on a retroactive basis to reflect the reverse stock split effected during 1993. The warrants, options, preferred stock, and debentures have been omitted from the calculation because they have an antidilutive effect on loss per share data.

The loss per share applicable to common shareholders before extraordinary items and the cumulative effect of change in accounting principle would have been $0.85 for the year ended December 31, 1992 if the issuance of common stock and warrants and the related recapitalization (see Introduction to Notes to Consolidated Financial Statements) had occurred at the beginning of the year.

NOTE 12 EXTRAORDINARY ITEMS

The Company recorded losses from extraordinary items as follows:

<TABLE>
<CAPTION>

	YEAR ENDED DECEMBER 31, 1992
	INCOME LOSSES,

	LOSSES	TAX BENEFITS	NET OF TAXES
<S>	<C>	<C>	<C>
		(IN THOUSANDS)	
Recapitalization:			
Premiums paid to retire certain indebtedness	$170,762	$(62,513)	$108,249
Write-off of unamortized deferred financing costs on indebtedness retired	57,583	(21,080)	36,503
	228,345	(83,593)	144,752
Prepayment of Term B Loan:			
Write-off of unamortized deferred financing costs on Term B loan	10,099	(1,310)	8,789
Defeasance of Mortgage Notes Payable:			
Premiums paid to defease certain indebtedness	1,362	(102)	1,260
Write-off of unamortized deferred financing costs on indebtedness retired	648	(48)	600
	2,010	(150)	1,860
Total	$240,454	$(85,053)	$155,401

<CAPTION>

	YEAR ENDED DECEMBER 31, 1993		
	LOSSES	INCOME TAX BENEFITS	LOSSES, NET OF TAXES
		(IN THOUSANDS)	
<S>	<C>	<C>	<C>
Prepayment of Term Loan:			
Write-off of unamortized deferred financing costs on indebtedness retired	$ 26,469	$ (179)	$ 26,290
Recapitalization:			
Premiums and costs to repurchase 10% Convertible Debentures	90	(12)	78
Write-off of unamortized deferred financing cost on indebtedness retired	42	(5)	37
	132	(17)	115
Total	$ 26,601	$ (196)	$ 26,405

</TABLE>

Losses during the fourth quarter of 1992 were attributable to the recapitalization and related transactions for premiums paid to retire the 14.75% Senior Notes, 17% Debentures, and 15% Debentures. In addition, the remaining unamortized deferred financing costs related to such indebtedness and the Term A loan under the Prior Bank Credit Agreement, were charged-off simultaneously.

NOTE 12 EXTRAORDINARY ITEMS -- Continued

During the third quarter of 1992, the prepayment of the Term B loan under the Prior Bank Credit Agreement resulted in a charge-off of the remaining unamortized deferred financing costs on the Term B loan. Proceeds received from the sale of 6,300,000 shares of $2.25 Series A Cumulative Convertible Exchangeable Preferred Stock were used to prepay the Term B loan.

During the second quarter of 1992, $7,648,000 of the Company's 10.25% Guaranteed Secured Bonds were defeased in accordance with the provisions of the bond indenture. Accordingly, premiums were paid on the defeased debt and the related unamortized deferred financing costs were charged-off.

During the third quarter of 1993, the prepayment of $387.5 million of the Company's term loan under the Restated Credit Agreement resulted in a charge-off of $26.5 million of unamortized deferred financing costs.

During the first quarter of 1993, the Company purchased $741,000 in principal amount of 10% Convertible Debentures at 101% of their principal amount plus unpaid accrued interest, pursuant to change in control provisions of the indenture. The repurchase of the 10% Convertible Debentures resulted in a charge of $132,000.

NOTE 13 RELATED PARTY TRANSACTIONS

The Company expensed annual advisory fees of $1,000,000 during 1991 and 1992, respectively, and $250,000 during 1993 for Gollust, Tierney & Oliver, Incorporated (GTO). Annual advisory fees of $250,000 will be received by GTO through 1994. GTO earned interest of $3,574,000 in 1991 and $1,344,000 in 1992 from senior indebtedness which was previously outstanding. In addition, GTO and related entities received premiums of $2,689,000 related to the redemption of such indebtedness during 1992.

The Company expensed annual advisory fees to Donaldson, Lufkin & Jenrette Securities Corporation (DLJ) of $200,000 for 1991 and 1992, respectively. DLJ earned interest of $5,298,000 in 1991 from senior indebtedness which was previously outstanding. During 1991, DLJ received $897,000 related to the disposition of certain non-core businesses of the Company. In 1992 DLJ received fees of $1,380,000 related to investment banking services for the sale of the Company's preferred stock, $7,000,000 as financial advisor to the Company, and $3,738,000 related to the exchange of and issuance of certain indebtedness in the recapitalization. DLJ received $4,059,000 during 1993 for investment banking services related to the issuance of indebtedness by the Company.

In 1992, the Company paid a fee to KKR of $15,000,000 for financial advisory services in connection with the recapitalization. In 1993, KKR received financial advisory fees of $1,250,000.

In November 1992 in connection with the recapitalization, the Company loaned $13,922,000 to its chairman and chief executive officer, the proceeds of which were used to repay a 1989 loan obtained by the officer for the purchase of Company common stock. The loan is due in November 1997 and is secured by 812,000

shares of common stock and certain other collateral. During 1993, the Company earned $789,000 on the loan which accrues interest at 5.6% per annum and is payable at maturity.

NOTE 14 BUSINESS SEGMENTS

The Company's restaurant operations are concentrated in the western and southeastern United States and consist of Denny's, Hardee's, Quincy's and El Pollo Loco restaurants. The Company's restaurants include basic food concepts found in various segments of the food industry: family restaurants, fast-food hamburger restaurants, steak houses, and char-broiled chicken restaurants. The Company's contract food service business is conducted by Canteen Corporation, which directly and through subsidiaries and independent franchised distributors, engages in vending and contract food and recreation service operations throughout the United States.

NOTE 14 BUSINESS SEGMENTS -- Continued

Revenues and operating income by business segment for each of the last three years are as follows:

<TABLE>
<CAPTION>

	YEAR ENDED DECEMBER 31, 1991		YEAR ENDED DECEMBER 31, 1992		YEAR ENDED DECEMBER 31, 1993	
		OPERATING		OPERATING		OPERATING
<S>	REVENUES <C>	INCOME <C>	REVENUES <C>	INCOME <C>	REVENUES <C>	INCOME <C>
			(IN THOUSANDS)			
Restaurants	$2,338,666	$ 191,997	$2,442,991	$ 214,062	$2,598,893	$(1,085,899)
Contract Food Service	1,279,268	45,913	1,277,290	50,947	1,371,312	(313,320)
Corporate and other, net	--	(13,950)	--	(18,585)	--	(61,534)
Total	$3,617,934	$ 223,960	$3,720,281	$ 246,424	$3,970,205	$(1,460,753)

</TABLE>

Operating income by business segment for the year ended December 31, 1993 reflects nonrecurring charges for the write-off of goodwill and other intangible assets and the provision for restructuring as follows: restaurants -- $1,265.6 million, contract food service -- $359.8 million, and corporate and other, net -- $41.4 million.

Depreciation/amortization expense and capital expenditures for each of the last three years are as follows:

<TABLE>
<CAPTION>

	DEPRECIATION/AMORTIZATION			CAPITAL EXPENDITURES		
	YEAR ENDED DECEMBER 31, 1991	YEAR ENDED DECEMBER 31, 1992	YEAR ENDED DECEMBER 31, 1993	YEAR ENDED DECEMBER 31, 1991	YEAR ENDED DECEMBER 31, 1992	YEAR ENDED DECEMBER 31, 1993
<S>	<C>	<C>	<C>	<C>	<C>	<C>
			(IN THOUSANDS)			
Restaurants	$146,850	$155,098	$167,061	$ 93,690	$141,597	$161,891
Contract Food Service	69,243	68,188	75,540	36,279	35,389	61,174
Corporate and Other	2,039	3,905	4,402	329	1,263	2,423
Total	$218,132	$227,191	$247,003	$130,298	$178,249	$225,488

</TABLE>

Identifiable assets as of the specified dates are as follows:

<TABLE>
<CAPTION>

	YEAR ENDED DECEMBER 31, 1991	YEAR ENDED DECEMBER 31, 1992	YEAR ENDED DECEMBER 31, 1993
<S>	<C>	<C>	<C>
		(IN THOUSANDS)	
Restaurants	$2,601,984	$2,598,426	$1,364,377
Contract Food Service	683,970	673,811	377,282
Corporate and Other	108,511	117,729	55,626
Total	$3,394,465	$3,389,966	$1,797,285

</TABLE>

NOTE 15 QUARTERLY DATA (UNAUDITED)

The results for each quarter include all adjustments which are, in the opinion of management, necessary for a fair presentation of the results for interim periods. The consolidated financial results on an interim basis are not necessarily indicative of future financial results on either an interim or an annual basis. Selected consolidated financial data for each quarter within 1992 and 1993 are as follows:

<TABLE>

<CAPTION>

<S>	FIRST QUARTER <C>	SECOND QUARTER <C>	THIRD QUARTER <C>	FOURTH QUARTER <C>
	(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)			
Year Ended December 31, 1992:				
Operating revenues	$859,784	$ 938,465	$ 996,154	$ 925,878
Operating expenses:				
Product costs	297,996	323,706	332,369	312,830
Payroll & benefits	311,077	329,140	330,190	323,071
Depreciation & amortization expense	54,231	55,076	56,955	60,929
Commissions & royalties	24,924	31,871	41,662	32,446
Other	132,243	137,546	149,137	136,458
	820,471	877,339	910,313	865,734
Operating income	$ 39,313	$ 61,126	$ 85,841	$ 60, 144
Income (loss) before extraordinary items and cumulative effect of change in accounting principle	$(35,080)	$ (12,495)	$ 9,264	$ (13,464)
Net loss applicable to common shareholders	$(52,914)	$ (14,355)	$ (2,045)	$ (161,760)
Per share amounts applicable to common shareholders:				
Income (loss) before extraordinary items and cumulative effect of change in accounting principle	$ (1.57)	$ (0.56)	$ 0.30	$ (0.53)
Net loss	$ (2.37)	$ (0.64)	$ (0.09)	$ (5.00)
Year Ended December 31, 1993:				
Operating revenues	$878,968	$1,000,795	$1,075,304	$ 1,015,138
Operating expenses:				
Product costs	307,701	354,257	370,275	357,435
Payroll and benefits	323,657	350,040	357,049	347,761
Depreciation and amortization expense	58,570	60,794	61,507	66,132
Commissions and royalties	25,915	36,633	47,245	39,035
Other	136,042	152,671	171,484	139,921
Write-off of goodwill and intangible assets	--	--	--	1,474,831
Provision for restructuring charges	--	--	--	192,003
	851,885	954,395	1,007,560	2,617,118
Operating income (loss)	$ 27,083	$ 46,400	$ 67,744	$(1,601,980)
Loss before extraordinary items and cumulative effect of change in accounting principle	$(30,071)	$ (11,852)	$ (6,705)	$(1,599,607)
Net loss applicable to common shareholders	$>(41,137)	$ (15,396)	$ (26,407)	$(1,617,885)
Per share amounts applicable to common shareholders:				
Loss before extraordinary items and cumulative effect of change in accounting principle	$ (0.80)	$ (0.36)	$ (0.24)	$ (37.83)
Net loss	$ (0.98)	$ (0.36)	$ (0.62)	$ (38.18)

</TABLE>

FLAGSTAR COMPANIES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

NOTE 15 QUARTERLY DATA (UNAUDITED) -- Continued

In the fourth quarter of 1992, the Company retroactively adopted to January 1, 1992 SFAS No. 106. Accordingly, operating expenses for the first, second and third quarters of 1992 have been restated by $1,067,000, $1,071,000, and $806,000, respectively, to reflect charges related to the implementation of this statement.

During the third quarter of 1993, the Company changed its method of determining the discount rate applied to insurance liabilities retroactive to January 1, 1993 pursuant to Staff Accounting Bulletin (SAB) No. 92 issued by the staff of the Securities and Exchange Commission in June 1993 concerning the accounting for environmental and other contingent liabilities. Accordingly, operating expenses for the first and second quarters of 1993 have been restated by $1,869,000 and $1,869,000, respectively, to reflect charges related to the implementation of this pronouncement.

FLAGSTAR COMPANIES, INC.
INDEX TO FINANCIAL STATEMENT SCHEDULES

<TABLE>
<CAPTION>

</TABLE>

Schedules not filed herewith are omitted because of the absence of conditions under which they are required or because the information called for is shown in the Consolidated Financial Statements or Notes thereto.

SCHEDULE V

FLAGSTAR COMPANIES, INC.
PROPERTY, PLANT AND EQUIPMENT
FOR THE YEAR ENDED DECEMBER 31, 1991
(AMOUNTS IN THOUSANDS)
CONSOLIDATED

<TABLE>
<CAPTION>

COLUMN A	COLUMN B BALANCE AT BEGINNING OF PERIOD	COLUMN C ADDITIONS AT COST	COLUMN D RETIREMENTS OR SALES	COLUMN E OTHER CHANGES ADD (DEDUCT)	COLUMN F BALANCE AT END OF PERIOD
<S>	<C>	<C>	<C>	<C>	<C>
Classification					
Property owned:					
Merchandising equipment	$ 180,955	$21,038	$ (4,839)	$(3,641)	$ 193,513
Land, buildings, and improvements:					
Land	264,328	4,940	(1,252)	(193)	267,823
Buildings and improvements	791,055	47,554	(3,313)	(3,803)	831,493
Total	1,055,383	52,494	(4,565)	(3,996)	1,099,316
Other property and equipment consisting of furniture and fixtures, etc	374,380	37,546	(4,428)	213	407,711
Total property owned	1,610,718	111,078	(13,832)	(7,424)	1,700,540
Property held under capital leases:					
Building and improvements	90,305	5,583	(450)	(90)	95,348
Vehicles and other property and equipment	4,252	13,637	(570)	33	17,352
Total property held under capital leases	94,557	19,220	(1,020)	(57)	112,700
Total property	$1,705,275	$130,298	$ (14,852)	$(7,481)	$1,813,240

</TABLE>

SCHEDULE V

FLAGSTAR COMPANIES, INC.
PROPERTY, PLANT AND EQUIPMENT
FOR THE YEAR ENDED DECEMBER 31, 1992
(AMOUNTS IN THOUSANDS)
CONSOLIDATED

<TABLE>
<CAPTION>

COLUMN A	COLUMN B BALANCE AT BEGINNING OF PERIOD	COLUMN C ADDITIONS AT COST	COLUMN D RETIREMENTS OR SALES	COLUMN E OTHER CHANGES ADD (DEDUCT)	COLUMN F BALANCE AT END OF PERIOD
<S>	<C>	<C>	<C>	<C>	<C>
Classification					
Property owned:					
Merchandising equipment	$ 193,513	$21,088	$ (4,536)	$ 3,040	$ 213,105
Land, buildings, and improvements:					
Land	267,823	7,561	(3,869)	1,544	273,059
Buildings and improvements	831,493	47,734	(8,062)	3,861	875,026
Total	1,099,316	55,295	(11,931)	5,405	1,148,085
Other property and equipment consisting of furniture and fixtures, etc	407,711	65,666	(5,470)	(1,205)	466,702
Total property owned	1,700,540	142,049	(21,937)	7,240	1,827,892
Property held under capital leases:					
Buildings and improvements	95,348	15,087	(209)	1,068	111,294
Vehicles and other property and equipment	17,352	21,113	(253)	(432)	37,780
Total property held under capital leases	112,700	36,200	(462)	636	149,074
Total property	$1,813,240	$178,249	$ (22,399)	$ 7,876	$1,976,966

</TABLE>

SCHEDULE V

FLAGSTAR COMPANIES, INC.
PROPERTY, PLANT AND EQUIPMENT
FOR THE YEAR ENDED DECEMBER 31, 1993
(AMOUNTS IN THOUSANDS)
CONSOLIDATED

<TABLE>
<CAPTION>

COLUMN C ADDITIONS	COLUMN D RETIREMENTS	COLUMN E OTHER CHANGES ADD	COLUMN F BALANCE AT END

COLUMN A	COLUMN B BALANCE AT BEGINNING OF PERIOD	AT COST	OR SALES	(DEDUCT)	OF PERIOD
<S>	<C>	<C>	<C>	<C>	<C>
Classification					
Property owned:					
Merchandising equipment	$ 213,105	$32,934	$ (4,494)	$ (15,222)	$ 226,323
Land, buildings, and improvements:					
Land	273,059	6,916	(8,235)	246	271,986
Buildings and improvements	875,026	53,072	(23,733)	(89,662)	814,703
Total	1,148,085	59,988	(31,968)	(89,416)	1,086,689
Other property and equipment consisting of furniture and fixtures, etc	466,702	56,724	(17,690)	(49,987)	455,749
Total property owned	1,827,892	149,646	(54,152)	(154,625)	1,768,761
Property held under capital leases:					
Buildings and improvements	111,294	38,530	(1,075)	(15,992)	132,757
Vehicles and other property and equipment	37,780	37,312	(1,895)	(390)	72,807
Total property held under capital leases	149,074	75,842	(2,970)	(16,382)	205,564
Total property	$1,976,966	$225,488	$ (57,122)	$(171,007)(1)	$1,974,325

(1) Substantially all of the amount represents the write-down of property relating to the Company's restructuring.

SCHEDULE VI

FLAGSTAR COMPANIES, INC.
ACCUMULATED DEPRECIATION AND AMORTIZATION OF
PROPERTY, PLANT AND EQUIPMENT
FOR THE YEAR ENDED DECEMBER 31, 1991
(AMOUNTS IN THOUSANDS)
CONSOLIDATED

COLUMN A	COLUMN B BALANCE AT BEGINNING OF PERIOD	COLUMN C ADDITIONS CHARGED TO COSTS & EXPENSES	COLUMN D RETIREMENTS OR SALES	COLUMN E OTHER CHANGES ADD (DEDUCT)	COLUMN F BALANCE AT END OF PERIOD
<S>	<C>	<C>	<C>	<C>	<C>
Classification					
Property owned:					
Merchandising equipment	$ 49,107	$ 34,117	$(3,535)	$(3,581)	$ 76,108
Buildings and improvements	69,240	54,692	(2,275)	415	122,072
Other property and equipment consisting of furniture and fixtures, etc	82,822	61,726	(2,590)	(80)	141,878
Total property owned	201,169	150,535	(8,400)	(3,246)	340,058
Property held under capital leases:					
Building and improvements	12,147	9,077	(106)	2	21,120
Vehicles and other property and equipment	1,523	3,046	(171)	52	4,450
Total property held under capital leases	13,670	12,123	(277)	54	25,570
Total property	$214,839	$162,658	$(8,677)	$(3,192)	$ 365,628

SCHEDULE VI

FLAGSTAR COMPANIES, INC.
ACCUMULATED DEPRECIATION AND AMORTIZATION OF
PROPERTY, PLANT AND EQUIPMENT
FOR THE YEAR ENDED DECEMBER 31, 1992
(AMOUNTS IN THOUSANDS)
CONSOLIDATED

COLUMN A	COLUMN B BALANCE AT BEGINNING OF PERIOD	COLUMN C ADDITIONS CHARGED TO COSTS & EXPENSES	COLUMN D RETIREMENTS OR SALES	COLUMN E OTHER CHANGES ADD (DEDUCT)	COLUMN F BALANCE AT END OF PERIOD
<S>	<C>	<C>	<C>	<C>	<C>

Classification					
Property owned:					
Merchandising equipment	$ 76,108	$ 34,591	$(3,169)	$ 4,203	$ 111,733
Buildings and improvements	122,072	57,381	(1,405)	1,167	179,215
Other property and equipment consisting of furniture and fixtures, etc	141,878	62,495	(4,241)	236	200,368
Total property owned	340,058	154,467	(8,815)	5,606	491,316
Property held under capital leases:					
Buildings and improvements	21,120	9,030	(54)	1,132	31,228
Vehicles and other property and equipment	4,450	7,298	(144)	(407)	11,197
Total property held under capital leases	25,570	16,328	(198)	725	42,425
Total property	$365,628	$170,795	$(9,013)	$ 6,331	$ 533,741

</TABLE>

SCHEDULE VI

FLAGSTAR COMPANIES, INC.
ACCUMULATED DEPRECIATION AND AMORTIZATION OF
PROPERTY, PLANT AND EQUIPMENT
FOR THE YEAR ENDED DECEMBER 31, 1993
(AMOUNTS IN THOUSANDS)
CONSOLIDATED

<TABLE>
<CAPTION>

COLUMN A	COLUMN B BALANCE AT BEGINNING OF PERIOD	COLUMN C ADDITIONS CHARGED TO COSTS & EXPENSES	COLUMN D RETIREMENTS OR SALES	COLUMN E OTHER CHANGES ADD (DEDUCT)	COLUMN F BALANCE AT END OF PERIOD
<S>	<C>	<C>	<C>	<C>	<C>
Classification					
Property owned:					
Merchandising equipment	$111,733	$ 36,215	$ (3,106)	$(10,134)	$ 134,708
Buildings and improvements	179,215	58,718	(3,136)	(25,733)	209,064
Other property and equipment consisting of furniture and fixtures, etc	200,368	64,025	(8,165)	(23,826)	232,402
Total property owned	491,316	158,958	(14,407)	(59,693)	576,174
Property held under capital leases:					
Buildings and improvements	31,228	10,468	(746)	(3,744)	37,206
Vehicles and other property and equipment	11,197	13,679	(1,312)	(301)	23,263
Total property held under capital leases	42,425	24,147	(2,058)	(4,045)	60,469
Total property	$533,741	$183,105	$ (16,465)	$(63,738)(1)	$ 636,643

</TABLE>

(1) Substantially all of the amount represents the write-down of property relating to the Company's restructuring.

SCHEDULE IX

FLAGSTAR COMPANIES, INC.
SHORT-TERM BORROWINGS
(AMOUNTS IN THOUSANDS)

<TABLE>
<CAPTION>

COLUMN A CATEGORY OF AGGREGATE SHORT-TERM BORROWINGS	COLUMN B BALANCE AT END OF PERIOD	COLUMN C WEIGHTED AVERAGE INTEREST RATE	COLUMN D MAXIMUM AMOUNT OUTSTANDING DURING THE PERIOD	COLUMN E AVERAGE AMOUNT OUTSTANDING DURING THE PERIOD(1)	COLUMN F WEIGHTED AVERAGE INTEREST RATE DURING THE PERIOD(2)
<S>	<C>	<C>	<C>	<C>	<C>
Working capital and letters of credit:					
For the year ended December 31, 1991	$ 35,000	8.0%	$ 70,000	$38,804	9.42%
For the year ended December 31, 1992	39,000	7.08%	70,100	31,550	7.02%
For the year ended December 31, 1993	--(3)	--%(3)	--(3)	--(3)	--%(3)

</TABLE>

(1) Amount computed by dividing the total of daily outstanding principal balances by the number of days in the year.
(2) Amount computed by dividing total interest expense by the average amount outstanding.
(3) Working capital advances outstanding at December 31, 1993 under the Restated Credit Agreement totalled $93,000 and accrued interest at a weighted average interest rate of 6.51%. For the year ended December 31, 1993 the maximum

amount outstanding was $103,000, the average amount outstanding during the period was $49,397 and the weighted average interest rate during the period was 6.26%. The Restated Credit Agreement, as amended, provides for the advances outstanding at December 31, 1993 to be classified as long-term.

SCHEDULE X

FLAGSTAR COMPANIES, INC.
SUPPLEMENTAL INCOME STATEMENT INFORMATION
FOR THE YEARS ENDED DECEMBER 31, 1991, 1992 AND 1993
(AMOUNTS IN THOUSANDS)
CONSOLIDATED

<TABLE>
<CAPTION>

COLUMN A ITEM	COLUMN B CHARGED TO COSTS AND EXPENSES YEAR ENDED DECEMBER 31 1991	 YEAR ENDED DECEMBER 31 1992	 YEAR ENDED DECEMBER 31 1993
<S>	<C>	<C>	<C>
Utilities	$99,668	$ 102,834	$ 113,605
Maintenance and repairs	$55,078	$ 51,673	$ 60,315
Advertising and publicity	$72,639	$ 79,770	$ 89,365

</TABLE>

SIGNATURES

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

FLAGSTAR COMPANIES, INC.
By: /s/ ROBERT L. WYNN, III
Robert L. Wynn, III
(General Counsel)
Date: April 12, 1994

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

<TABLE>
<CAPTION>

SIGNATURE	TITLE	DATE
<S>	<C>	<C>
/s/ JEROME J. RICHARDSON (Jerome J. Richardson)	Director, Chairman and Chief Executive Officer (Principal Executive Officer)	April 12, 1994
/s/ A. RAY BIGGS (A. Ray Biggs)	Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)	April 12, 1994
/s/ MICHAEL CHU (Michael Chu)	Director	April 12, 1994
/s/ VERA KING FARRIS (Vera King Farris)	Director	April 12, 1994
/s/ HAMILTON E. JAMES (Hamilton E. James)	Director	April 12, 1994
/s/ HENRY R. KRAVIS (Henry R. Kravis)	Director	April 12, 1994
/s/ AUGUSTUS K. OLIVER (Augustus K. Oliver)	Director	April 12, 1994
/s/ PAUL E. RAETHER (Paul E. Raether)	Director	April 12, 1994
/s/ CLIFTON S. ROBBINS (Clifton S. Robbins)	Director	April 12, 1994
/s/ GEORGE R. ROBERTS (George R. Roberts)	Director	April 12, 1994
/s/ L. EDWIN SMART (L. Edwin Smart)	Director	April 12, 1994
/s/ MICHAEL T. TOKARZ (Michael T. Tokarz)	Director	April 12, 1994

</TABLE>

INDEX TO EXHIBITS

<TABLE>
<CAPTION>

EXHIBIT NO.	DESCRIPTION	SEQUENTIAL PAGE NO.
* 3.1	Restated Certificate of Incorporation of FCI and amendment thereto dated November 16, 1992 (incorporated by reference to Exhibit 3.1 to FCI's 1992 Form 10-K, File No. 0-18051 (the "1992 Form 10-K")).	
<C>	<S>	<C>
* 3.2	Certificate of Designations for the $2.25 Series A Cumulative Convertible Exchangeable Preferred Stock of FCI (incorporated by reference to Exhibit 3.2 to the 1992 Form 10-K).	

3.3	Certificate of Ownership and Merger of FCI dated June 16, 1993.
3.4	Certificate of Amendment to the Restated Certificate of Incorporation of FCI dated June 16, 1993.
* 3.5	By-Laws of FCI as amended November 12, 1992 (incorporated by reference to Exhibit 3.3 to the 1992 Form 10-K).
* 4.1	Specimen certificate of Common Stock of FCI (incorporated by reference to Exhibit 4.5 to the Registration Statement on Form S-1 (No. 33-29769) of FCI (the "Form S-1")).
* 4.2	Specimen certificate of $2.25 Series A Cumulative Convertible Exchangeable Preferred Stock of FCI (incorporated by reference to Exhibit 4.25 to the Registration Statement on Form S-1 (No. 33-47339) of FCI (the "Preferred Stock S-1")).
* 4.3	Indenture between Flagstar and United States Trust Company of New York, as Trustee, relating to the 10% Debentures (including the form of security) (incorporated by reference to Exhibit 4.9 to the Registration Statement on Form S-4 (No. 33-48923) of Flagstar (the "11.25% Debentures S-4")).
* 4.4	Supplemental Indenture, dated as of August 7, 1992, between Flagstar and United States Trust Company of New York, as Trustee, relating to the 10% Debentures (incorporated by reference to Exhibit 4.9A to the 11.25% Debentures S-4).
* 4.5	Indenture of Mortgage, Deed of Trust, Security Agreement, Financing Statement, Fixture Filing, and Assignment of Leases and Rents, from Denny's Realty, Inc. to State Street Bank and Trust Company, dated July 12, 1990 (incorporated by reference to Exhibit 4.9 to Post-effective Amendment No. 1 to the Registration Statement on Form S-1 (No. 33-29769) of FCI (the "Form S-1 Amendment")).
* 4.6	Lease between Denny's Realty, Inc. and Denny's, Inc., dated as of December 29, 1989, as amended and restated as of July 12, 1990 (incorporated by reference to Exhibit 4.10 to the Form S-1 Amendment).
* 4.7	Indenture dated as of July 12, 1990 between Denny's Realty, Inc. and State Street Bank and Trust Company relating to certain mortgage notes (incorporated by reference to Exhibit 4.11 to the Form S-1 Amendment).
* 4.8	Mortgage Note in the amount of $10,000,000 of Denny's Realty, Inc., dated as of July 12, 1990 (incorporated by reference to Exhibit 4.15 to the 11.25% Debentures S-4).
* 4.9	Mortgage Note in the amount of $52,000,000 of Denny's Realty, Inc., dated as of July 12, 1990 (incorporated by reference to Exhibit 4.16 to the 11.25% Debentures S-4).
* 4.10	Mortgage Note in the amount of $98,000,000 of Denny's Realty, Inc., dated as of July 12, 1990 (incorporated by reference to Exhibit 4.17 to the 11.25% Debentures S-4).
* 4.11	Indenture between Secured Restaurants Trust and The Citizens and Southern National Bank of South Carolina, dated as of November 1, 1990, relating to certain Secured Bonds (incorporated by reference to Exhibit 4.18 to the 11.25% Debentures S-4).
* 4.12	Amended and Restated Trust Agreement between Spartan Holdings, Inc., as Depositor for Secured Restaurants Trust, and Wilmington Trust Company, dated as of October 15, 1990 (incorporated by reference to Exhibit 3.3 to the Registration Statement on Form S-11 (No. 33-36345) of Secured Restaurants Trust (the "Form S-11")).
* 4.13	Indenture between Flagstar and First Trust National Association, as Trustee, relating to the 10 7/8% Notes (incorporated by reference to Exhibit 4.13 to the 1992 Form 10-K).
* 4.14	Supplemental Indenture between Flagstar and First Trust National Association, as Trustee, relating to the 10 7/8% Notes (incorporated by reference to Exhibit 4.14 to the 1992 Form 10-K).
* 4.15	Form of 10 7/8% Note (incorporated by reference to Exhibit 4.15 to the 1992 Form 10-K).
* 4.16	Indenture between Flagstar and NationsBank of Georgia, National Association, as Trustee, relating to the 11.25% Debentures (incorporated by reference to Exhibit 4.16 to the 1992 Form 10-K).
* 4.17	Form of 11.25% Debenture (incorporated by reference to Exhibit 4.17 to the 1992 Form 10-K).
* 4.18	Amended and Restated Credit Agreement, dated as of October 26, 1992, among Flagstar and TWS Funding, Inc., as borrowers, certain lenders and co-agents named therein, and Citibank, N.A., as managing agent (incorporated by reference to Exhibit 28.1 to the Current Report on Form 8-K of Flagstar filed as of November 20, 1992 (the "Form 8-K")).

EXHIBIT NO.	DESCRIPTION	SEQUENTIAL PAGE NO.
* 4.19	Closing Agreement dated as of November 12, 1992, among Flagstar and TWS Funding Inc., as borrowers, certain lenders and co-agents named therein, and Citibank, N.A., as managing agent (incorporated by reference to Exhibit 28.2 to the Form 8-K).	
* 4.20	First Amendment to the Amended and Restated Credit Agreement dated as of December 23, 1992 (incorporated by reference to Exhibit 4.20 to the 1992 Form 10-K).	
* 4.21	Second Amendment to the Amended and Restated Credit Agreement dated as of August 5, 1993 (incorporated by reference to Exhibit 4.23 to the Registration Statement on Form S-2 (No. 33-49843) of Flagstar (the "Form S-2")).	
4.22	Third Amendment to the Amended and Restated Credit Agreement dated as of December 15, 1993.	
4.23	Indenture between Flagstar and First Trust National Association, as Trustee, relating to the 10 3/4% Notes.	
4.24	Form of 10 3/4% Note (included in Exhibit 4.23).	
4.25	Indenture between Flagstar and NationsBank of Georgia, National Association, as Trustee, relating to the 11 3/8% Debentures.	
4.26	Form of 11 3/8% Debenture (included in Exhibit 4.25).	
*10.1	Flagstar's Executive Incentive Compensation Plan (incorporated by reference to Flagstar's 1986 Form 10-K, Exhibit 10(iii), File No. 1-9364).	
*10.2	Warrant Agreement, dated November 16, 1992, among FCI, TW Associates and KKR Partners II (incorporated by reference to Exhibit 10.41 to the 1992 Form 10-K).	
*10.3	Consent Order dated March 26, 1993 between the U.S. Department of Justice, Flagstar and Denny's, Inc. (incorporated by reference to Exhibit 10.42 to the Form S-2).	
*10.4	Fair Share Agreement dated July 1, 1993 between FCI and the NAACP (incorporated by reference to Exhibit 10.43 to the Form S-2).	
*10.5	Amendment No. 2 to Stockholders' Agreement, dated as of April 6, 1993, among FCI, GTO and certain affiliated partnerships, DLJ Capital, Jerome J. Richardson and Associates (incorporated by reference to Exhibit 10 to Flagstar's Quarterly Report on Form 10-Q for the quarter ended March 31, 1993, File No. 1-9364).	
10.6	Employment Agreement between Flagstar and A. Ray Biggs dated February 10, 1992.	
*10.7	Form of Agreement providing certain supplemental retirement benefits (incorporated by reference to Exhibit 10.7 to the 1992 Form 10-K).	
*10.8	Form of Supplemental Executive Retirement Plan Trust of Flagstar (incorporated by reference to Exhibit 10.8 to the 1992 Form 10-K).	

*10.9	FCI 1989 Non-Qualified Stock Option Plan, as adopted December 1, 1989 and amended November 16, 1992 (incorporated by reference to Exhibit 10.9 to the 1992 Form 10-K).
*10.10	FCI 1990 Non-Qualified Stock Option Plan, as adopted July 31, 1990 (incorporated by reference to Exhibit 10.9 to the Form S-1 Amendment).
*10.11	Form of Non-Qualified Stock Option Award Agreement pursuant to FCI 1990 Non-Qualified Stock Option Plan (incorporated by reference to Exhibit 10.10 to the Form S-1 Amendment).
*10.12	Form of Mortgage related to Secured Restaurants Trust transaction (incorporated by reference to Exhibit 10.1 to the Form S-11).
*10.13	Mortgage Note in the amount of $521,993,982, made by Flagstar Enterprises, Inc. in favor of Spartan Holdings, Inc., dated as of February 1, 1990, as amended and restated November 15, 1990 (incorporated by reference to Exhibit 10.12 to the 11.25% Debentures S-4).
*10.14	Mortgage Note in the amount of $210,077,402, made by Quincy's Restaurants, Inc. in favor of Spartan Holdings, Inc., dated as of February 1, 1990, as amended and restated November 15, 1990 (incorporated by reference to Exhibit 10.13 to the 11.25% Debentures S-4).
*10.15	Loan Agreement between Secured Restaurants Trust and Spardee's Realty, Inc., dated as of November 1, 1990 (incorporated by reference to Exhibit 10.14 to the 11.25% Debentures S-4).
*10.16	Loan Agreement between Secured Restaurants Trust and Quincy's Realty, Inc., dated as of November 1, 1990 (incorporated by reference to Exhibit 10.15 to the 11.25% Debentures S-4).
*10.17	Insurance and Indemnity Agreement, dated as of November 1, 1990, related to Secured Restaurants Trust transaction (incorporated by reference to Exhibit 10.16 to the 11.25% Debentures S-4).
*10.18	Intercreditor Agreement, dated as of November 1, 1990, related to Secured Restaurants Trust transaction (incorporated by reference to Exhibit 10.17 to the 11.25% Debentures S-4).
*10.19	Bank Intercreditor Agreement, dated as of November 1, 1990, related to Secured Restaurants Trust transaction (incorporated by reference to Exhibit 10.18 to the 11.25% Debentures S-4).
*10.20	Indemnification Agreement, dated as of November 1, 1990, related to Secured Restaurants Trust transaction (incorporated by reference to Exhibit 10.19 to the 11.25% Debentures S-4).
*10.21	Liquidity Agreement, dated as of November 1, 1990, related to Secured Restaurants Trust transaction (incorporated by reference to Exhibit 10.20 to the 11.25% Debentures S-4).

EXHIBIT NO.	DESCRIPTION	SEQUENTIAL PAGE NO.
*10.22	Financial Guaranty Insurance Policy, issued November 15, 1990, related to Secured Restaurants Trust transaction (incorporated by reference to Exhibit 10.21 to the 11.25% Debentures S-4).	
*10.23	Amended and Restated Lease between Quincy's Realty, Inc. and Quincy's Restaurants, Inc., dated as of November 1, 1990 (incorporated by reference to Exhibit 10.22 to the 11.25% Debentures S-4).	
*10.24	Amended and Restated Lease between Spardee's Realty, Inc. and Spardee's Restaurants, Inc., dated as of November 1, 1990 (incorporated by reference to Exhibit 10.23 to the 11.25% Debentures S-4).	
*10.25	Collateral Assignment Agreement, dated as of November 1, 1990, related to Secured Restaurants Trust transaction (incorporated by reference to Exhibit 10.24 to the 11.25% Debentures S-4).	
*10.26	Form of Assignment of Leases and Rents related to Secured Restaurants Trust transaction (incorporated by reference to Exhibit 10.12 to the Form S-11).	
*10.27	Spartan Guaranty, dated as of November 1, 1990, related to Secured Restaurants Trust transaction (incorporated by reference to Exhibit 10.26 to the 11.25% Debentures S-4).	
*10.28	Form of Hardee's License Agreement related to Secured Restaurants Trust transaction (incorporated by reference to Exhibit 10.14 to the Form S-11).	
*10.29	Stock Pledge Agreement among Flagstar Enterprises, Inc. and Secured Restaurants Trust, dated as of November 1, 1990 (incorporated by reference to Exhibit 10.28 to the 11.25% Debentures S-4).	
*10.30	Stock Pledge Agreement among Quincy's Restaurants, Inc. and Secured Restaurants Trust, dated as of November 1, 1990 (incorporated by reference to Exhibit 10.29 to the 11.25% Debentures S-4).	
*10.31	Management Agreement, dated as of November 1, 1990, related to the Secured Restaurants Trust transaction (incorporated by reference to Exhibit 10.30 to the 11.25% Debentures S-4).	
*10.32	Form of Collateral Assignment of Security Documents related to Secured Restaurants Trust transaction (incorporated by reference to Exhibit 10.17 to the Form S-11).	
*10.33	Flagstar Indemnity Agreement, dated as of November 1, 1990, related to Secured Restaurants Trust transaction (incorporated by reference to Exhibit 10.32 to the 11.25% Debentures S-4).	
*10.34	Subordinated Promissory Note, dated July 28, 1992, from Flagstar to FCI (incorporated by reference to Exhibit 10.33 to the 11.25% Debentures S-4).	
*10.35	Development Agreement between the Company and Hardee's Food Systems, Inc., dated January 1992 (incorporated by reference to Exhibit 10.33 to the Preferred Stock S-1).	
*10.36	Stock and Warrant Purchase Agreement, dated as of August 11, 1992, between FCI and TW Associates (incorporated by reference to Exhibit 10.38 to the 11.25% Debentures S-4).	
*10.37	Stockholders' Agreement, dated as of August 11, 1992, among FCI, GTO (on behalf of itself and certain affiliated partnerships), DLJ Capital, Jerome J. Richardson and TW Associates (incorporated by reference to Exhibit 10.39 to the 11.25% Debentures S-4).	
*10.38	Technical Amendment to the Stockholders' Agreement dated as of September 30, 1992, among FCI, GTO and certain affiliated partnerships, DLJ Capital, Jerome J. Richardson and TW Associates (incorporated by reference to Exhibit 10.39A to the 11.25% Debentures S-4).	
*10.39	Richardson Shareholder Agreement, dated as of August 11, 1992, between FCI and Jerome J. Richardson (incorporated by reference to Exhibit 10.40 to the 11.25% Debentures S-4).	
*10.40	Employment Agreement, dated as of August 11, 1992, between Flagstar and Jerome J. Richardson (incorporated by reference to Exhibit 10.41 to the 11.25% Debentures S-4).	
10.41	Employment Agreement, dated as of March 16, 1992, between Flagstar and David F. Hurwitt.	
11	Computation of Earnings (Loss) Per Share.	
12	Computation of Ratio of Earnings to Fixed Charges.	
*21	Subsidiaries of Flagstar (incorporated by reference to Exhibit 22 to the Preferred Stock S-1).	
23	Consent of Deloitte & Touche.	

</TABLE>

* Certain of the exhibits to this Annual Report on Form 10-K, indicated by an asterisk, are hereby incorporated by reference to other documents on file with the Commission with which they are physically filed, to be part hereof as of their respective dates.

EXHIBIT 3.3
CONFORMED COPY

CERTIFICATE OF OWNERSHIP AND MERGER
MERGING
FLAGSTAR COMPANIES, INC.
INTO
TW HOLDINGS, INC.

TW Holdings, Inc., a corporation organized and existing under the laws of the State of Delaware, DOES HEREBY CERTIFY:

FIRST: That this corporation was incorporated on the 29th day of September, 1988, pursuant to the Corporation Law of the State of Delaware.

SECOND: That this corporation owns all of the outstanding shares (of each class) of the stock of Flagstar Companies, Inc., a corporation incorporated on the 16th day of June, 1993, pursuant to the Corporation Law of the State of Delaware.

THIRD: That this corporation, by the following resolutions of its Board of Directors, duly adopted at a meeting held on the 28th day of April, 1993, determined to merge into itself said Flagstar Companies, Inc.:

RESOLVED, that the name of this corporation shall be changed to "Flagstar Companies, Inc." (the "NAME CHANGE"); and

FURTHER RESOLVED, that the officers of this corporation (and any one or more of them) are hereby authorized and empowered to do or cause to be done all such acts or things and to sign or cause to be signed and delivered, all such documents, agreements, instruments and certifications and articles, in the name and on behalf of this corporation or otherwise, as they may deem necessary, advisable or appropriate to create a wholly-owned subsidiary of this corporation in Delaware for the sole purpose of merging such subsidiary with and into this corporation, with this corporation being the surviving corporation, in accordance with Section 253 of the Delaware General Corporation Law in order to effectuate the Name Change (the "MERGER"); and

FURTHER RESOLVED, that the Merger effectuating the Name Change be, and the same hereby is, in all respects approved, and that the officers of this corporation (and any one or more of them) are hereby authorized and empowered, in the name of and on behalf of this corporation, to execute and deliver all documents, agreements and articles of merger as they may deem necessary, advisable or appropriate to effectuate the Merger.

FOURTH: That, as a result of the merger, this corporation change its corporate name by changing Article I of the Restated Certificate of Incorporation of this corporation to read as follows: "Article I. The name of the corporation is Flagstar Companies, Inc."

FIFTH: This merger shall be effective upon the date of filing of this Certificate of Ownership and Merger with the Secretary of State of Delaware.

IN WITNESS WHEREOF, said TW Holdings, Inc. has caused this Certificate to be signed by A. Ray Biggs ,
its Vice President and attested by George Moseley , its Secretary , this 16th day of June, 1993.

TW HOLDINGS, INC.
By: /s/ A. RAY BIGGS
Its: VICE PRESIDENT

ATTEST:
By: /s/ George E. Moseley
Its: SECRETARY

EXHIBIT 3.4
CONFORMED COPY

CERTIFICATE OF AMENDMENT
TO THE
RESTATED CERTIFICATE OF INCORPORATION
OF
FLAGSTAR COMPANIES, INC.
PURSUANT TO SECTION 242 OF THE GENERAL CORPORATION
LAW OF THE STATE OF DELAWARE

Flagstar Companies, Inc., a corporation organized and existing under and by virtue of the General Corporation Law of the State of Delaware (the "Corporation"), DOES HEREBY CERTIFY:

FIRST: That the Board of Directors of the Corporation (the "Board"), at a meeting of the Board, duly adopted a resolution pursuant to Section 242 of the General Corporation Law of the State of Delaware, setting forth and declaring advisable the amendment to the Restated Certificate of Incorporation of the Corporation in the form set forth in the stockholder resolution recited below. The stockholders of the Corporation have duly adopted said amendment in the form of the resolution recited below at an Annual Meeting of Stockholders held on June 16, 1993, by the affirmative vote of the holders of greater than a majority of the Corporation's shares entitled to vote thereon in accordance with the provisions of Section 242 of the General Corporation Law of the State of Delaware.

RESOLVED: That the first paragraph of Article FOURTH of the Corporation's Restated Certificate of Incorporation, as previously amended, be amended so that, as amended, said paragraph shall be and read as follows:

> FOURTH: The total number of shares of stock which the Corporation is authorized to issue is 225,000,000, of which 200,000,000 shall be shares of Common Stock, par value $.50 per share, and 25,000,000 shall be Preferred Stock, par value $0.10 per share.

such amendment being effected in connection with a five-for-one reverse stock split of the Corporation's Common Stock resulting in a reduction in the number of shares of Common Stock outstanding from 211,848,704 to 42,369,741 (subject to adjustment to eliminate fractional shares), with fractional share interests resulting therefrom being redeemed for cash in an amount equal to the fair value therefor on the date hereof.

IN WITNESS WHEREOF, the Corporation has caused this Certificate of Amendment to be signed by the undersigned officer as of the 16th day of June, 1993.

FLAGSTAR COMPANIES, INC.
By: /s/ A. Ray Biggs
VICE PRESIDENT

ATTEST:
By: /s/ George E. Moseley
SECRETARY

EXHIBIT 4.22
CONFORMED COPY

THIRD AMENDMENT

THIRD AMENDMENT, dated as of December 15, 1993 (this "AMENDMENT"), among FLAGSTAR CORPORATION, a Delaware corporation formerly known as TW Services, Inc. ("FLAGSTAR"), TWS FUNDING, INC., a Delaware corporation ("FUNDING"), and each financial institution executing this Amendment as a "Lender" (each, a "LENDER").

PRELIMINARY STATEMENTS:

1. Flagstar, Funding, the Lenders and the Co-Agents and Managing Agent referred to therein have entered into a Credit Agreement dated as of October 26, 1992 (as amended to date, the "CREDIT AGREEMENT"; the terms defined therein being used herein as therein defined unless otherwise defined herein).

2. Flagstar proposes to sell up to 150 company-operated restaurants to third-party operators that would become Denny's franchisees and use up to $50,000,000 of the proceeds to build or acquire new Denny's restaurants and to refurbish existing Denny's restaurants in its core market areas. It has therefore requested that the Credit Agreement be amended to permit such disposals and the retention of up to $50,000,000 of the proceeds thereof.

3. A Subsidiary of Flagstar proposes to purchase from a franchisee certain El Pollo Loco restaurants and related assets for an amount of cash and Debt not to exceed $25,600,000. Flagstar has requested that the purchase of such restaurants be excluded from the limitations on Investments and Capital Expenditures as set forth in the Credit Agreement.

4. Flagstar has been informed that FCI proposes to exchange its $2.25 Series A Cumulative Convertible Exchangeable Preferred Stock for subordinated Debt. Flagstar has requested that the exchange of such Preferred Stock be excluded from the Events of Default.

5. Flagstar proposes to enter into Hedge Agreements as permitted by Section 5.02(b)(i)(D) of the Credit Agreement and has requested that the limitation on prepayments of Debt and the Events of Default be amended to permit payments under Hedge Agreements that terminate in accordance with their terms.

6. The Lenders have expressed their willingness to grant Flagstar's request to amend the Credit Agreement on the terms and conditions set forth below.

NOW, THEREFORE, in consideration of the premises and of the mutual covenants and agreements contained herein, the parties hereto hereby agree as follows:

SECTION 1. AMENDMENTS TO CREDIT AGREEMENT. The Credit Agreement is, effective as of the date hereof and subject to the satisfaction of the conditions precedent set forth in Section 2 hereof, hereby amended as follows:

(a) Section 1.01 is amended to add the following definition, in appropriate alphabetical order:

> "EL POLLO LOCO ACQUISITION AGREEMENT" means the Asset Purchase and Franchise Termination Agreement and Escrow Instructions dated November 23, 1993 between El Pollo Loco, Inc., a Delaware corporation, and Alanza Corporation, a California corporation, and the transactions contemplated thereby pursuant to which El Pollo Loco, Inc. will purchase up to fifteen El Pollo Loco restaurants and related assets from Alanza Corporation and its affiliate for an amount of cash and Debt not to exceed $25,600,000.

(b) Section 5.02(c) is amended by deleting the word "and" at the end of Clause (D) thereof, substituting a semicolon followed by the word "and" for the period at the end of clause (E) thereof and adding a new clause (F) to read in full as follows:

"(F) additional operating leases and Capitalized Leases entered into pursuant to the transactions contemplated by the El Pollo Loco Acquisition Agreement."

(c) Section 5.02(e) is amended by deleting the word "and" at the end of clause (v) thereof, substituting a semicolon followed by the word "and" for the period at the end of clause (vi) thereof and adding a new clause (vii) to read in full as follows:

"(vii) dispositions from time to time of all or any portion of the assets constituting any of the restaurants of Denny's Holdings, Inc. and its Subsidiaries for a consideration determined by the board of directors of the Subsidiaries that own such assets (which board of directors shall include members of senior management of Flagstar) to be equal to the fair market value of the assets disposed of; PROVIDED THAT the excess of aggregate Net Cash Proceeds of such dispositions over $50,000,000 are used to prepay Advances in accordance with Section 2.05."

(d) Section 5.02(n)(i) is amended by deleting the word "and" immediately preceding the designation "(E)", substituting a comma therefor and adding at the end of clause (E) after the words "or (b)(iii)(F)" the following:

"and (F) payments required in respect of Hedge Agreements (as scheduled payments, payments upon termination or otherwise),"

(e) The first parenthetical clause of the second proviso of Section 5.04(d) is amended in full as follows:

"(other than (a) Investments made, incurred or assumed in connection with the El Pollo Loco Acquisition Agreement in an aggregate amount of not more than $25,600,000 and (b) Investments made, incurred or assumed in an aggregate amount from October 26, 1992 of $50,000,000, in each case including, without limitation, the aggregate principal amount of Debt incurred or assumed in connection therewith)".

(f) Section 6.01(f) is amended by (i) deleting the phrase "Hedge Agreement having a notional amount of at least $20,000,000 or in respect of any other", (ii) deleting the phrase "such Hedge Agreement or such other" in both places where it appears, (iii) deleting the phrase "to terminate, or permit the termination of, such Hedge Agreement, or", (iv) deleting the phrase "maturity of such other Debt or any such other Debt" and substituting therefor the phrase "maturity of such Debt or such Debt" and (v) inserting the parenthetical "(other than Debt described in clause (h) of the definition of such term)" immediately after the word "Debt" in each place where it appears.

(g) Section 6.01(p) is amended by deleting the word "and" immediately before the designation "(iv)", substituting a comma therefor and adding the following words to the end of clause (iv):

"and (v) Debt of FCI incurred pursuant to the exchange of FCI's

$2.25 Series A Cumulative Convertible Exchangeable Preferred Stock for 9% Convertible Subordinated Debentures due July 15, 2017 in a principal amount equal to $25.00 per share of Preferred Stock so exchanged, in accordance with the terms and conditions of such Preferred Stock; or"

(h) Section 6.01 is amended by adding a new subsection "(q)" to read as follows:

"(q) any Loan Party or any of its Subsidiaries shall fail to pay any amount payable in respect of any Hedge Agreement having a notional amount of at least $20,000,000 when the same becomes due and payable (whether by scheduled payment, termination or otherwise), and such failure shall continue after the applicable grace period, if any, specified in such Hedge Agreement;".

SECTION 2. CONDITIONS OF EFFECTIVENESS. This Amendment shall become effective when, and only when (a) the Managing Agent shall have received counterparts of this Amendment executed by Flagstar, Funding and the Required Lenders or, as to any of the Lenders, advice satisfactory to the Managing Agent that such Lenders have executed this Amendment, (b) the Managing Agent shall have received the Consent attached hereto, signed by each Subsidiary of Flagstar, (c) each of the representations and warranties set forth in Section 3 hereof shall be true and the Managing Agent shall have received a certificate of a duly authorized officer of Flagstar to that effect and (d) Flagstar shall have paid to the Managing Agent in accordance with Section 2.10 of the Credit Agreement and for the account of each Lender that executes this Amendment, an amendment fee equal to 0.1% of the aggregate amount of such Lender's Commitments (other than the Letter of Credit Commitments).

SECTION 3. REPRESENTATIONS AND WARRANTIES.

Flagstar represents and warrants as follows:

(a) The execution, delivery and performance by each Loan Party of this Amendment and the Credit Agreement, as amended hereby, and the consummation of the transactions contemplated hereby and thereby are within such Loan Party's corporate powers, have been duly authorized by all necessary corporate action and do not (i) contravene such Loan Party's charter or by-laws, (ii) violate any law (including, without limitation, the Securities Exchange Act of 1934, as amended), rule, regulation (including, without limitation, Regulation X of the Board of Governors of the

Federal Reserve System, as in effect from time to time), order, writ, judgment, injunction, decree, determination or award applicable to any Loan Party, (iii) conflict with or result in the breach of, or constitute a default under, any contract, loan agreement, indenture, mortgage, deed of trust, lease or other instrument binding on or affecting any Loan Party, any of its Subsidiaries or any of their properties or (iv) result in or require the creation or imposition of any Lien (other than Liens created by or permitted under the Loan Documents) upon or with respect to any of the properties of any Loan Party or any of its Subsidiaries except, as to (ii) and (iii) above, as would not, and would not be reasonably likely to, have a Material Adverse Effect.

(b) No authorization or approval or other action by, and no notice to or filing with, any governmental authority or regulatory body or any other

third party is required for the due execution, delivery, recordation, filing or performance by any Loan Party of this Amendment or the Credit Agreement, as amended hereby, or for the consummation of the transactions contemplated hereby and thereby, except where the failure to obtain, take, give or make such authorizations, approvals, actions, notices or filings would not, and would not be reasonably likely to, have a Material Adverse Effect.

(c) This Amendment and the Consent have been duly executed and delivered by each Loan Party party thereto. Assuming that (i) this Amendment is duly executed and delivered by, and is within the power and authority of, the Required Lenders and (ii) the Credit Agreement has been duly executed and delivered by, and is within the power and authority of the Managing Agent, the Co-Agents and the Lenders, this Amendment and the Credit Agreement, as amended hereby, are the legal, valid and binding obligation of each Loan Party party thereto, enforceable against such Loan Party in accordance with its terms, except as the enforceability thereof may be limited by bankruptcy, insolvency, moratorium, reorganization or other similar laws affecting creditors' rights generally and subject to general principles of equity (regardless of whether considered in a proceeding in equity or at law).

SECTION 4. REFERENCE TO AND EFFECT ON THE LOAN DOCUMENTS. (a) Upon the effectiveness hereof, on and after the date hereof each reference in the Credit Agreement to "this Agreement", "hereunder", "hereof" or words of like import referring to the Credit Agreement and each reference in the other Loan Documents to the Credit Agreement, "thereunder", "thereof" or words of like import referring to the Credit Agreement, shall mean and be a reference to the Credit Agreement as amended hereby.

(b) Except as specifically amended above, the Credit Agreement is and shall continue to be in full force and effect and is hereby in all respects ratified and confirmed.

(c) The execution, delivery and effectiveness of this Amendment shall not, except as expressly provided herein, operate as a waiver of any right, power or remedy of any Lender or Co-Agent or the Agent under any of the Loan Documents, nor constitute a waiver of any provision of any of the Loan Documents.

SECTION 5. GOVERNING LAW. This Amendment shall be governed by, and construed in accordance with, the laws of the State of New York.

SECTION 6. EXECUTION IN COUNTERPARTS. This Amendment may be executed in any number of counterparts and by different parties hereto in separate counterparts, each of which when so executed and delivered shall be deemed to be an original and all of which taken together shall constitute but one and the same agreement. Delivery of an executed counterpart of a signature page to this Amendment by telecopier shall be effective as delivery of a manually executed counterpart of this Amendment.

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be executed by their respective officers thereunto duly authorized, as of the date first above written.

BORROWERS

FLAGSTAR CORPORATION

By /s/ A. RAY BIGGS
TITLE: SR. VICE PRESIDENT
TWS FUNDING, INC.
By /s/ KARL H. SEDLARZ
TITLE: TREASURER

LENDERS

CITIBANK, N.A.
By /s/ NICHOLAS J. CAMPBELL, JR.
TITLE: VICE PRESIDENT
THE BANK OF NOVA SCOTIA
By /s/ J. ALAN EDWARDS
TITLE: VICE PRESIDENT
BANKERS TRUST COMPANY
By /s/ MARY JO JOLLY
TITLE: ASSISTANT VICE PRESIDENT
THE CHASE MANHATTAN BANK, N.A.
By /s/ DAVID B. TOWNSEND
TITLE: MANAGING DIRECTOR
CHEMICAL BANK
By /s/ WILLIAM P. RINDFUSS
TITLE: VICE PRESIDENT
EATON VANCE PRIME RATE RESERVES
By /s/ Michael J. Cannon
TITLE: VICE PRESIDENT
GIROCREDIT BANK
By
TITLE:
KEYPORT LIFE INSURANCE COMPANY
By: CHANCELLOR SENIOR SECURED MANAGEMENT, INC. as Portfolio Advisor
By /s/ CHRISTOPHER E. JANSEN
TITLE: VICE PRESIDENT

LEHMAN COMMERCIAL PAPER
By
TITLE:
THE LONG-TERM CREDIT BANK OF JAPAN, LTD. --
NEW YORK BRANCH
By /s/ SHUNKO UCHIDA
TITLE: VICE PRESIDENT
MC INTERNATIONAL INVESTMENT LTD.
By /s/ YUJI KOMIYA
TITLE: PRESIDENT
MERRILL LYNCH PRIME FUND
BY
TITLE:
MERRILL LYNCH PRIME RATE PORTFOLIO

By
Title:
THE MITSUBISHI TRUST AND BANKING CORPORATION
By /s/ PATRICIA LORET DE MOLA
TITLE: SENIOR VICE PRESIDENT
MITSUI LEASING (U.S.A.) INC.
By /s/ TOSHIAKI NAGANO
TITLE: EXECUTIVE VICE PRESIDENT
NATIONSBANK OF NORTH CAROLINA, N.A.
By /s/ CYNTHIA A. GRIM
TITLE: SENIOR VICE PRESIDENT
THE NIPPON CREDIT BANK, LTD.
By /s/ HIDEAKI MORI
TITLE: VICE PRESIDENT AND MANAGER
PILGRIM PRIME RATE TRUST
By /s/ KATHLEEN LENARCIC
TITLE: SENIOR CREDIT ANALYST
PROSPECT STREET SENIOR PORTFOLIO, L.P.
By: PROSPECT STREET SENIOR LOAN CORP., as Managing General Partner
By /s/ DANA E. ERIKSON
TITLE: ASSISTANT VICE PRESIDENT

PROVIDENT BANK
By
TITLE:
RESTRUCTURED OBLIGATIONS BACKED BY SENIOR ASSETS, B.V. (ROSA)
By: CHANCELLOR SENIOR SECURED MANAGEMENT, INC. as Portfolio Advisor
By /s/ CHRISTOPHER E. JANSEN
TITLE: VICE PRESIDENT
RYOSHIN LEASING (USA) INC.
By /s/ S. MATSUMURA
TITLE: PRESIDENT
THE SAKURA BANK, LTD.
By
TITLE:
STICHTING RESTRUCTURED OBLIGATIONS BACKED BY SENIOR ASSETS 2 (ROSA 2)
By: CHANCELLOR SENIOR SECURED MANAGEMENT, INC. as Portfolio Advisor
By /s/ CHRISTOPHER E. JANSEN
TITLE: VICE PRESIDENT
SENIOR HIGH INCOME PORTFOLIO
By

TITLE:
SENIOR HIGH INCOME PORTFOLIO II, INC.
By
TITLE:
SUN LIFE INSURANCE COMPANY OF AMERICA
By /s/ LYNN A. HOPTON
TITLE: DIRECTOR, CORPORATE FINANCE,
SUNAMERICA INVESTMENTS, INC.
UNION BANK OF FINLAND
By
TITLE:
VAN KAMPEN MERRITT PRIME RATE INCOME TRUST
By /s/ JEFFREY W. MAILLET
TITLE: VICE PRESIDENT

CONSENT
DATED AS OF DECEMBER 15, 1993.

The undersigned, each a Guarantor under the Amended and Restated Guaranty dated as of November 16, 1992 (as amended to date, the "GUARANTY") and a Grantor under the Amended and Restated Security Agreement dated as of November 16, 1992 (as amended to date, the "SECURITY AGREEMENT") in favor of the Managing Agent for the Lenders parties to the Credit Agreement referred to in the foregoing Third Amendment, hereby consents to the said Third Amendment and hereby confirms and agrees that (i) each of the Guaranty and the Security Agreement is, and shall continue to be, in full force and effect and is hereby ratified and confirmed in all respects except that, upon the effectiveness of, and on and after the date of, the said Third Amendment, each reference in each of the Guaranty and the Security Agreement to the Loan Documents or any thereof, "thereunder", "thereof" or words of like import shall mean and be a reference to the Loan Documents or such Loan Document as amended by the said Third Amendment and (ii) the Security Agreement and all of the Collateral described therein do, and shall continue to, secure the payment of all of the Obligations (as defined therein).

SUBSIDIARIES

SIGNIFICANT SUBSIDIARIES

CANTEEN HOLDINGS, INC.
DENNY'S HOLDINGS, INC.
SPARTAN HOLDINGS, INC.
By /s/ MICHAEL T. TOKARZ
PRESIDENT OR VICE PRESIDENT OF EACH OF THE CORPORATIONS LISTED ABOVE

CANTEEN SUBSIDIARY GROUP

ACE FOODS, INC.
AUTOMATIC CIGARETTE SERVICE COMPANY
AUTOMATIC MERCHANTS, INC.
BATON ROUGE CIGARETTE SERVICE, INC.

CANTEEN CORPORATION
CANTEEN MANAGEMENT SERVICES, INC.
CANTEEN SERVICE, INC.
CIGARETTE SERVICE CO., INC.
CONSOLIDATED COIN CATERERS CORPORATION
5111 W. LEXINGTON BUILDING CORPORATION
IM VENDING, INC.
IM PARKS, INC.
IM STADIUM, INC.
NEW ORLEANS CIGARETTE SERVICE CORPORATION
THE OAK ROOM, INC.
QUAD COUNTY CANTEEN SERVICE COMPANY
TW RECREATIONAL SERVICES, INC.
UNITED FOOD MANAGEMENT SERVICES, INC. N.Y.
VOLUME SERVICES, INC. (A KANSAS CORPORATION)
VOLUME SERVICES, INC. (A DELAWARE CORPORATION)
By /s/ KARL H. SEDLARZ
VICE PRESIDENT OR TREASURER OF EACH OF THE
CORPORATIONS LISTED ABOVE

DENNY'S SUBSIDIARY GROUP

BUTLER-JEZAK, INC.
CB DEVELOPMENT #3, INC.
CB DEVELOPMENT #4, INC.
CB DEVELOPMENT #6, INC.
CB DEVELOPMENT #8, INC.
C-B-R DEVELOPMENT CO., INC.
DANNY'S DO NUTS #3, INC.
DANNY'S DO NUTS #10, INC.
DANNY'S DO NUTS #15, INC.
DENNY'S, INC.
DENNY'S MANAGEMENT, INC.
DENNY'S REALTY, INC.
DFC TRUCKING CO.
EAVES PACKING COMPANY, INC.
EL POLLO LOCO, INC.
HAROLD BUTLER ENTERPRISES #5, INC.
HAROLD BUTLER ENTERPRISES #13, INC.
HAROLD BUTLER ENTERPRISES #17, INC.
HAROLD BUTLER ENTERPRISES #20, INC.
HAROLD BUTLER ENTERPRISES #45, INC.
HAROLD BUTLER ENTERPRISES #53, INC.
HAROLD BUTLER ENTERPRISES #55, INC.
HAROLD BUTLER ENTERPRISES #58, INC.
HAROLD BUTLER ENTERPRISES #59, INC.
HAROLD BUTLER ENTERPRISES #72, INC.
HAROLD BUTLER ENTERPRISES #74, INC.
HAROLD BUTLER ENTERPRISES #75, INC.
HAROLD BUTLER ENTERPRISES #84, INC.

HAROLD BUTLER ENTERPRISES #88, INC.
HAROLD BUTLER ENTERPRISES #91, INC.
HAROLD BUTLER ENTERPRISES #94, INC.
HAROLD BUTLER ENTERPRISES #98, INC.
HAROLD BUTLER ENTERPRISES #101, INC.
By /s/ ROBERT L. WYNN
PRESIDENT OR VICE PRESIDENT OF EACH OF THE CORPORATIONS LISTED ABOVE
DENNY'S RESTAURANTS OF IDAHO, INC.
By /s/ ROBERT L. WYNN
TITLE: ASSISTANT TREASURER

DENNY'S SUBSIDIARY GROUP (CONTINUED)

HAROLD BUTLER ENTERPRISES #102, INC.
HAROLD BUTLER ENTERPRISES #103, INC.
HAROLD BUTLER ENTERPRISES #105, INC.
HAROLD BUTLER ENTERPRISES #108, INC.
HAROLD BUTLER ENTERPRISES #111, INC.
HAROLD BUTLER ENTERPRISES #113, INC.
HAROLD BUTLER ENTERPRISES #120, INC.
HAROLD BUTLER ENTERPRISES #122, INC.
HAROLD BUTLER ENTERPRISES #123, INC.
HAROLD BUTLER ENTERPRISES #130, INC.
HAROLD BUTLER ENTERPRISES #139, INC.
HAROLD BUTLER ENTERPRISES #147, INC.
HAROLD BUTLER ENTERPRISES #157, INC.
HAROLD BUTLER ENTERPRISES #158, INC.
HAROLD BUTLER ENTERPRISES #173, INC.
HAROLD BUTLER ENTERPRISES #181, INC.
HAROLD BUTLER ENTERPRISES #186, INC.
HAROLD BUTLER ENTERPRISES #194, INC.
HAROLD BUTLER ENTERPRISES #204, INC.
HAROLD BUTLER ENTERPRISES #211, INC.
HAROLD BUTLER ENTERPRISES #215, INC.
HAROLD BUTLER ENTERPRISES #222, INC.
HAROLD BUTLER ENTERPRISES #224, INC.
HAROLD BUTLER ENTERPRISES #235, INC.
HAROLD BUTLER ENTERPRISES #250, INC.
HAROLD BUTLER ENTERPRISES #254, INC.
HAROLD BUTLER ENTERPRISES #255, INC.
HAROLD BUTLER ENTERPRISES #259, INC.
HAROLD BUTLER ENTERPRISES #262, INC.
HAROLD BUTLER ENTERPRISES #267, INC.
HAROLD BUTLER ENTERPRISES #269, INC.
HAROLD BUTLER ENTERPRISES #270, INC.
HAROLD BUTLER ENTERPRISES #272, INC.
HAROLD BUTLER ENTERPRISES #273, INC.
HAROLD BUTLER ENTERPRISES #287, INC.
HAROLD BUTLER ENTERPRISES #289, INC.

HAROLD BUTLER ENTERPRISES #292, INC.
HAROLD BUTLER ENTERPRISES #303, INC.
HAROLD BUTLER ENTERPRISES #304, INC.
HAROLD BUTLER ENTERPRISES #306, INC.
HAROLD BUTLER ENTERPRISES #308, INC.
HAROLD BUTLER ENTERPRISES #314, INC.
HAROLD BUTLER ENTERPRISES #328, INC.
By /s/ ROBERT L. WYNN
PRESIDENT OR VICE PRESIDENT OF EACH OF THE CORPORATIONS LISTED ABOVE

DENNY'S SUBSIDIARY GROUP (CONTINUED)

HAROLD BUTLER ENTERPRISES #331, INC.
HAROLD BUTLER ENTERPRISES #332, INC.
HAROLD BUTLER ENTERPRISES #335, INC.
HAROLD BUTLER ENTERPRISES #340, INC.
HAROLD BUTLER ENTERPRISES #351, INC.
HAROLD BUTLER ENTERPRISES #360, INC.
HAROLD BUTLER ENTERPRISES #361, INC.
HAROLD BUTLER ENTERPRISES #362, INC.
HAROLD BUTLER ENTERPRISES #372, INC.
HAROLD BUTLER ENTERPRISES #383, INC.
HAROLD BUTLER ENTERPRISES #386, INC.
HAROLD BUTLER ENTERPRISES #406, INC.
HAROLD BUTLER ENTERPRISES #408, INC.
HAROLD BUTLER ENTERPRISES #418, INC.
HAROLD BUTLER ENTERPRISES #429, INC.
HAROLD BUTLER ENTERPRISES #435, INC.
HAROLD BUTLER ENTERPRISES #451, INC.
HAROLD BUTLER ENTERPRISES #452, INC.
HAROLD BUTLER ENTERPRISES #477, INC.
HAROLD BUTLER ENTERPRISES #479, INC.
HAROLD BUTLER ENTERPRISES #482, INC.
HAROLD BUTLER ENTERPRISES #505, INC.
HAROLD BUTLER ENTERPRISES #508, INC.
HAROLD BUTLER ENTERPRISES #531, INC.
HAROLD BUTLER ENTERPRISES #532, INC.
HAROLD BUTLER ENTERPRISES #545, INC.
HAROLD BUTLER ENTERPRISES #546, INC.
HAROLD BUTLER ENTERPRISES #553, INC.
HAROLD BUTLER ENTERPRISES #571, INC.
HAROLD BUTLER ENTERPRISES #578, INC.
HAROLD BUTLER ENTERPRISES #586, INC.
HAROLD BUTLER ENTERPRISES #589, INC.
HAROLD BUTLER ENTERPRISES #604, INC.
HAROLD BUTLER ENTERPRISES #607, INC.
HAROLD BUTLER ENTERPRISES #611, INC.

HAROLD BUTLER ENTERPRISES #619, INC.
HAROLD BUTLER ENTERPRISES #626, INC.
HAROLD BUTLER ENTERPRISES #640, INC.
HAROLD BUTLER ENTERPRISES #663, INC.
HAROLD BUTLER ENTERPRISES #667, INC.
HAROLD BUTLER ENTERPRISES #668, INC.
By /s/ ROBERT L. WYNN
PRESIDENT OR VICE PRESIDENT OF EACH OF THE CORPORATIONS LISTED ABOVE

DENNY'S SUBSIDIARY GROUP (CONTINUED)

HAROLD BUTLER ENTERPRISES #684, INC.
HAROLD BUTLER ENTERPRISES #687, INC.
HAROLD BUTLER ENTERPRISES #693, INC.
HAROLD BUTLER ENTERPRISES #694, INC.
HAROLD BUTLER ENTERPRISES #718, INC.
HAROLD BUTLER ENTERPRISES #739, INC.
DENNY'S RESTAURANTS, INC.
LA MIRADA ENTERPRISES NO. 2, INC.
LA MIRADA ENTERPRISES NO. 5, INC.
LA MIRADA ENTERPRISES NO. 6, INC.
LA MIRADA ENTERPRISES NO. 7, INC.
LA MIRADA ENTERPRISES NO. 8, INC.
LA MIRADA ENTERPRISES NO. 9, INC.
LA MIRADA ENTERPRISES NO. 14, INC.
PORTIONTROL FOODS, INC.
PROFICIENT FOOD COMPANY
By /s/ ROBERT L. WYNN
PRESIDENT OR VICE PRESIDENT OF EACH OF THE CORPORATIONS LISTED ABOVE
TWS 200 CORP.
TWS 300 CORP.
TWS 500 CORP.
TWS 600 CORP.
TWS 700 CORP.
TWS 800 CORP.
WDH SERVICES, INC.
By /s/ ROBERT L. WYNN
PRESIDENT OR VICE PRESIDENT OF EACH OF THE CORPORATIONS LISTED ABOVE
CB DEVELOPMENT #9, LTD.
DENNY'S OF CANADA LTD.
DENNY'S RESTAURANTS OF CANADA, LTD.
By /s/ WILLIAM H. MITCHELL
TITLE: VICE PRESIDENT

SPARTAN SUBSIDIARY GROUP

QUINCY'S REALTY, INC.
QUINCY'S RESTAURANTS, INC.
SPARDEE'S RESTAURANTS, INC.
SPARDEE'S REALTY, INC.
SPARTAN FOOD SYSTEMS, INC.
SPARTAN REALTY, INC.
By /s/ KARL H. SEDLARZ
TREASURER OF EACH OF THE CORPORATIONS LISTED ABOVE
SPARTAN MANAGEMENT, INC.
/s/ KARL H. SEDLARZ
TITLE: TREASURER

ADDITIONAL GUARANTOR:

AMS HOLDINGS, INC.
By /s/ MICHAEL T. TOKARZ
TITLE: PRESIDENT OR VICE PRESIDENT

Exhibit 4.23
Conformed Copy

FLAGSTAR CORPORATION

AND

FIRST TRUST NATIONAL ASSOCIATION, TRUSTEE

Indenture

Dated as of September 23, 1993

$275,000,000

10 3/4% Senior Notes Due 2001

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THIS INDENTURE, dated as of September 23, 1993 among Flagstar Corporation, a Delaware corporation (the "Issuer"), and First Trust National Association, a national banking association, as Trustee (the "Trustee"),

W I T N E S S E T H :

WHEREAS, the Issuer has duly authorized the issue of its 10 3/4% Senior Notes Due 2001 (the "Securities") and, to provide, among other things, for the authentication, delivery and administration thereof, the Issuer has duly authorized the execution and delivery of this Indenture; and

WHEREAS, the Securities and the Trustee's certificate of authentication shall be in substantially the following form:

[FORM OF FACE OF SECURITY]

No.

$

FLAGSTAR CORPORATION
10 3/4% Senior Notes Due 2001

Flagstar Corporation, a Delaware corporation (the "Issuer"), for value received hereby promises to pay to or registered assigns the principal sum of Dollars at the Issuer's office or agency for said purpose on September 15, 2001 in such coin or currency of the United States of America as at the time of payment shall be legal tender for the payment of public and private debts, and to pay interest, semi-annually on March 15 and September 15 of each year, on said principal sum in like coin or currency at the rate per annum set forth above at said office or agency from the March 15 or the September 15, as the case may be, next preceding the date of this Security to which interest on the Securities has been paid or duly provided for, unless the date hereof is a date to which

interest on the Securities has been paid or duly provided for, in which case from the date of this Security, or unless no interest has been paid or duly provided for on the Securities, in which case from September 23, 1993 until payment of said principal sum has been made or duly provided for. Notwithstanding the foregoing, if the date hereof is after March 1 or September 1, as the case may be, and before the following March 15 or September 15, this Security shall bear interest from such March 15 or September 15; provided, that if the Issuer shall default in the payment of interest due on such March 15 or September 15, then this Security shall bear interest from the next preceding March 15 or September 15 to which interest on the Securities has been paid or duly provided for, or, if no interest has been paid or duly provided for on the Securities, from September 23, 1993. The interest so payable on any March 15 or September 15 will, except as otherwise provided in the Indenture referred to on the reverse hereof, be paid to the person in whose name this Security is registered at the close of business on the March 1 or September 1 preceding such March 15 or September 15, whether or not such day is a business day; provided that interest may be paid, at the option of the Issuer, by mailing a check therefor payable to the registered holder entitled thereto at his last address as it appears on the Security register or by wire transfer to such holder.

Reference is made to the further provisions set forth on the reverse hereof. Such further provisions shall for all purposes have the same effect as though fully set forth at this place.

This Security shall not be valid or obligatory until the certificate of authentication hereon shall have been duly signed by the Trustee acting under the Indenture.

IN WITNESS WHEREOF, the Issuer has caused this instrument to be duly executed under its corporate seal.

Dated:

[Seal]

_____

_____

[FORM OF REVERSE OF SECURITY]

Flagstar Corporation

10 3/4% Senior Notes Due 2001

This Security is one of a duly authorized issue of debt securities of the Issuer, limited to the aggregate principal amount of $275,000,000 (except as otherwise provided in the Indenture mentioned below), issued or to be issued pursuant to an indenture dated as of September 23, 1993 (the "Indenture"), duly executed and delivered by the Issuer to First Trust National Association, as Trustee (herein called the "Trustee"). Reference is hereby made to the Indenture and all indentures supplemental thereto for a description of the rights, limitations of rights, obligations, duties and immunities thereunder of the Trustee, the Issuer and the holders (the words "holders" or "holder" meaning the registered holders or registered holder) of the Securities.

If an Event of Default, as defined in the Indenture, shall have occurred and be continuing, the Trustee or the holders of at least 30% (or 25% in the case of a default with respect to payment of principal of, premium, if any, or interest on the Securities) in principal amount of the then outstanding Securities may declare the principal amount of the Securities to be due and payable immediately; provided, however, that if any Senior Indebtedness is outstanding pursuant to the Credit Agreement, upon a declaration of acceleration, such principal and interest shall be payable upon the earlier of (x) the day that is five Business Days after the provision to the Issuer and the Credit Agent of such written notice unless such Event of Default has been cured or waived prior to such date and (y) the date of acceleration of any Senior Indebtedness under the Credit Agreement. In the case of an Event of Default arising from certain events of bankruptcy or insolvency, all outstanding Securities become due and payable immediately without further action or notice. The Indenture provides that in certain events a declaration of acceleration and its consequences may be waived by the holders of a majority in aggregate principal amount of the Securities then outstanding and that the holders of a majority in aggregate principal amount of the Securities then outstanding may waive any default under the Indenture and its consequences except a default in the payment of principal of, premium, if any, or interest on any of the Securities. Any such consent or waiver by the holder of this Security (unless revoked as provided in the Indenture) shall be conclusive and binding upon such holder and upon

all future holders and owners of this Security and any Security which may be issued in exchange or substitution herefor, whether or not any notation thereof is made upon this Security or such other Securities.

The Indenture permits the Issuer and the Trustee, with the consent of the holders of not less than a majority in aggregate principal amount of the Securities at the time outstanding, evidenced as in the Indenture provided, to execute supplemental indentures adding any provisions to or changing in any manner or eliminating any of the provisions of the Indenture or of any supplemental indenture or modifying in any manner the rights of the holders of the Securities; provided that no such supplemental indenture shall (a) extend the final maturity of any Security, or reduce the principal amount thereof, or reduce the rate or extend the time of payment of interest thereon, or reduce the premium, if any, payable thereon, or reduce any amount payable on the redemption thereof or impair or affect the rights of any Securityholder to institute suit for the payment thereof, or waive a default in the payment of principal of, premium, if any, or interest on any Security, change the currency of payment of principal of, premium, if any, or interest on any Security, or modify any provision in the Indenture with respect to the priority of the Securities in right of payment without the consent of the holder of each Security so affected; or (b) reduce the aforesaid percentage of Securities, the consent of the holders of which is required for any such supplemental indenture, without the consent of the holders of all Securities then outstanding.

The Securities are senior in right of payment to the 10% Convertible Junior Subordinated Debentures Due 2014 of the Issuer issued pursuant to the indenture dated as of November 1, 1989 between the Issuer and United States Trust Company of New York, trustee, as supplemented.

No reference herein to the Indenture and no provision of this Security or of the Indenture shall alter or impair the obligation of the Issuer, which is absolute and unconditional, to pay the principal of, premium, if any and interest on this Security at the place, times, and rate, and in the currency, herein prescribed.

The Securities are issuable only as registered Securities without coupons in denominations of $1,000 and any multiple of $1,000.

At the office or agency of the Issuer referred to on the face hereof and in the manner and subject to the

limitations provided in the Indenture, Securities may be exchanged for a like aggregate principal amount of Securities of other authorized denominations.

Upon due presentment for registration of transfer of this Security at the above-mentioned office or agency of the Issuer, a new Security or Securities of authorized denominations, for a like aggregate principal amount, will be issued to the transferee as provided in the Indenture. No service charge shall be made for any such transfer, but the Issuer may require payment of a sum sufficient to cover any tax or other governmental charge that may be imposed in relation thereto.

The Securities will not be subject to redemption at the option of the Issuer prior to maturity, except that prior to September 15, 1996, the Issuer may redeem up to 35% of the original aggregate principal amount of the Securities, at a redemption price (expressed as a percentage of the principal amount) of 110%, plus accrued and unpaid interest, if any, to the redemption date, with that portion, if any, of the net proceeds of any public offering for cash of FCI Common Stock that is used by FCI to acquire from the Issuer shares of common stock of the Issuer; provided that any such redemption is effected within 60 days after the closing of such public offering of FCI Common Stock.

Notice of redemption shall be mailed at least 30 and not more than 60 days prior to the date fixed for redemption to each holder of Securities to be redeemed at his registered address. Securities may be redeemed in part only in multiples of $1,000.

Subject to the terms of the Indenture, if the Issuer consummates any Asset Sale or sells a Business Segment (as such terms are defined in the Indenture), the Issuer shall be obligated to apply the proceeds thereof to one or more of the following in such combination as the Issuer may choose: (i) an investment in another asset or business in the same line of business as the Issuer and its Subsidiaries, provided such investment occurs within 366 days of such Asset Sale or sale of a Business Segment, (ii) an offer, expiring within 366 days of such Asset Sale or such sale of a Business Segment, to redeem Securities at a redemption price not less than 100% of the principal amount thereof plus accrued and unpaid interest, if any, to the redemption date (a "Net Proceeds Offer") or (iii) the prepayment of outstanding Senior Indebtedness within 366 days of such Asset Sale or sale of a Business Segment; provided, however, that if the net amount not invested pursuant to clause (i) or applied pursuant to clause (iii)

above to the prepayment of Senior Indebtedness is less than $15,000,000, the Issuer shall not be further obligated to offer to redeem Securities pursuant to clause (ii) above. Holders of Securities which are the subject of an offer to redeem shall receive an offer to redeem from the Issuer prior to any related redemption date, and may elect to have such Securities redeemed by completing the form entitled "Option of Holder to Elect to Have Security Redeemed" appearing below. Notwithstanding any provision of the Indenture to the contrary, the Issuer may, for a period of 120 days after the last date on which holders of Securities are permitted to elect to have their Securities redeemed in a Net Proceeds Offer, use any Net Proceeds that were available to make such Net Proceeds Offer but not used to redeem Securities pursuant thereto, to purchase, redeem or otherwise acquire or retire for value securities of the Issuer ranking junior in right of payment to the Securities at a price, stated as a percentage of the principal or face amount of such junior securities, not greater than the price, stated as a percentage of the principal amount of the Securities, offered in the Net Proceeds Offer; provided that if the Net Proceeds Offer is for a principal amount (the "Net Proceeds Offer Amount") of the Securities less than the aggregate principal amount of the Securities then outstanding, then the Net Proceeds available for use by the Issuer for such a purchase, redemption or other acquisition or retirement for value of junior securities shall not exceed the Net Proceeds Offer Amount.

Subject to payment by the Issuer of a sum sufficient to pay the amount due on redemption, interest on this Security (or portion hereof if this Security is redeemed in part) shall cease to accrue upon the date duly fixed for redemption of this Security (or portion hereof if this Security is redeemed in part).

The Issuer, the Trustee, and any authorized agent of the Issuer or the Trustee, may deem and treat the registered holder hereof as the absolute owner of this Security (whether or not this Security shall be overdue and notwithstanding any notation of ownership or other writing hereon made by anyone other than the Issuer or the Trustee or any authorized agent of the Issuer or the Trustee), for the purpose of receiving payment of, or on account of, the principal hereof and premium, if any, and, subject to the provisions on the face hereof, interest hereon and for all other purposes, and neither the Issuer nor the Trustee nor any authorized agent of the Issuer or the Trustee shall be affected by any notice to the contrary.

No recourse shall be had for the payment of the principal of or premium, if any, or the interest on this

Security, for any claim based hereon, or otherwise in respect hereof, or based on or in respect of the Indenture or any indenture supplemental thereto, against any incorporator, shareholder, officer or director, as such, past, present or future, of the Issuer or of any successor corporation, either directly or through the Issuer or any successor corporation, whether by virtue of any constitution, statute or rule of law or by the enforcement of any assessment or penalty or otherwise, all such liability being, by the acceptance hereof and as part of the consideration for the issue hereof, expressly waived and released.

[FORM OF TRUSTEE'S CERTIFICATE OF AUTHENTICATION]

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

FIRST TRUST NATIONAL ASSOCIATION
, as Trustee

Authorized Signatory

OPTION OF HOLDER TO ELECT TO HAVE SECURITY REDEEMED

If you have received a Net Proceeds Offer from the Issuer and want to elect to have this Security redeemed by the Issuer pursuant to Section 11.5 of the Indenture, check the box: [ ]

Date: _____ Your Signature: _____

(Sign exactly as your name appears on the other side of this Security)

Signature Guarantee: _____

AND WHEREAS, all things necessary to make the Securities, when executed by the Issuer and authenticated and delivered by the Trustee as in this Indenture provided, the valid, binding and legal obligations of the Issuer, and to constitute these presents a valid indenture and agreement according to its terms, have been done;

NOW, THEREFORE:

In consideration of the premises and the purchases of the Securities by the holders thereof, the Issuer and the Trustee mutually covenant and agree for the equal and proportionate benefit of the respective holders from time to time of the Securities as follows:

ARTICLE ONE

DEFINITIONS.

SECTION 1.1 Certain Terms Defined. The following terms (except as otherwise expressly provided or unless the context otherwise clearly requires) for all purposes of this Indenture and of any indenture supplemental hereto shall have the respective meanings specified in this Section. All other terms used in this Indenture which are defined in the Trust Indenture Act of 1939 or the definitions of which in the Securities Act of 1933 are referred to in the Trust Indenture Act of 1939 (except as herein otherwise expressly provided or unless the context otherwise clearly requires), shall have the meanings assigned to such terms in said Trust Indenture Act and in said Securities Act as in force at the date of this Indenture. All accounting terms used herein and not expressly defined shall have the meanings given to them in accordance with generally accepted accounting principles, and the term "generally accepted accounting principles" shall mean such accounting principles which are generally accepted at the date or time of any computation or at the date hereof. The words "herein", "hereof" and "hereunder" and other words of similar import refer to this Indenture as a whole and not to any particular Article, Section or other subdivision. The terms defined in this Article include the plural as well as the singular.

"Acquisition Indebtedness" means Indebtedness of any person existing at the time such person becomes a Subsidiary of the Issuer (or at the time such person is merged with or into a Subsidiary of the Issuer), excluding Indebtedness of any Subsidiary of the Issuer (other than such person) incurred in connection with, or in contemplation of, such person becoming a Subsidiary of the Issuer.

"Adjusted Consolidated Net Worth" with respect to the Issuer means, as of any date, the Consolidated Net Worth of the Issuer plus (i) the respective amounts reported on

the Issuer's most recent consolidated balance sheet with respect to any preferred stock (other than Disqualified Stock) that by its terms is not entitled to the payment of dividends unless such dividends may be declared and paid only out of net earnings in respect of the year of such declaration and payment, but only to the extent of any cash received by the Issuer upon issuance of such preferred stock or of securities converted into such preferred stock, excluding (ii) any amount reflecting any equity adjustment resulting from a foreign currency translation on a consolidated balance sheet of the Issuer, but only to the extent not excluded in calculating Consolidated Net Worth of the Issuer, plus (iii) any gain realized upon the sale or other disposition of any Business Segments to the extent such gains do not exceed the sum of the aggregate amount of any losses included (on a net after tax basis) in the computation of Consolidated Net Worth, plus (iv) transaction fees and expenses related to the Recapitalization and any related transactions including amortization thereof, but only to the extent such fees and expenses were included in calculating Consolidated Net Worth of the Issuer.

"Affiliate" means any person directly or indirectly controlling or controlled by or under direct or indirect common control with the Issuer. For the purposes of this definition, beneficial ownership of 10% or more of the voting common equity of a person shall be deemed to be control unless ownership of a lesser amount may be deemed to be control under the Trust Indenture Act; provided, however, that neither DLJ Capital nor any of its affiliates shall be deemed to be an Affiliate for purposes of the covenants in this Indenture.

"Agent" means any registrar, paying agent or co-registrar for the Securities.

"Asset Segment" means (i) Denny's Holdings, Inc., (ii) Spartan Holdings, Inc., (iii) Canteen Holdings, Inc., or (iv) any Subsidiary, group of Subsidiaries or group of assets (other than inventory held for sale in the ordinary course of business) of the Issuer or its Subsidiaries which (A) accounts for at least 20 percent of the total assets of the Issuer and its Subsidiaries on a consolidated basis as of the end of the last fiscal quarter immediately preceding the date for which such determination is being made or (B) accounts for at least 20 percent of the income from continuing operations before income taxes, extraordinary items and cumulative effects of changes in accounting principles of the Issuer and its Subsidiaries on a consolidated basis for the four full fiscal quarters immediately preceding the date for which such calculation is

being made.

"Associates" means TW Associates, L.P. and KKR Partners II, L.P.

"Bankruptcy Law" means Title 11, U.S. Code or any similar Federal or state law for the relief of debtors.

"Board of Directors" means either the Board of Directors of the Issuer or any committee of such Board duly authorized to act hereunder.

"Business Day" means a day which in the city (or in any of the cities, if more than one) where amounts are payable in respect of the Securities, as specified on the face of the form of Security recited above, is neither a legal holiday nor a day on which banking institutions are authorized by law or regulation to close.

"Business Segment" means: (i) each of the Issuer's Significant Subsidiaries, (ii) the capital stock of any of the Issuer's Subsidiaries or (iii) any group of assets of the Issuer or any Subsidiary whether now owned or hereafter acquired, provided, in each case, that the sale (other than the sale of inventory in the ordinary course of business), lease, conveyance or other disposition of such Significant Subsidiary, capital stock or group of assets, as the case may be, either in a single transaction or group of related transactions that are part of a common plan, results in Net Proceeds to the Issuer and its Subsidiaries of $50 million or more.

"Capital Stock" means any and all shares, interests, participations, rights or other equivalents (however designated) of corporate stock.

"Cash Equivalents" means (i) securities issued or directly and fully guaranteed or insured by the United States of America or any agency or instrumentality thereof (provided that the full faith and credit of the United States of America is pledged in support thereof), (ii) time deposits and certificates of deposit of any domestic commercial bank of recognized standing having capital and surplus in excess of $500,000,000 or a commercial bank organized under the laws of any other country that is a member of the OECD and having total assets in excess of $500,000,000 with a maturity date not more than one year from the date of acquisition, (iii) repurchase obligations with a term of not more than 7 days for underlying securities of the types described in clause (i) above entered into with any bank meeting the qualifications

specified in clause (ii) above, (iv) commercial paper issued by the parent corporation of any domestic commercial bank of recognized standing having capital and surplus in excess of $500,000,000 and commercial paper issued by others rated at least A-2 or the equivalent thereof by Standard & Poor's Corporation or at least P-2 or the equivalent thereof by Moody's Investors Service, Inc. and in each case maturing within one year after the date of acquisition and (v) investments in money market funds substantially all of whose assets comprise securities of the types described in clauses (i) through (iv) above.

"Code" means the Internal Revenue Code of 1986, as it may be amended from time to time.

"Commission" means the Securities and Exchange Commission.

"Consolidated Fixed Charges" means, with respect to any person for a given period, consolidated interest expense of such person and its consolidated Subsidiaries to the extent deducted in computing Consolidated Net Income (including, without limitation, amortization of original issue discount and non-cash interest payments, all net payments and receipts in respect of Interest Rate Agreements and the interest component of capital leases, but excluding deferred financing costs existing immediately after the closing of the Equity Investment or incurred in connection with the Recapitalization and amortization thereof) plus the amount of all cash dividend payments on any series of preferred stock of such person; provided that if, during such period (i) such person or any of its Subsidiaries shall have made any asset sales (other than, in the case of the Issuer and its Subsidiaries, sales of the Capital Stock of or any assets of Unrestricted Subsidiaries), Consolidated Fixed Charges of such person and its Subsidiaries for such period shall be reduced by an amount equal to the Consolidated Fixed Charges directly attributable to the assets which are the subject of such asset sales for such period and (ii) such person or any of its Subsidiaries has made any acquisition of assets or Capital Stock (occurring by merger or otherwise), including, without limitation, any acquisition of assets or Capital Stock occurring in connection with the transaction causing a calculation to be made hereunder, Consolidated Fixed Charges of such person and its Subsidiaries shall be calculated on a pro forma basis as if such acquisition of assets or Capital Stock (including the incurrence of any Indebtedness in connection with any such acquisition and the application of the proceeds thereof) took place on the first day of such period; and provided, further, that in the case of the

Issuer, if the closing of any aspect of the Recapitalization occurred during such period, Consolidated Fixed Charges of the Issuer and its Subsidiaries for such period shall be calculated on a pro forma basis as if such closing (including the incurrence of any Indebtedness in connection with such closing and the application of the proceeds thereof) took place on the first day of such period.

"Consolidated Net Income" with respect to any person (the "Subject Person") means, for a given period, the aggregate of the Net Income of such Subject Person and its Subsidiaries for such period, on a consolidated basis, determined in accordance with generally accepted accounting principles, provided that (i) the Net Income of any person that is not a Subsidiary of the Subject Person or is accounted for by the equity method of accounting shall be included only to the extent of the amount of dividends or distributions paid to the Subject Person and its Subsidiaries, (ii) the Net Income of any person that is a Subsidiary (other than a Subsidiary of which at least 80% of the capital stock having ordinary voting power for the election of directors or other governing body of such Subsidiary is owned by the Subject Person directly or indirectly through one or more Subsidiaries) shall be included only to the extent of the lesser of (a) the amount of dividends or distributions paid to the Subject Person and its Subsidiaries and (b) the Net Income of such person, (iii) the Net Income of any person acquired by the Subject Person and its Subsidiaries in a pooling of interests transaction for any period prior to the date of such acquisition shall be excluded and (iv) the Net Income (if positive) of any person that becomes a Subsidiary of the Issuer after the date hereof shall be included only to the extent that the declaration or payment of dividends on Capital Stock or similar distributions by that Subsidiary to the Issuer or to any other consolidated Subsidiary of the Issuer of such Net Income is at the time permitted under the terms of its charter and all agreements, instruments, judgments, decrees, orders, statutes, rules and governmental regulations binding upon or applicable to that Subsidiary, provided that if the exclusion from an otherwise positive Net Income of certain amounts pursuant to this clause (iv) would cause such Net Income to be negative, then such Net Income shall be deemed to be zero.

"Consolidated Net Worth" means, with respect to any person, at any date of determination, the sum of the Capital Stock and additional paid-in capital plus retained earnings (or minus accumulated deficit) of such person and its Subsidiaries on a consolidated basis, each item to be determined in conformity with generally accepted accounting

principles (excluding the effects of foreign currency exchange adjustments under Financial Accounting Standards Board Statement of Financial Accounting Standards No. 52), except that all effects of the application of Accounting Principles Board Opinions Nos. 16 and 17 and related interpretations and all charges related to the Recapitalization shall be disregarded.

"Controlled Corporation EBITDA Amount" means, for any Controlled Corporation securities of which have been distributed in a Section 355 Transaction, the EBITDA of the Controlled Corporation for the four full fiscal quarters of the Issuer last preceding the date such Section 355 Transaction is effected.

"Corporate Trust Office" means the office of the Trustee at which the corporate trust business of the Trustee shall, at any particular time, be principally administered, which office is, at the date as of which this Indenture is dated, located at 180 East Fifth Street, St. Paul, Minnesota 55101, Attention: Corporate Trust Department.

"Credit Agent" means Citibank, N.A., as Managing Agent under the Credit Agreement, or any successor thereto; provided that "Credit Agent" shall also mean any person acting as managing agent (or in a similar capacity) under any agreement pursuant to which the Credit Agreement is refunded or refinanced if such person is designated as such by each person that is at the time of such designation a Credit Agent; and provided further that if at any time there shall be more than one Credit Agent, then "Credit Agent" shall mean each such Credit Agent, and any notice, consent or waiver to be given by, action to be taken by, or notice to be given to, the Credit Agent shall be given or taken by, or given to, each such Credit Agent.

"Credit Agreement" means the Amended and Restated Credit Agreement dated as of October 26, 1992 among the Issuer, the lenders party thereto and Citibank, N.A., as Managing Agent, including any and all related notes, collateral and security documents, instruments and agreements executed in connection therewith (including, without limitation, all Loan Documents (as defined in such Credit Agreement)) and all obligations of the Issuer and its Subsidiaries incurred thereunder or in respect thereof, and in each case as amended, supplemented, restructured or otherwise modified, extended or renewed and each other agreement pursuant to which any or all of the foregoing may be refunded or refinanced, from time to time.

"Default" means any event that is, or after notice

or passage of time would be, an Event of Default.

"Disqualified Stock" means any capital stock that, by its terms (or by the terms of any security into which it is convertible or for which it is exchangeable), or upon the happening of any event, matures or is mandatorily redeemable, pursuant to a sinking fund obligation or otherwise, or is redeemable at the option of the holder thereof, in whole or in part, on or prior to the maturity date of the Securities.

"DLJ" means Donaldson, Lufkin & Jenrette Securities Corporation.

"DLJ Capital" means DLJ Capital Corporation.

"EBITDA" means, with respect to any person and its consolidated Subsidiaries for a given period, the Consolidated Net Income of such person for such period plus (i) an amount equal to any net loss realized upon the sale or other disposition of any Business Segment (to the extent such loss was deducted in computing Consolidated Net Income), (ii) any provision for taxes based on income or profits deducted in computing Consolidated Net Income and any provision for taxes utilized in computing net loss under clause (i) hereof, (iii) consolidated interest expense (including amortization of original issue discount and non-cash interest payments, all net payments and receipts in respect of Interest Rate Agreements and the interest component of capital leases), and (iv) depreciation and amortization (including amortization of goodwill, deferred financing costs existing immediately after the closing of the Equity Investment or incurred in connection with the Recapitalization, and other intangibles) to the extent required under generally accepted accounting principles, all on a consolidated basis; provided that if, during such period (A) such person or any of its Subsidiaries shall have made any asset sales (other than, in the case of the Issuer and its Subsidiaries, sales of the Capital Stock of or any assets of Unrestricted Subsidiaries), EBITDA of such person and its Subsidiaries for such period shall be reduced by an amount equal to the EBITDA directly attributable to the assets which are the subject of such asset sales for such period and (B) such person or any of its Subsidiaries has made any acquisition of assets or Capital Stock (occurring by merger or otherwise), including, without limitation, any acquisition of assets or Capital Stock occurring in connection with the transaction causing a calculation to be made hereunder, EBITDA of such person and its Subsidiaries shall be calculated, excluding any expenses which in the good faith estimate of management will be eliminated as a

result of such acquisition, on a pro forma basis as if such acquisition of assets or Capital Stock (including the incurrence of any Indebtedness in connection with any such acquisition and the application of the proceeds thereof) took place on the first day of such period; and provided, further, that in the case of the Issuer, if the closing of any aspect of the Recapitalization occurred during such period, EBITDA of the Issuer and its Subsidiaries for such period shall be calculated on a pro forma basis as if such closing (including the incurrence of any Indebtedness in connection with such closing and the application of the proceeds thereof) took place on the first day of such period.

"11.25% Debentures" means the 11.25% Senior Subordinated Debentures Due 2004 of the Issuer in an aggregate principal amount not to exceed $738,800,000.

"Equity Interests" means Capital Stock or warrants, options or other rights to acquire Capital Stock (but excluding any debt security that is convertible into or exchangeable for Capital Stock).

"Equity Investment" means the purchase by Associates of 100 million shares of FCI Common Stock and 75 million warrants to purchase FCI Common Stock on November 16, 1992.

"Event of Default" means any event or condition specified as such in Section 4.1 which shall have continued for the period of time, if any, therein designated.

"Excluded Properties" means each of (i) the Issuer's food distribution and warehouse facility located in Rancho Cucamonga, California and (ii) the Issuer's corporate headquarters property in Spartanburg, South Carolina.

"Existing Indebtedness" means Indebtedness of the Issuer or any subsidiary existing on the date hereof.

"FCI" means Flagstar Companies, Inc. (formerly TW Holdings, Inc.), a Delaware corporation.

"FCI Common Stock" means the common stock, par value $.50 per share, of FCI.

"Fixed Charge Coverage Ratio" means, with respect to any person, for a given period, the ratio of the EBITDA of such person for such period to the Consolidated Fixed Charges of such person for such period.

"GTO" means Gollust, Tierney and Oliver, a New Jersey general partnership, or Gollust, Tierney and Oliver Incorporated, a New York corporation.

"GTO Fee" means an annual fee of $250,000 payable to GTO or any of its affiliates for each of 1993 and 1994.

"Holder", "holder of Securities", "Securityholder" or other similar terms means the registered holder of any Security.

"Indebtedness" with respect to any person means at any date, without duplication, (i) all obligations of such person for borrowed money, (ii) all obligations of such person evidenced by bonds, debentures, notes or other similar instruments other than Interest Rate Agreements, (iii) all reimbursement obligations and other liabilities of such person with respect to letters of credit issued for such person's account, (iv) all obligations of such person to pay the deferred purchase price of property or services, except accounts payable arising in the ordinary course of business, (v) all obligations of such person as lessee in respect of capital lease obligations under capital leases and (vi) all obligations of others of a nature described in any of clauses (i) through (v) above guaranteed by such person; provided that in the case of clauses (i) through (v) above, Indebtedness shall include only obligations reported as liabilities in the financial statements of such person in accordance with generally accepted accounting principles.

"Indenture" means this instrument as originally executed and delivered or, if amended or supplemented as herein provided, as so amended or supplemented.

"Indentures" means collectively this Indenture and the indentures pursuant to which the New Senior Subordinated Securities, the 11.25% Debentures, the 10 7/8% Notes and the 10% Debentures are issued.

"Interest Rate Agreement" means any interest rate protection agreement, interest rate future, interest rate option, interest rate swap, interest rate cap or other interest rate hedge arrangement to or under which the Issuer or any of its subsidiaries is or becomes a party or a beneficiary.

"Investment" means any direct or indirect advance, loan (other than advances to customers in the ordinary course of business, which are recorded as accounts receivable on the balance sheet of any person or its subsidiaries) or other extension of credit or capital

contribution to (by means of any transfer of cash or other property to others or any payment for property or services for the account or use of others), or any purchase or acquisition of capital stock, bonds, notes, debentures or other securities issued by, any other person.

"Issuer" means (except as otherwise provided in Article Five) Flagstar Corporation, a Delaware corporation, and, subject to Article Eight, its successors and assigns.

"KKR" means Kohlberg Kravis Roberts & Co., a Delaware limited partnership, or KKR Associates, a New York limited partnership.

"Lien" means, with respect to any asset, any mortgage, lien, pledge, charge, security interest or encumbrance of any kind in respect of such asset, whether or not filed, recorded or otherwise perfected under applicable law (including any conditional sale or other title retention agreement, any capital lease, any option or other agreement to sell and any filing of or agreement to give any financing statement under the Uniform Commercial Code (or equivalent statutes) of any jurisdiction).

"Mortgage Financing" means the incurrence by the Issuer or a Subsidiary of the Issuer of any Indebtedness secured by a mortgage or other Lien on real property acquired or improved by the Issuer or any Subsidiary of the Issuer after the date hereof.

"Mortgage Financing Proceeds" means, with respect to any Mortgage Financing, the aggregate amount of cash proceeds received or receivable by the Issuer or any Subsidiary of the Issuer in connection with such financing after deducting therefrom brokerage commissions, legal fees, finder's fees, closing costs and other expenses incidental to such Mortgage Financing and the amount of taxes payable in connection with or as a result of such transaction, to the extent, but only to the extent, that the amounts so deducted are, at the time of receipt of such cash, actually paid to a person that is not an Affiliate and are properly attributable to such transaction or to the asset that is the subject thereof.

"Mortgage Refinancing" means the incurrence by the Issuer or a Subsidiary of the Issuer of any Indebtedness secured by a mortgage or other Lien on real property subject to a mortgage or other Lien existing on the date hereof or created or incurred subsequent to the date hereof as permitted hereby and owned by the Issuer or any Subsidiary of the Issuer.

"Mortgage Refinancing Proceeds" means, with respect to any Mortgage Refinancing, the aggregate amount of cash proceeds received or receivable by the Issuer or any Subsidiary of the Issuer in connection with such refinancing after deducting therefrom the original mortgage amount of the underlying Indebtedness refinanced therewith and brokerage commissions, legal fees, finder's fees, closing costs and other expenses incidental to such Mortgage Refinancing and the amount of taxes payable in connection with or as a result of such transaction, to the extent, but only to the extent, that the amounts so deducted are, at the time of receipt of such cash, actually paid to a person that is not an Affiliate and are properly attributable to such transaction or to the asset that is the subject thereof.

"Net Income" of any person shall mean the net income (loss) of such person, determined in accordance with generally accepted accounting principles, excluding, however, (i) any gain or loss, together with any related provision for taxes on such gain or loss, realized upon the sale or other disposition (including, without limitation, dispositions pursuant to sale and leaseback transactions) of a Business Segment, (ii) any charges arising as a result of the Recapitalization, and (iii) any gain or loss realized upon the sale or other disposition by such person of any capital stock or marketable securities.

"Net Proceeds" with respect to any Asset Sale, sale and leaseback transaction or sale or other disposition of a Business Segment, means (i) cash (freely convertible into U.S. dollars) received by the Issuer or any Subsidiary from such transaction, after (a) provision for all income or other taxes measured by or resulting from such transaction, (b) payment of all brokerage commissions and other expenses (including, without limitation, the payment of principal, premium (if any) and interest on Indebtedness required (other than pursuant to Section 3.13(a)) to be paid as a result of such transaction) in connection with such transaction and (c) deduction of appropriate amounts to be provided by the Issuer as a reserve, in accordance with generally accepted accounting principles, against any liabilities associated with the asset disposed of in such transaction and retained by the Issuer after such sale or other disposition thereof, including, without limitation, pension and other post-employment benefit liabilities and liabilities related to environmental matters or against any indemnification obligations associated with such transaction and (ii) promissory notes received by the Issuer or any Subsidiary in connection with such transaction upon the liquidation or conversion of such notes into cash.

"New Senior Subordinated Securities" means the 11 3/8% Senior Subordinated Debentures Due 2003 of the Issuer in an aggregate amount not to exceed $125,000,000.

"Obligations" means, with respect to any Indebtedness or any Interest Rate Agreement, any principal, premium, interest (including, without limitation, interest, whether or not allowed, after the filing of a petition initiating certain bankruptcy proceedings), penalties, commissions, charges, expenses, fees, indemnifications, reimbursements and other liabilities or amounts payable under or in respect of the documentation governing such Indebtedness or such Interest Rate Agreement.

"OECD" means the Organization for Economic Cooperation and Development.

"Officers' Certificate" means a certificate signed by the Chairman of the Board of Directors or the President or any Vice President (whether or not designated by a number or numbers or a word or words added before or after the title "Vice President") and by the Treasurer or the Secretary or any Assistant Secretary of the Issuer and delivered to the Trustee. Each such certificate shall comply with Section 314 of the Trust Indenture Act of 1939 and include the statements provided for in Section 10.5.

"Opinion of Counsel" means an opinion in writing signed by legal counsel who may be an employee of or counsel to the Issuer. Each such opinion shall comply with Section 314 of the Trust Indenture Act and include the statements provided for in Section 10.5, if and to the extent required hereby.

"Outstanding", when used with reference to Securities, shall, subject to the provisions of Section 6.4, mean, as of any particular time, all Securities authenticated and delivered by the Trustee under this Indenture, except

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

(b) Securities, or portions thereof, for the payment or redemption of which moneys in the necessary amount shall have been deposited in trust with the Trustee or with any paying agent (other than the Issuer) or shall have been set aside, segregated and held in trust by the Issuer (if the Issuer shall act as its own paying agent), provided that if such Securities

are to be redeemed prior to the maturity thereof, notice of such redemption shall have been given as herein provided, or provision satisfactory to the Trustee shall have been made for giving such notice; and

(c) Securities in substitution for which other Securities shall have been authenticated and delivered, or which shall have been paid, pursuant to the terms of Section 2.6 (unless proof satisfactory to the Trustee is presented that any of such Securities is held by a person in whose hands such Security is a legal, valid and binding obligation of the Issuer).

"Permitted Investments" means (i) cash (including major foreign currency or currency of a country in which the Issuer or any of its Subsidiaries has operations) or Cash Equivalents, (ii) investments that are in persons at least a majority of whose revenues are derived from food service operations, ancillary operations or related activities and that have the purpose of furthering the food service operations of the Issuer or any of its Subsidiaries, (iii) advances to employees not in excess of $5,000,000 at any one time outstanding, (iv) accounts receivable created or acquired in the ordinary course of business, (v) obligations or shares of stock received in connection with any good faith settlement or bankruptcy proceeding involving a claim relating to a Permitted Investment, (vi) evidences of Indebtedness, obligations or other investments not exceeding $5,000,000 in the aggregate held at any one time by the Issuer or any of its Subsidiaries and (vii) currency swap agreements and other similar agreements designed to hedge against fluctuations in foreign exchange rates entered into in the ordinary course of business in connection with the operation of the business.

"Preferred Stock" means, with respect to any person, any and all shares, interests, participations or other equivalents (however designated) of such person's preferred or preference stock whether now outstanding or issued after the date of the Indenture.

"principal" wherever used with reference to the Securities or any Security or any portion thereof, shall be deemed to include "and premium, if any".

"Recapitalization" means the recapitalization of FCI contemplated by the Stock and Warrant Purchase Agreement dated as of August 11, 1992 between FCI and Associates.

"Remaining Section 355 Amount" means at any time an amount equal to (i) 30% of the Specified Issuer EBITDA

less (ii) the sum of the Controlled Corporation EBITDA Amounts for the Controlled Corporations in each Section 355 Transaction effected by the Issuer prior to such time.

"Responsible Officer" when used with respect to the Trustee means the chairman of the board of directors, any vice chairman of the board of directors, the chairman of the trust committee, the chairman of the executive committee, any vice chairman of the executive committee, the president, any vice president (whether or not designated by numbers or words added before or after the title "vice president"), the cashier, the secretary, the treasurer, any trust officer, any assistant trust officer, any assistant vice president, any assistant cashier, any assistant secretary, any assistant treasurer, or any other officer or assistant officer of the Trustee customarily performing functions similar to those performed by the persons who at the time shall be such officers, respectively, or to whom any corporate trust matter is referred because of his knowledge of and familiarity with the particular subject.

"Restricted Investments" means any investments in, capital contributions, loans or advances to or purchases of equity interests in, any person that is not a wholly owned subsidiary, or other transfers of assets to Subsidiaries or Affiliates that are not wholly owned (other than any such other transfers of assets to Subsidiaries or Affiliates that are not wholly owned in transactions the terms of which are fair and reasonable to the transferor and are at least as favorable as the terms that could be obtained by the transferor in a comparable transaction made on an arm's length basis between unaffiliated parties (as conclusively determined, for any such transfer involving aggregate consideration in excess of $5 million, by a majority of the directors of the Issuer unaffiliated with such Subsidiary or Affiliate or, if there are no such directors, by a majority of the directors of the Issuer, and otherwise as conclusively determined by the Issuer)), except in each case for Permitted Investments and any such investments existing on the date hereof.

"Section 355 Percentage" means, for the first Section 355 Transaction effected after the date hereof, 30%, and shall thereafter be subject to reduction as follows: Immediately after the time at which any Section 355 Transaction is effected through a distribution of securities of a Controlled Corporation pursuant to clause (7) of the second paragraph of Section 3.9, the Section 355 Percentage shall equal (i) the Section 355 Percentage immediately prior to such time less (ii) the percentage of (x) the EBITDA of the Issuer for the four full fiscal quarters of the Issuer

last preceding the date such Section 355 Transaction is effected represented by (y) the EBITDA of such Controlled Corporation for such period.

"Section 355 Transaction" means a transaction that qualifies for tax-free treatment under Section 355 of the Code, or any similar taxable transaction, any of which is effected after the date hereof.

"Security" or "Securities" means any of the 10 3/4% Senior Notes Due 2001 authenticated and delivered under this Indenture.

"Senior Indebtedness" means (i) all obligations of the Issuer and its Subsidiaries now or hereafter existing under or in respect of the Credit Agreement, the Securities and the 10 7/8% Notes, whether for principal, interest (including, without limitation, interest accruing after the filing of a petition initiating any proceeding referred to in Section 4.1(6) or Section 4.1(7) hereof, whether or not such interest is an allowable claim under such proceeding), penalties, commissions, charges, indemnifications, liabilities, reimbursement obligations in respect of letters of credit, fees, expenses or other amounts payable under or in respect of the Credit Agreement and all obligations and claims related thereto, (ii) all Obligations of the Issuer in respect of Interest Rate Agreements and (iii) additional Indebtedness permitted by Section 3.11(a), Section 3.11(b), Section 3.11(c) or Section 3.11(e) hereof which is not expressly by its terms subordinated to, or pari passu with, the 11.25% Debentures and the New Senior Subordinated Securities, and all Obligations and claims related thereto.

Notwithstanding anything to the contrary in the foregoing, Senior Indebtedness shall not include (x) any Indebtedness of the Issuer to any of its Subsidiaries or (y) Indebtedness incurred for the purchase of goods or materials or for services (other than services provided by the Credit Agent in connection with the Credit Agreement or any other party to an agreement evidencing Senior Indebtedness in connection with such agreement) obtained in the ordinary course of business. Senior Indebtedness under or in respect of the Credit Agreement, the Securities and the 10 7/8% Notes shall continue to constitute Senior Indebtedness for all purposes of this Indenture notwithstanding that such Senior Indebtedness or any obligations or claims in respect thereof may be disallowed, avoided or subordinated pursuant to any Bankruptcy Law or other applicable insolvency law or equitable principles.

"Significant Subsidiary" means any Subsidiary of

the Issuer that would be a "significant subsidiary" as defined in Rule 1-02 of Regulation S-X under the Securities Act of 1933, as amended (the "Act"), and the Securities Exchange Act of 1934, as amended (the "Exchange Act") (as such Regulation is in effect on the date of the Indenture) (excluding, except for the purposes of determining an Event of Default, subparagraph (c) of such definition).

"Specified Issuer EBITDA" means the EBITDA of the Issuer for the four full fiscal quarters of the Issuer last preceding the date of the first Section 355 Transaction effected after the date hereof.

"Subsidiary" of any person means any entity of which shares of the capital stock or other equity interests (including partnership interests) entitled to cast at least a majority of the votes that may be cast by all shares or equity interests having ordinary voting power for the election of directors or other governing body of such entity is owned by such person directly and/or through one or more Subsidiaries; provided that each Unrestricted Subsidiary shall be excluded from the definition of Subsidiary.

"10% Debentures" means the 10% Convertible Junior Subordinated Debentures Due 2014 of the Issuer in an aggregate principal amount not to exceed $100,000,000.

"10 7/8% Notes" means the 10 7/8% Senior Notes Due 2002 of the Issuer in an aggregate principal amount not to exceed $300,000,000.

"Trustee" means the entity identified as "Trustee" in the first paragraph hereof and, subject to the provisions of Article Five, shall also include any successor trustee.

"Trust Indenture Act of 1939" (except as otherwise provided in Sections 7.1 and 7.2) means the Trust Indenture Act of 1939 as in force at the date as of which this Indenture was originally executed.

"Unrestricted Subsidiary" means (i) any subsidiary of the Issuer which at the time of determination is an Unrestricted Subsidiary (as designated by the Board of Directors, as provided below) and (ii) any subsidiary of an Unrestricted Subsidiary. The Board of Directors may designate any subsidiary of the Issuer (including any Subsidiary and any newly acquired or newly formed subsidiary) to be an Unrestricted Subsidiary unless such subsidiary owns any Capital Stock of, or owns, or holds any Lien on, any property of, any Subsidiary of the Issuer (other than any subsidiary of the subsidiary to be so

designated), provided that (a) any Unrestricted Subsidiary must be an entity of which shares of the capital stock or other equity interests (including partnership interests) entitled to cast at least a majority of the votes that may be cast by all shares or equity interests having ordinary voting power for the election of directors or other governing body are owned, directly or indirectly, by the Issuer, (b) the Issuer certifies that such designation complies with Section 3.9 and Section 3.17 and (c) each of (I) the subsidiary to be so designated and (II) its subsidiaries has not at the time of designation, and does not thereafter, create, incur, issue, assume, guarantee or otherwise become directly or indirectly liable with respect to any Indebtedness pursuant to which the lender has recourse to any of the assets of the Issuer or any of its Subsidiaries. The Board of Directors may designate any Unrestricted Subsidiary to be a Subsidiary; provided that immediately after giving effect to such designation, the Issuer and its Subsidiaries could incur at least $1 of additional Indebtedness pursuant to the Fixed Charge Coverage Ratio test set forth in Section 3.11(a) on a pro forma basis taking into account such designation.

"Weighted Average Life to Maturity" means, when applied to any Indebtedness at any date, the number of years obtained by dividing (i) the then outstanding aggregate principal amount of such Indebtedness into (ii) the total of the product obtained by multiplying (a) the amount of each then remaining installment, sinking fund, serial maturity or other required payment of principal, including payment at final maturity, in respect thereof, by (b) the number of years (calculated to the nearest one-twelfth) which will elapse between such date and the making of such payment.

ARTICLE TWO

ISSUE, EXECUTION, FORM AND REGISTRATION OF SECURITIES.

SECTION 2.1 Authentication and Delivery of Securities. Upon the execution and delivery of this Indenture, or from time to time thereafter, Securities in an aggregate principal amount not in excess of the amount specified in the form of Security hereinabove recited (except as otherwise provided in Section 2.6) may be executed by the Issuer and delivered to the Trustee for authentication, and the Trustee shall thereupon authenticate and deliver said Securities to or upon the written order of

the Issuer, signed by both (a) its Chairman of the Board of Directors, or any Vice Chairman of the Board of Directors, or its President or any Vice President (whether or not designated by a number or numbers or a word or words added before or after the title "Vice President") and (b) by its Treasurer or any Assistant Treasurer without any further action by the Issuer.

SECTION 2.2 Execution of Securities. The Securities shall be signed on behalf of the Issuer by both (a) its Chairman of the Board of Directors or any Vice Chairman of the Board of Directors or its President or any Vice President (whether or not designated by a number or numbers or a word or words added before or after the title "Vice President") and (b) by its Treasurer or any Assistant Treasurer or its Secretary or any Assistant Secretary, under its corporate seal which may, but need not, be attested. Such signatures may be the manual or facsimile signatures of the present or any future such officers. The seal of the Issuer may be in the form of a facsimile thereof and may be impressed, affixed, imprinted or otherwise reproduced on the Securities. Typographical and other minor errors or defects in any such reproduction of the seal or any such signature shall not affect the validity or enforceability of any Security which has been duly authenticated and delivered by the Trustee.

In case any officer of the Issuer who shall have signed any of the Securities shall cease to be such officer before the Security so signed shall be authenticated and delivered by the Trustee or disposed of by the Issuer, such Security nevertheless may be authenticated and delivered or disposed of as though the person who signed such Security had not ceased to be such officer of the Issuer; and any Security may be signed on behalf of the Issuer by such persons as, at the actual date of the execution of such Security, shall be the proper officers of the Issuer, although at the date of the execution and delivery of this Indenture any such person was not such officer.

SECTION 2.3 Certificate of Authentication. Only such Securities as shall bear thereon a certificate of authentication substantially in the form hereinbefore recited, executed by the Trustee by manual signature of one of its authorized signatories, shall be entitled to the benefits of this Indenture or be valid or obligatory for any purpose. Such certificate by the Trustee upon any Security executed by the Issuer shall be conclusive evidence that the Security so authenticated has been duly authenticated and delivered hereunder and that the holder is entitled to the benefits of this Indenture.

SECTION 2.4 Form, Denomination and Date of Securities; Payments of Interest. The Securities and the Trustee's certificates of authentication shall be substantially in the form recited above. The Securities shall be issuable as registered securities without coupons and in denominations provided for in the form of Security above recited. The Securities shall be numbered, lettered, or otherwise distinguished in such manner or in accordance with such plans as the officers of the Issuer executing the same may determine with the approval of the Trustee.

Any of the Securities may be issued with appropriate insertions, omissions, substitutions and variations, and may have imprinted or otherwise reproduced thereon such legend or legends, not inconsistent with the provisions of this Indenture, as may be required to comply with any law or with any rules or regulations pursuant thereto, or with the rules of any securities market in which the Securities are admitted to trading, or to conform to general usage.

Each Security shall be dated the date of its authentication, shall bear interest from the applicable date and shall be payable on the dates and in the manner specified on the face of the form of Security recited above.

The person in whose name any Security is registered at the close of business on any record date with respect to any interest payment date shall be entitled to receive the interest, if any, payable on such interest payment date notwithstanding any transfer or exchange of such Security subsequent to the record date and prior to such interest payment date, except if and to the extent the Issuer shall default in the payment of the interest due on such interest payment date, in which case such defaulted interest shall be paid to the persons in whose names outstanding Securities are registered at the close of business on a subsequent record date (which shall be not less than five business days prior to the date of payment of such defaulted interest) established by notice given by mail by or on behalf of the Issuer to the holders of Securities not less than 15 days preceding such subsequent record date. The term "record date" as used with respect to any interest payment date (except a date for payment of defaulted interest) shall mean if such interest payment date is the first day of a calendar month, the fifteenth day of the next preceding calendar month and shall mean, if such interest payment date is the fifteenth day of a calendar month, the first day of such calendar month, whether or not such record date is a business day. Interest will be computed on the

basis of a 360-day year of twelve 30-day months.

SECTION 2.5 Registration, Transfer and Exchange. The Issuer will keep at each office or agency to be maintained for the purpose as provided in Section 3.2 a register or registers in which, subject to such reasonable regulations as it may prescribe, it will register, and will register the transfer of, Securities as in this Article provided. Such register shall be in written form in the English language or in any other form capable of being converted into such form within a reasonable time. At all reasonable times such register or registers shall be open for inspection by the Trustee.

Upon due presentation for registration of transfer of any Security at each such office or agency, the Issuer shall execute and the Trustee shall authenticate and deliver in the name of the transferee or transferees a new Security or Securities in authorized denominations for a like aggregate principal amount.

Any Security or Securities may be exchanged for a Security or Securities in other authorized denominations, in an equal aggregate principal amount. Securities to be exchanged shall be surrendered at each office or agency to be maintained by the Issuer for the purpose as provided in Section 3.2, and the Issuer shall execute and the Trustee shall authenticate and deliver in exchange therefor the Security or Securities which the Securityholder making the exchange shall be entitled to receive, bearing numbers not contemporaneously outstanding.

All Securities presented for registration of transfer, exchange, redemption or payment shall (if so required by the Issuer or the Trustee) be duly endorsed by, or be accompanied by a written instrument or instruments of transfer in form satisfactory to the Issuer and the Trustee duly executed by, the holder or his attorney duly authorized in writing.

The Issuer may require payment of a sum sufficient to cover any tax or other governmental charge that may be imposed in connection with any exchange or registration of transfer of Securities. No service charge shall be made for any such transaction.

The Issuer shall not be required to exchange or register a transfer of (a) any Securities for a period of 15 days next preceding the first mailing of notice of redemption of Securities to be redeemed, or (b) any Securities selected, called or being called for redemption

except, in the case of any Security where public notice has been given that such Security is to be redeemed in part, the portion thereof not so to be redeemed.

All Securities issued upon any transfer or exchange of Securities shall be valid obligations of the Issuer, evidencing the same debt, and entitled to the same benefits under this Indenture, as the Securities surrendered upon such transfer or exchange.

SECTION 2.6 Mutilated, Defaced, Destroyed, Lost and Stolen Securities. In case any temporary or definitive Security shall become mutilated, defaced or be apparently destroyed, lost or stolen, the Issuer in its discretion may execute, and upon the written request of any officer of the Issuer, the Trustee shall authenticate and deliver, a new Security, bearing a number not contemporaneously outstanding, in exchange and substitution for the mutilated or defaced Security, or in lieu of and substitution for the Security so apparently destroyed, lost or stolen. In every case the applicant for a substitute Security shall furnish to the Issuer and to the Trustee and any agent of the Issuer or the Trustee such security or indemnity as may be required by them to indemnify and defend and to save each of them harmless and, in every case of destruction, loss or theft evidence to their satisfaction of the apparent destruction, loss or theft of such Security and of the ownership thereof.

Upon the issuance of any substitute Security, the Issuer may require the payment of a sum sufficient to cover any tax or other governmental charge that may be imposed in relation thereto and any other expenses (including the fees and expenses of the Trustee) connected therewith. In case any Security which has matured or is about to mature, or has been called for redemption in full, shall become mutilated or defaced or be apparently destroyed, lost or stolen, the Issuer may, instead of issuing a substitute Security, pay or authorize the payment of the same (without surrender thereof except in the case of a mutilated or defaced Security), if the applicant for such payment shall furnish to the Issuer and to the Trustee and any agent of the Issuer or the Trustee such security or indemnity as any of them may require to save each of them harmless from all risks, however remote, and, in every case of apparent destruction, loss or theft, the applicant shall also furnish to the Issuer and the Trustee and any agent of the Issuer or the Trustee evidence to their satisfaction of the apparent destruction, loss or theft of such Security and of the ownership thereof.

Every substitute Security issued pursuant to the

provisions of this Section by virtue of the fact that any Security is apparently destroyed, lost or stolen shall constitute an additional contractual obligation of the Issuer, whether or not the apparently destroyed, lost or stolen Security shall be at any time enforceable by anyone and shall be entitled to all the benefits of (but shall be subject to all the limitations of rights set forth in) this Indenture equally and proportionately with any and all other Securities duly authenticated and delivered hereunder. All Securities shall be held and owned upon the express condition that, to the extent permitted by law, the foregoing provisions are exclusive with respect to the replacement or payment of mutilated, defaced, or apparently destroyed, lost or stolen Securities and shall preclude any and all other rights or remedies notwithstanding any law or statute existing or hereafter enacted to the contrary with respect to the replacement or payment of negotiable instruments or other securities without their surrender.

SECTION 2.7 Cancellation of Securities; Destruction Thereof. All Securities surrendered for payment, redemption, registration of transfer or exchange, if surrendered to the Issuer or any agent of the Issuer or the Trustee, shall be delivered to the Trustee for cancellation or, if surrendered to the Trustee, shall be cancelled by it; and no Securities shall be issued in lieu thereof except as expressly permitted by any of the provisions of this Indenture. The Trustee shall destroy cancelled Securities held by it and deliver a certificate of destruction to the Issuer. If the Issuer shall acquire any of the Securities, such acquisition shall not operate as a redemption or satisfaction of the indebtedness represented by such Securities unless and until the same are delivered to the Trustee for cancellation.

SECTION 2.8 Temporary Securities. Pending the preparation of definitive Securities, the Issuer may execute and the Trustee shall authenticate and deliver temporary Securities (printed, lithographed, typewritten or otherwise reproduced, in each case in form satisfactory to the Trustee). Temporary Securities shall be issuable as registered Securities without coupons, of any authorized denomination, and substantially in the form of the definitive Securities but with such omissions, insertions and variations as may be appropriate for temporary Securities, all as may be determined by the Issuer with the concurrence of the Trustee. Temporary Securities may contain such reference to any provisions of this Indenture as may be appropriate. Every temporary Security shall be executed by the Issuer and be authenticated by the Trustee upon the same conditions and in substantially the same

manner, and with like effect, as the definitive Securities. Without unreasonable delay the Issuer shall execute and shall furnish definitive Securities and thereupon temporary Securities may be surrendered in exchange therefor without charge at each office or agency to be maintained by the Issuer for the purpose pursuant to Section 3.2, and the Trustee shall authenticate and deliver in exchange for such temporary Securities a like aggregate principal amount of definitive Securities of authorized denominations. Until so exchanged the temporary Securities shall be entitled to the same benefits under this Indenture as definitive Securities.

ARTICLE THREE

COVENANTS OF THE ISSUER AND THE TRUSTEE.

SECTION 3.1 Payment of Principal and Interest. The Issuer covenants and agrees that it will duly and punctually pay or cause to be paid the principal of, and interest on, each of the Securities at the place or places, at the respective times and in the manner provided in the Securities. Each installment of interest on the Securities may, at the option of the Issuer, be paid by wire transfer or by check mailed to the holders of Securities entitled thereto as they shall appear on the registry books of the Issuer.

SECTION 3.2 Offices for Payments, etc. So long as any of the Securities remain outstanding, the Issuer will maintain the following: (a) an office or agency where the Securities may be presented for payment, (b) an office or agency where the Securities may be presented for registration of transfer and for exchange as in this Indenture provided and (c) an office or agency where notices and demands to or upon the Issuer in respect of the Securities or of this Indenture may be served. The Issuer will give to the Trustee written notice of the location of any such office or agency and of any change of location thereof. The Issuer hereby initially designates the Corporate Trust Office of the Trustee as the office or agency for each such purpose. In case the Issuer shall fail to maintain any such office or agency or shall fail to give such notice of the location or of any change in the location thereof, presentations and demands may be made and notices may be served at the Corporate Trust Office.

SECTION 3.3 Appointment to Fill a Vacancy in Office of Trustee. The Issuer, whenever necessary to avoid or fill a vacancy in the office of Trustee, will appoint, in

the manner provided in Section 5.9, a Trustee, so that there shall at all times be a Trustee hereunder.

SECTION 3.4 Paying Agents. Whenever the Issuer shall appoint a paying agent other than the Trustee, it will cause such paying agent to execute and deliver to the Trustee an instrument in which such agent shall agree with the Trustee, subject to the provisions of this Section,

(a) that it will hold all sums received by it as such agent for the payment of the principal of or interest on the Securities (whether such sums have been paid to it by the Issuer or by any other obligor on the Securities) in trust for the benefit of the holders of the Securities or of the Trustee,

(b) that it will give the Trustee notice of any failure by the Issuer (or by any other obligor on the Securities) to make any payment of the principal of or interest on the Securities when the same shall be due and payable, and

(c) that it will pay any such sums so held in trust by it to the Trustee upon the Trustee's written request at any time during the continuance of the failure referred to in clause (b) above.

The Issuer will, on or prior to each due date of the principal of or interest on the Securities, deposit with the paying agent a sum sufficient to pay such principal or interest, and (unless such paying agent is the Trustee) the Issuer will promptly notify the Trustee of any failure to take such action.

If the Issuer shall act as its own paying agent, it will, on or before each due date of the principal of or interest on the Securities, set aside, segregate and hold in trust for the benefit of the holders of the Securities a sum sufficient to pay such principal or interest so becoming due. The Issuer will promptly notify the Trustee of any failure to take such action.

Anything in this Section to the contrary notwithstanding, the Issuer may at any time, for the purpose of obtaining a satisfaction and discharge of this Indenture or for any other reason, pay or cause to be paid to the Trustee all sums held in trust by the Issuer or any paying agent hereunder, as required by this Section, such sums to be held by the Trustee upon the trusts herein contained.

Anything in this Section to the contrary

notwithstanding, the agreement to hold sums in trust as provided in this Section are subject to the provisions of Sections 9.3 and 9.4.

SECTION 3.5 Certificates to Trustee. The Issuer will, so long as any of the Securities are outstanding:

(a) deliver to the Trustee, forthwith upon becoming aware of any default or defaults in the performance of any covenant, agreement or condition contained in this Indenture (including notice of any event of default which with the giving of notice and lapse of time would become an Event of Default under Section 4.1 hereof), an Officers' Certificate specifying such default or defaults; and

(b) deliver to the Trustee within 120 days after the end of each fiscal year of the Issuer beginning with the fiscal year ending December 31, 1993, an Officers' Certificate in compliance with Section 314(a)(4) of the Trust Indenture Act of 1939.

SECTION 3.6 Securityholder Lists. If and so long as the Trustee shall not be the Security registrar, the Issuer will furnish or cause to be furnished to the Trustee a list in such form as the Trustee may reasonably require of the names and addresses of the holders of the Securities pursuant to Section 312 of the Trust Indenture Act (a) semi-annually not more than 15 days after each record date for the payment of semi-annual interest on the Securities, as hereinabove specified, as of such record date, and (b) at such other times as the Trustee may request in writing, within thirty days after receipt by the Issuer of any such request as of a date not more than 15 days prior to the time such information is furnished.

SECTION 3.7 Reports by the Issuer. The Issuer covenants:

(a) to file with the Commission and, within 15 days after the Issuer is required to file the same with the Commission, with the Trustee copies of the annual reports and of the information, documents, and other reports which the Issuer may be required to file with the Commission pursuant to Section 13 or Section 15(d) of the Exchange Act and, if the Issuer is not required to file such information, documents, or reports with the Commission, to file with the Commission and the Trustee the same such information, documents or reports as if the Issuer were so subject;

(b) to file with the Trustee and the Commission,

in accordance with rules and regulations prescribed from time to time by the Commission, such additional information, documents, and reports with respect to compliance by the Issuer with the conditions and covenants provided for in this Indenture as may be required from time to time by such rules and regulations; and

(c) to transmit by mail to the Holders of Securities, within 30 days after the filing thereof with the Trustee, any information, documents and reports required to be filed by the Issuer with the Trustee pursuant to (a) and (b) of this Section 3.7.

SECTION 3.8 Reports by the Trustee. Within 60 days after May 15 of each year beginning May 15, 1994, for so long as any Securities are outstanding hereunder, the Trustee shall transmit by mail to all Securityholders, as their names and addresses appear in the registry books, in the manner and to the extent provided in Section 313(c) of the Trust Indenture Act of 1939, a brief report dated as of such May 15 if required by and in compliance with Section 313(a) of the Trust Indenture Act of 1939.

SECTION 3.9 Limitation on Restricted Payments. Subject to the other provisions of this Section 3.9, the Issuer shall not and shall not permit any of its Subsidiaries to, directly or indirectly:

(a) declare or pay any dividend or make any distribution on account of the Issuer's or any Subsidiary's capital stock or other Equity Interests (other than (i) dividends or distributions payable in Equity Interests (other than Disqualified Stock) of the Issuer or such Subsidiary and (ii) dividends or distributions payable by a Subsidiary so long as, in the case of any dividend or distribution payable on any class or series of securities issued by a Subsidiary other than a wholly owned Subsidiary, the Issuer or a Subsidiary of the Issuer receives at least its pro rata basis share of such dividend or distribution in accordance with its Equity Interest in such class or series of securities); or

(b) purchase, redeem or otherwise acquire or retire for value any Equity Interests of the Issuer or any Subsidiary of the Issuer (other than any such Equity Interests owned by the Issuer or any Subsidiary of the Issuer); or

(c) voluntarily prepay Indebtedness that is

subordinated to the Securities other than in connection with any (i) refinancing of such Indebtedness specifically permitted pursuant to Section 3.11(c) or Section 3.11(e) hereof, (ii) Indebtedness between the Issuer and a Subsidiary of the Issuer or between Subsidiaries of the Issuer or (iii) Mortgage Financing or Mortgage Refinancing; or

(d) make any Restricted Investments (other than an Investment in any Unrestricted Subsidiary)

(all of the foregoing dividends, distributions, purchases, redemptions or other acquisitions, retirements, prepayments or Restricted Investments set forth in clauses (a) through (d) above being collectively referred to as "Restricted Payments"), if at the time of such Restricted Payment:

(i) a Default or Event of Default shall have occurred and be continuing or shall occur as a consequence thereof,

(ii) immediately after such Restricted Payment and after giving effect thereto on a pro forma basis, the Issuer would not be able to incur $1 of additional Indebtedness pursuant to the Fixed Charge Coverage Ratio test set forth in Section 3.11(a), or

(iii) such Restricted Payment, together with (A) the aggregate of all other Restricted Payments (in each case valued, where other than cash, at their fair market value as of the date such Restricted Payments are made) made after the date hereof and (B) the amount by which the aggregate of all then outstanding Investments in Unrestricted Subsidiaries exceeds $75 million, is greater than the sum of: (v) 50% of the aggregate Consolidated Net Income of the Issuer for the period (taken as one accounting period) from the beginning of the first quarter immediately after the date hereof to the end of the Issuer's most recently ended fiscal quarter at the time of such Restricted Payment (provided that if Consolidated Net Income for such period is less than zero, then minus 100% of the amount of such loss) plus (w) 50% of the aggregate amortization of goodwill for the period specified in (v) above, plus (x) 100% of the aggregate net cash proceeds and the fair market value of marketable securities received by the Issuer from the issue or sale, after the date

hereof, of capital stock of the Issuer (other than capital stock issued and sold to a Subsidiary of the Issuer and other than Disqualified Stock), or any Indebtedness or other security convertible into any such capital stock that has been so converted plus (y) 100% of the aggregate amounts contributed to the capital of the Issuer plus (z) 100% of the aggregate amounts received in cash and the fair market value of marketable securities (other than Restricted Investments) received from (I) the sale or other disposition of Restricted Investments made by the Issuer and its Subsidiaries or (II) the sale of the stock of an Unrestricted Subsidiary or the sale of all or substantially all of the assets of an Unrestricted Subsidiary to the extent that a liquidating dividend is paid to the Issuer or any Subsidiary from the proceeds of such sale.

For purposes of clause (iii) above, the fair market value of property other than cash may be conclusively determined in good faith by the Board of Directors.

The provisions of this Section 3.9 shall not prohibit:

(1) the payment of any dividend within 60 days after the date of declaration thereof, if at said date of declaration such payment would have complied with the provisions hereof;

(2)(A) the retirement of any shares of the Capital Stock of the Issuer (the "Retired Capital Stock") in exchange for, or out of the net proceeds of the substantially concurrent sale (other than to a Subsidiary of the Issuer) of, other shares of the Capital Stock of the Issuer (the "Refunding Capital Stock"), other than any Disqualified Stock, and (B) if immediately prior to such retirement of such Retired Capital Stock the declaration and payment of dividends thereon was permitted under clause (5) of this paragraph, the declaration and payment of dividends on the Refunding Capital Stock in an aggregate amount per year no greater than the aggregate amount of dividends per year that was declarable and payable on such Retired Capital Stock immediately prior to such retirement;

(3) the payment of dividends or the making of distributions for the purpose of (A) financing the repurchase, redemption or other acquisition or

retirement for value of any Equity Interests in FCI issued to present and former members of management of the Issuer and its subsidiaries pursuant to subscription and option agreements in effect on the date hereof and Equity Interests in FCI issued to future members of management pursuant to subscription agreements executed subsequent to the date hereof, containing provisions for the repurchase of such Equity Interests upon death, disability or termination of employment of such persons which are substantially identical to those contained in the subscription agreements in effect on the date hereof, provided that the amount of such dividends or distributions, after the date hereof, in the aggregate will not exceed the sum of (I) $30 million plus (II) the cash proceeds from any reissuance of such Equity Interests by FCI to members of management of the Issuer and its subsidiaries, to the extent such proceeds are contributed to the Issuer, (B) enabling FCI to pay accounting and legal fees and expenses and any other fees and expenses of FCI (such as financing and underwriting costs) incurred in the ordinary course of business as a holding company for the Issuer and (C) financing the repurchase by FCI of FCI Common Stock from GTO and its affiliates or DLJ and its affiliates, provided that the aggregate amount of such dividends or distributions made pursuant to this clause (C), after the date hereof, will not exceed $50 million;

(4) the repurchase, redemption or other acquisition or retirement for value of Indebtedness of the Issuer which is subordinated in right of payment to the Securities in exchange for or with the proceeds of the issuance of shares of the Issuer's Equity Interests (other than Disqualified Stock);

(5) the declaration and payment of dividends to holders of any class or series of the Issuer's Preferred Stock (other than Disqualified Stock) issued after the date hereof (including, without limitation, the declaration and payment of dividends on Refunding Capital Stock in excess of the dividends declarable and payable thereon pursuant to clause (2) of this paragraph), provided that at the time of such issuance the Fixed Charge Coverage Ratio of the Issuer, after giving effect to such issuance, would be greater than 1.25 to 1;

(6) the redemption, repurchase or retirement of any Indebtedness that is subordinated to the Securities (A) with the proceeds of, or in exchange for,

Indebtedness incurred pursuant to Section 3.11(c) or Section 3.11(e) or (B) if, after giving effect to such redemption, repurchase or retirement, the Issuer could incur at least $1 of additional Indebtedness pursuant to the Fixed Charge Coverage Ratio test set forth in Section 3.11(a);

(7) the distribution to stockholders of securities of a corporation controlled by the Issuer (a "Controlled Corporation") in a Section 355 Transaction, but only if (a) the EBITDA of the Controlled Corporation for the four full fiscal quarters of the Issuer last preceding the date the Section 355 Transaction is effected is no greater than (I) in the case of the first Section 355 Transaction effected after the date hereof, a percentage of the Specified Issuer EBITDA equal to the Section 355 Percentage at the time such first Section 355 Transaction is effected and (II) in the case of any subsequent Section 355 Transaction, the lesser of (A) the Remaining Section 355 Amount at the time of such Section 355 Transaction and (B) the Section 355 Percentage at the time such Section 355 Transaction is effected multiplied by the EBITDA of the Issuer for the four full fiscal quarters of the Issuer last preceding the date such Section 355 Transaction is effected, (b) the Issuer's Fixed Charge Coverage Ratio for its four full fiscal quarters last preceding the date the Section 355 Transaction is effected would have been at least 2:1, determined on a pro forma basis as if the Section 355 Transaction had been effected at the beginning of such four-quarter period and (c) the ratio of the Indebtedness of the Issuer and its Subsidiaries on a consolidated basis immediately after the Section 355 Transaction to EBITDA of the Issuer for its four full fiscal quarters last preceding the date the Section 355 Transaction is effected, determined on a pro forma basis as if such transaction had occurred at the beginning of such four quarter period, would be no greater than the ratio of the Indebtedness of the Issuer and its Subsidiaries on a consolidated basis immediately prior to the Section 355 Transaction to EBITDA of the Issuer for its four full fiscal quarters last preceding the date the Section 355 Transaction is effected;

(8) the declaration and payment, following the first public offering of FCI Common Stock to occur after the date hereof, of dividends on the common stock of the Issuer of up to 6% per annum of the net proceeds received by FCI in such public offering and any subsequent public offerings of FCI Common Stock;

(9) any redemption, repurchase or repayment of any outstanding Obligations under the 10% Debentures, including any premium or fee incurred in connection therewith;

(10) payments by the Issuer or any Subsidiary of the Issuer in respect of its obligations pursuant to any tax sharing agreement with FCI, the Issuer or any Subsidiary of FCI; or

(11) the purchase, redemption or other acquisition or retirement for value of Equity Interests of any Subsidiary of the Issuer (other than any such Equity Interests owned by the Issuer or any Subsidiary of the Issuer) in an amount of (a) up to $5 million for the first year following the date hereof and (b) for each year thereafter, up to $5 million plus the unused portion of the amount permitted to be expended for such purpose in all preceding years;

provided that in determining the aggregate amount expended for Restricted Payments in accordance with clause (iii) of the first paragraph of this Section 3.9, (i) no amounts expended under clauses (2)(A), (3)(B), (4), (6), (7), (9) and (10) of this paragraph shall be included, (ii) 100% of the amounts expended under clauses (2)(B), (3)(A), (3)(C), (5), (8) and (11) of this paragraph shall be included, and (iii) 100% of the amounts expended under clause (1), to the extent not included under subclauses (i) or (ii) of this proviso, shall be included.

SECTION 3.10 Limitation on Dividends and Other Payment Restrictions Affecting Subsidiaries. The Issuer shall not, and shall not permit any of its Subsidiaries (other than unconsolidated Subsidiaries) to, directly or indirectly, create or otherwise cause or suffer to exist or become effective any consensual encumbrance or restriction on the ability of any such Subsidiary to (a) pay dividends or make any other distributions on its capital stock or any other interest or participation in, or measured by, its profits, owned by the Issuer or any Subsidiary of the Issuer, or pay any Indebtedness owed to, the Issuer or a Subsidiary of the Issuer, (b) make loans or advances to the Issuer or a Subsidiary of the Issuer or (c) transfer any of its properties or assets to the Issuer or a Subsidiary of the Issuer, except in each case for such encumbrances or restrictions existing under or by reason of (i) applicable law, (ii) the Indentures, (iii) the Credit Agreement or any other agreement entered into in connection therewith or as contemplated thereby, (iv) customary provisions restricting

subletting or assignment of any lease governing a leasehold interest of the Issuer or a Subsidiary of the Issuer, (v) any instrument governing Indebtedness of a Person acquired by the Issuer or any Subsidiary of the Issuer at the time of such acquisition, (vi) Existing Indebtedness, or additional Indebtedness in an aggregate principal amount of up to $250,000,000 at any one time outstanding or other contractual obligation of the Issuer or any of its Subsidiaries existing on the date hereof or any amendment, modification, renewal, extension, replacement, refinancing or refunding, provided, that the restrictions contained in any such amendment, modification, renewal, extension, replacement, refinancing or refunding are no less favorable in all material respects to the Holders, (vii) any Mortgage Financing or Mortgage Refinancing, (viii) any Permitted Investment or (ix) contracts for the sale of assets.

SECTION 3.11 Limitation on Additional Indebtedness and Issuance of Disqualified Stock.

(a) Subject to the other provisions of this Section 3.11,

(x) the Issuer shall not and shall not permit any of its Subsidiaries to, directly or indirectly, create, incur, issue, assume or guarantee any Indebtedness (other than Indebtedness between the Issuer and a Subsidiary of the Issuer or between Subsidiaries of the Issuer, or guarantees by any Subsidiary of Indebtedness of a Subsidiary or the Issuer) and

(y) the Issuer shall not issue any Disqualified Stock,

unless such Indebtedness or Disqualified Stock is either Acquisition Indebtedness or is created, incurred, issued, assumed or guaranteed by the Issuer and not a Subsidiary of the Issuer and the Issuer's Fixed Charge Coverage Ratio for its four full fiscal quarters last preceding the date such additional Indebtedness is created, incurred, assumed or guaranteed, or such additional stock is issued, would have been (I) if such date is prior to November 1, 1994, at least 1.75:1 and (II) if such date is on or after November 1, 1994, at least 2:1, determined in each case on a pro forma basis (including a pro forma application of the net proceeds of such Indebtedness or such issuance of stock) as if the additional Indebtedness had been created, incurred, assumed or guaranteed, or such additional stock had been issued, at the beginning of such four-quarter period; provided, however, that the limitations of this Section 3.11(a) shall not apply to the incurrence by the Issuer or any of its

Subsidiaries of (A) any Indebtedness pursuant to the Credit Agreement; provided, however, that the principal amount of such Indebtedness incurred pursuant to the Credit Agreement for the purposes of this Clause (A) shall not exceed the aggregate amount of the commitments under the Credit Agreement on the date hereof; and (B) any Indebtedness represented by the Securities or the New Senior Subordinated Securities.

(b)The limitations of Section 3.11(a) hereof notwithstanding, the Issuer or any Subsidiary may create, incur, issue, assume or guarantee Indebtedness pursuant to the Credit Agreement or otherwise (i) in connection with or arising out of Mortgage Financings relating to real property acquired after the date hereof or improvements on such property, Mortgage Refinancings or sale and lease-back transactions, provided the Mortgage Financing Proceeds, Mortgage Refinancing Proceeds (excluding any Mortgage Refinancing Proceeds received in connection with any refinancing of any Indebtedness secured by a mortgage or Lien on either or both of the Excluded Properties) or Net Proceeds, as the case may be, incurred, assumed or created in connection therewith are used to pay any outstanding Senior Indebtedness, (ii) constituting purchase money obligations for property acquired in the ordinary course of business or other similar financing transactions (including, without limitation, in connection with Mortgage Financings), provided that in the case of Indebtedness exceeding $2 million for any such obligation or transaction, such Indebtedness exists at the date of the purchase or transaction or is created within 180 days thereafter, (iii) in connection with capital expenditures (iv) constituting capital lease obligations, (v) constituting reimbursement obligations with respect to letters of credit, including, without limitation, letters of credit in respect of workers' compensation claims, issued for the account of the Issuer or a Subsidiary in the ordinary course of its business or other Indebtedness with respect to reimbursement type obligations regarding workers' compensation claims, (vi) constituting additional Indebtedness in an aggregate principal amount of up to $250,000,000 at any one time outstanding, whether incurred under the Credit Agreement or otherwise, (vii) constituting Indebtedness secured by either or both of the Excluded Properties and (viii) constituting Existing Indebtedness and permitted refinancings thereof in accordance with Section 3.11(c) or Section 3.11(e).

(c)The limitations of Section 3.11(a) hereof notwithstanding, the Issuer or any Subsidiary may create, incur, issue, assume or guarantee any Indebtedness which serves to refund, refinance or restructure its Existing

Indebtedness or any other Indebtedness incurred as permitted under this Indenture or any Indebtedness issued to so refund, refinance or restructure such Indebtedness, including additional Indebtedness incurred to pay premiums and fees in connection therewith (the "Refinancing Indebtedness"), prior to its respective maturity; provided, however, that such Refinancing Indebtedness (i) bears an interest rate per annum which is equal to or less than the interest rate per annum then payable under such Indebtedness being refunded or refinanced (calculated in accordance with any formula set forth in the documents evidencing any such Indebtedness) unless such Refinancing Indebtedness is incurred, created or assumed within twelve months of the scheduled maturity of the Indebtedness being refinanced, (ii) has a Weighted Average Life to Maturity at the time such Refinancing Indebtedness is incurred which is not less than the remaining Weighted Average Life to Maturity of such Indebtedness being refunded or refinanced, and (iii) to the extent such Refinancing Indebtedness refinances Indebtedness subordinated to the Securities, such Refinancing Indebtedness is subordinated to the Securities at least to the same extent as the Indebtedness being refinanced or refunded; provided, further, however, that clauses (i), (ii) and (iii) above shall not apply to any refunding or refinancing of any Senior Indebtedness.

(d)The foregoing limitations notwithstanding, any unconsolidated Subsidiary of the Issuer created after the date of this Indenture may create, incur, issue, assume, guarantee or otherwise become liable with respect to any additional Indebtedness, provided that such Indebtedness is nonrecourse to the Issuer and its consolidated Subsidiaries, and the Issuer and its consolidated Subsidiaries have no liability with respect to such additional Indebtedness.

(e) The foregoing limitations notwithstanding, the Issuer or any Subsidiary may create, incur, issue, assume or guarantee any Indebtedness which serves to refund, refinance or restructure the 10% Debentures, including any premium or fee incurred in connection therewith.

SECTION 3.12 Limitation on Transactions with Affiliates. The Issuer shall not, and shall not permit any of its Subsidiaries to, directly or indirectly, enter into any transaction (including, without limitation, the purchase, sale, lease or exchange of any property or the rendering of any service) involving aggregate consideration in excess of $5,000,000 for any one transaction with any Affiliate, except for (a) transactions (including any investments or loans or advances by or to any Affiliate) in good faith the terms of which are fair and reasonable to the

Issuer or such Subsidiary, as the case may be, and are at least as favorable as the terms which could be obtained by the Issuer or such Subsidiary, as the case may be, in a comparable transaction made on an arm's length basis between unaffiliated parties (in each case as conclusively determined by a majority of the directors of the Issuer unaffiliated with such Affiliate or, if there are no such directors, as conclusively determined by a majority of the Board of Directors), (b) payments by the Issuer or any of its Subsidiaries to KKR or any Affiliate thereof made pursuant to any financial advisory, financing, underwriting or placement agreement, (c) transactions in which the Issuer or any of its Subsidiaries, as the case may be, delivers to the Holders a written opinion of a nationally recognized investment banking firm stating that such transaction is fair to the Issuer or such Subsidiary from a financial point of view, (d) transactions between the Issuer and its Subsidiaries or between Subsidiaries of the Issuer which are not otherwise prohibited under Section 3.9 of this Indenture, (e) payments or loans to employees or consultants pursuant to employment or consultancy contracts which are approved by the Board of Directors in good faith, (f) payments to FCI which are not otherwise prohibited by Section 3.9 of this Indenture and (g) the payment by the Issuer of management fees to KKR and/or its affiliates and the payment by the Issuer of the GTO fee.

SECTION 3.13 Sale of Assets.

(a)Neither the Issuer nor any of its Subsidiaries (other than unconsolidated Subsidiaries) shall (A) (I) sell, lease, convey or otherwise dispose of in any transaction or group of transactions that are part of a common plan all or substantially all of the assets or capital stock of any Asset Segment (provided that the sale, lease, conveyance or other disposition of all or substantially all of the Issuer's assets shall not be subject to this Section 3.13 but shall be governed by the provisions of Section 8.1 hereof) or (II) issue or sell equity securities of any Asset Segment (each of the foregoing, an "Asset Sale") or (B) sell, lease, convey or otherwise dispose of any Business Segment, unless in each case the Issuer shall apply the Net Proceeds from such Asset Sale or such sale, lease, conveyance or other disposition of a Business Segment to one or more of the following in such combination as the Issuer may choose: (i) an investment in another asset or business in the same line of business as, or a line of business similar to that of, the line of business of the Issuer and its Subsidiaries and such investment occurs within 366 days of such Asset Sale or such sale, lease, conveyance or other disposition of a Business

Segment, (ii) a Net Proceeds Offer (as defined below) expiring within 366 days of such Asset Sale or such sale, lease, conveyance or other disposition of a Business Segment or (iii) the purchase, redemption or other prepayment or repayment of outstanding Senior Indebtedness within 366 days of such Asset Sale or such sale, lease, conveyance or other disposition of a Business Segment; provided, however, if the net amount not invested pursuant to clause (i) above or applied pursuant to clause (iii) above is less than $15,000,000 the Issuer shall not be further obligated to offer to redeem Securities pursuant to clause (ii) above. Notwithstanding the foregoing, (i) the receipt of all proceeds of insurance paid on account of the loss of or damage to any Business Segment and awards of compensation for any such Business Segment taken by condemnation or eminent domain which result in Net Proceeds to the Issuer and its Subsidiaries of $50 million or more (excluding proceeds to be used for replacement of such Business Segment, provided the Trustee has received notice from the Issuer, within 90 days of such receipt, of its intention to use such proceeds for such purpose) will be deemed an "Asset Sale" and (ii) Permitted Investments and sales, leases, conveyances or other dispositions of assets by the Issuer or any Subsidiary to the Issuer or any wholly owned Subsidiary of the Issuer will not be deemed an "Asset Sale" or a sale or other disposition of a Business Segment.

(b) For purposes of subsection (ii) of clause (a) of this Section, the Issuer shall apply the Net Proceeds of the Asset Sale or the sale, lease, conveyance or other disposition of a Business Segment to make a tender offer in accordance with applicable law (a "Net Proceeds Offer") to repurchase the Securities at a price not less than 100% of the principal amount of the Securities plus accrued and unpaid interest thereon. Any Net Proceeds Offer shall be made by the Issuer only if and to the extent permitted under, and subject to prior compliance with, the terms of any agreement governing Senior Indebtedness. If on the date any Net Proceeds Offer is commenced securities of the Issuer ranking pari passu in right of payment with the Securities are outstanding and the terms of such securities provide that an offer to repurchase such securities similar to the Net Proceeds Offer is to be made with respect thereto, then the Net Proceeds Offer shall be made concurrently with such other offer, and securities of each issue shall be accepted on a pro rata basis, in proportion to the principal or face amount, as the case may be, of securities of each issue which the holders thereof elect to have redeemed. After the last date on which holders of the Securities are permitted to tender their Securities in a Net Proceeds Offer, the Issuer shall not be restricted under this Section 3.13 as to

its use of any Net Proceeds available to make such Net Proceeds Offer (up to the amount of Net Proceeds that would have been used to redeem Securities assuming 100% acceptance of the Net Proceeds Offer) but not used to redeem Securities pursuant thereto.

(c) Notwithstanding any other provision hereof to the contrary, for a period of 120 days after the last date on which holders of the Securities are permitted to elect to have their Securities redeemed in the Net Proceeds Offer, the Issuer may use any Net Proceeds available to make such Net Proceeds Offer but not used to redeem Securities pursuant thereto to purchase, redeem or otherwise acquire or retire for value any securities of the Issuer ranking junior in right of payment to the Securities at a price, stated as a percentage of the principal or face amount of such junior securities, not greater than the price, stated as a percentage of the principal amount of the Securities, offered in the Net Proceeds Offer; provided that if the Net Proceeds Offer is for a principal amount (the "Net Proceeds Offer Amount") of the Securities less than the aggregate principal amount of the Securities then outstanding, then the Net Proceeds available for use by the Issuer for such a purchase, redemption or other acquisition or retirement for value of junior securities shall not exceed the Net Proceeds Offer Amount.

(d) An offer to redeem Securities pursuant to this Section 3.13 shall be made pursuant to the provisions of Section 11.5 hereof. Simultaneously with the notification of such offer of redemption to the Trustee as required by Section 11.5 hereof, the Issuer shall provide the Trustee with an Officers' Certificate setting forth the information required to be included therein by Section 11.5 hereof and, in addition, setting forth the calculations used in determining the amount of Net Proceeds to be applied to the redemption of Securities.

(e) In the event that the Issuer shall make any payment of Net Proceeds to the Trustee which, to the actual knowledge of a trust officer of the Trustee, should properly have been made to holders or to the Representative of the holders of any Senior Indebtedness for the prepayment or repayment of such Senior Indebtedness pursuant to the provisions of this Section 3.13, such payment shall be held by the Trustee for the benefit of, and, upon written request of the holders of such Senior Indebtedness or their Representative, shall be paid forthwith over and delivered to, the holders of such Senior Indebtedness or their Representative for application in accordance with the provisions of this Section 3.13. With respect to the

holders of such Senior Indebtedness, the Trustee undertakes to perform only such obligations on the part of the Trustee as are specifically set forth in this Section 3.13(e), and no implied covenants or obligations with respect to the holders of such Senior Indebtedness shall be read into this Indenture against the Trustee. The Trustee shall not be deemed to owe any fiduciary duty to the holders of such Senior Indebtedness. If Net Proceeds are received by Holders which, pursuant to the provisions of this Section 3.13, should properly have been received by the holders of such Senior Indebtedness or their Representative for the prepayment or repayment of such Senior Indebtedness, the Holders who receive such Net Proceeds shall hold such Net Proceeds in trust for, and pay such Net Proceeds over to, the holders of such Senior Indebtedness or their Representative.

(f) Notwithstanding the foregoing, Permitted Investments and sales, leases, conveyances or other dispositions of assets by the Issuer or any Subsidiary to the Issuer or any wholly owned Subsidiary of the Issuer shall not be deemed an Asset Sale or a sale or other disposition of a Business Segment.

SECTION 3.14 Corporate Existence. Subject to Article 8 hereof and other than as permitted by the Credit Agreement, the Issuer shall do or cause to be done all things necessary to preserve and keep in full force and effect its corporate existence and the corporate, partnership or other existence of each Significant Subsidiary in accordance with the respective organizational documents as they may be from time to time amended of the Issuer and each such Subsidiary and the rights (charter and statutory), governmental licenses and governmental franchises of the Issuer and its Subsidiaries; provided, however, that the Issuer shall not be required to preserve any such right, license or franchise, or the corporate, partnership or other existence of any such Subsidiary, if the preservation thereof is no longer necessary in the conduct of the business of the Issuer and its Subsidiaries taken as a whole and the loss thereof is not adverse in any material respect to the Holders (which determination, if made in good faith by the Board of Directors, shall be conclusive).

SECTION 3.15 Limitation on Liens. (a) The Issuer shall not, and shall not permit any of its Subsidiaries to, create, incur, assume or suffer to exist any Lien on any asset now owned or hereafter acquired by the Issuer or any such Subsidiary, except:

(i) Liens existing on the date hereof, Liens securing or arising under or in connection with any Indebtedness of the Issuer not expressly by its terms subordinate or junior in right of payment to any other Indebtedness of the Issuer (including, without limitation, Liens permitted by or required pursuant to the Credit Agreement), Liens arising under or in connection with Section 9.1 hereof and Liens relating to judgments to the extent such judgments do not give rise to an Event of Default pursuant to Section 4.1(5) hereof;

(ii) Liens for taxes or assessments and similar charges either (x) not delinquent or (y) contested in good faith by appropriate proceedings and as to which the Issuer or a Subsidiary shall have set aside on its books such reserves as may be required pursuant to generally accepted accounting principles;

(iii) Liens incurred or pledges and deposits in connection with workers' compensation, unemployment insurance and other social security benefits, or securing performance bids, tenders, leases, contracts (other than for the repayment of borrowed money), statutory obligations, progress payments, surety and appeal bonds and other obligations of like nature, incurred in the ordinary course of business;

(iv) Liens imposed by law, such as mechanics', carriers', warehousemen's, materialmen's and vendors' Liens, incurred in good faith in the ordinary course of business;

(v) zoning restrictions, easements, licenses, covenants, reservations, restrictions on the use of real property or minor irregularities of title incident thereto which do not in the aggregate materially detract from the value of the property or assets of the Issuer and its Subsidiaries, taken as a whole, or materially impair the operation of the business of the Issuer and its Subsidiaries, taken as a whole;

(vi) Liens created by Subsidiaries to secure Indebtedness of such Subsidiaries to the Issuer or its Subsidiaries;

(vii) pledges of or Liens on raw materials or on manufactured products as security for any drafts or bills of exchange in connection with the importation of such raw materials or manufactured products in the

ordinary course of business;

(viii) a Lien on any assets (x) securing Indebtedness incurred or assumed pursuant to Section 3.11(b) hereof for the purpose of financing all or any part of the cost of acquiring such asset or construction thereof or thereon or (y) existing on assets or businesses at the time of the acquisition thereof;

(ix) the Lien granted to the Trustee pursuant to Section 5.6 hereof and any substantially equivalent Lien granted to the respective trustees under the indentures for other debt securities of the issuer;

(x) Liens arising in connection with any Mortgage Financing or Mortgage Refinancing by the Issuer or any of its Subsidiaries;

(xi) Liens securing reimbursement obligations with respect to letters of credit issued for the account of the Issuer or any of its Subsidiaries in the ordinary course of business;

(xii) any Lien on either or both of the Excluded Properties;

(xiii) Liens securing an interest of a landlord in real property leases;

(xiv) all other Liens incurred in the ordinary course of business; provided that the aggregate amount of Indebtedness secured by such Liens shall not exceed $5,000,000 at any one time outstanding; or

(xv) Liens created in connection with the refinancing of any Indebtedness secured by Liens permitted to be incurred or to exist pursuant to the foregoing clauses; provided, however, that no additional assets are encumbered by such Liens in connection with such refinancing, unless permitted by clause (i) above or Section 3.15(b).

(b) Notwithstanding the provisions of paragraph (a) above, the Issuer or any Subsidiary may create or assume any Lien upon any of its properties or assets, whether now owned or hereafter acquired, if the Issuer makes or causes to be made effective provision whereby the Securities will be equally and ratably secured with any and all other Indebtedness secured by such Lien as long as any such other

Indebtedness shall be so secured, provided that if such Lien ceases to exist, such equal and ratable Lien shall thereupon automatically cease to exist.

SECTION 3.16 Issuer to Cause Certain Subsidiaries to Become Guarantors. The Issuer shall not permit any of its Subsidiaries to guarantee the payment of any Indebtedness of the Issuer that is expressly by its terms subordinate or junior in right of payment to any other Indebtedness of the Issuer (a "Subordinated Indebtedness Guarantee") unless (i) such Subsidiary executes and delivers a supplemental indenture evidencing its guarantee of the Issuer's Obligations hereunder and under the Securities on a substantially similar basis (the "Securities Guarantee") and (ii) the Securities Guarantee is senior in right of payment to such Subordinated Indebtedness Guarantee to the same extent as the Securities are senior in right of payment to such junior Indebtedness of the Issuer; provided that if such Subordinated Indebtedness Guarantee ceases to exist for any reason, then the Securities Guarantee shall thereupon automatically cease to exist.

SECTION 3.17 Investments in Unrestricted Subsidiaries. The Issuer will not, and will not permit any of its Subsidiaries to, directly or indirectly, make any Investment in any Unrestricted Subsidiary unless (i) the amount of such Investment does not exceed the amount then permitted to be used to make a Restricted Payment pursuant to clause (iii) of the first paragraph of Section 3.9 and (ii) immediately after such Investment, and after giving effect thereto on a pro forma basis deducting from net income the amount of any Investment the Issuer or any Subsidiary of the Issuer has made in an Unrestricted Subsidiary during the four full fiscal quarters last preceding the date of such Investment, the Issuer and its Subsidiaries would be able to incur $1 of additional Indebtedness pursuant to the Fixed Charge Coverage Ratio test set forth in Section 3.11(a). Notwithstanding clause (i) and (ii) of this Section or any other provisions hereof to the contrary, the Issuer and its Subsidiaries shall be permitted to make Investments in Unrestricted Subsidiaries in an aggregate amount not to exceed $75 million at any one time outstanding. The amount by which the aggregate of all Investments in Unrestricted Subsidiaries exceeds $75 million shall be counted in determining the permissible amount of Restricted Payments pursuant to clause (iii) of the first paragraph of Section 3.9. The Issuer will not permit any Unrestricted Subsidiary to become a Subsidiary except pursuant to the last sentence of the definition of Unrestricted Subsidiary set forth in Section 1.1.

ARTICLE FOUR

REMEDIES OF THE TRUSTEE AND SECURITYHOLDERS ON EVENT OF DEFAULT.

SECTION 4.1 Events of Default. An "Event of Default" occurs if:

(1) the Issuer defaults in the payment of interest on any Security when the same becomes due and payable and the Default continues for a period of 30 days;

(2) the Issuer defaults in the payment of the principal of any Security when the same becomes due and payable at maturity, upon redemption or otherwise;

(3) the Issuer fails to comply with any of its other agreements or covenants in, or any other provisions of, the Securities or this Indenture and the Default continues for the period and after the notice specified in this Section 4.1;

(4) a default occurs under any mortgage, indenture or instrument under which there may be issued or by which there may be secured or evidenced any Indebtedness for money borrowed by the Issuer or any of its Subsidiaries (or the payment of which is guaranteed by the Issuer or any of its Subsidiaries) other than (i) Indebtedness of the Issuer or any Subsidiary of the Issuer to the Issuer or any Subsidiary of the Issuer or (ii) Indebtedness permitted pursuant to Section 3.11(d) hereof, whether such Indebtedness or guarantee now exists or shall be created hereafter, if (a) either (x) such default results from the failure to pay principal upon the final maturity of such Indebtedness (after the expiration of any applicable grace period) or (y) as a result of such default the maturity of such Indebtedness has been accelerated prior to its final maturity, (b) the principal amount of such Indebtedness, together with the principal amount of any such Indebtedness with respect to which the principal amount remains unpaid upon its final maturity (after the expiration of any applicable grace period), or the maturity of which has been so accelerated, aggregates $30,000,000 or more and (c) such default does not result from compliance with any applicable law or any court order or governmental decree to which the Issuer or any of its Subsidiaries is subject;

(5) a final judgment or final judgments for the payment of money are entered by a court or courts of competent jurisdiction against the Issuer or any of its Subsidiaries and such judgment or judgments remain undischarged for a period (during which execution shall not be effectively stayed) of 60 days, provided that the aggregate of all such judgments (net of amounts covered by insurance, treating any deductibles, self-insurance or retention as not so covered) exceeds $10,000,000;

(6) the Issuer or any Significant Subsidiary of the Issuer pursuant to or within the meaning of any Bankruptcy Law:

(a) commences a voluntary case,

(b) consents to the entry of an order for relief against it in an involuntary case,

(c) consents to the appointment of a Custodian of it or for all or substantially all of its property, or

(d) makes a general assignment for the benefit of its creditors; or

(7) a court of competent jurisdiction enters an order or decree under any Bankruptcy Law that:

(a) is for relief against the Issuer or any Significant Subsidiary of the Issuer in an involuntary case,

(b) appoints a Custodian of the Issuer or any Significant Subsidiary of the Issuer or for all or substantially all of its property, or

(c) orders the liquidation of the Issuer or any Significant Subsidiary of the Issuer,

and the order or decree remains unstayed and in effect for 60 days.

The term "Custodian" means any receiver, trustee, assignee, liquidator or similar official under any Bankruptcy Law.

An Event of Default shall not be deemed to have occurred under clause (4) or (5) until the Issuer shall have

received written notice from the Trustee or the Holders of at least 30% in principal amount of the then outstanding Securities. A Default under clause (3) is not an Event of Default until the Trustee notifies the Issuer, or the Holders of at least 30% in principal amount of the then outstanding Securities notify the Issuer and the Trustee, of the Default and the Issuer does not cure the Default within 30 days after receipt of the notice. The notice must specify the Default, demand that it be remedied and state that the notice is a "Notice of Default".

In the case of any Event of Default pursuant to the provisions of this Section 4.1 occurring by reason of any willful action (or inaction) taken (or not taken) by or on behalf of the Issuer with the intention of avoiding payment of the premium which the Issuer would have to pay if the Issuer then had elected to redeem the Securities pursuant to Section 11.1, an equivalent premium shall also become and be immediately due and payable to the extent permitted by law, anything in this Indenture or in the Securities contained to the contrary notwithstanding.

SECTION 4.2 Acceleration. If an Event of Default (other than an Event of Default specified in clause (6) or (7) of Section 4.1) occurs and is continuing, the Trustee may, by written notice to the Issuer, or the Holders of at least 30% (or 25% in the case of an Event of Default specified in Section 4.1(1) or 4.1(2)) in principal amount of the then outstanding Securities may, by written notice to the Issuer and the Trustee, and the Trustee shall, upon the request of such Holders, declare the unpaid principal of and any accrued but unpaid interest on all the Securities to be due and payable. Upon such declaration the principal and interest shall be due and payable immediately; provided, however, that if any Senior Indebtedness is outstanding pursuant to the Credit Agreement, upon a declaration of acceleration, such principal and interest shall be due and payable upon the earlier of (x) the day that is five Business Days after the provision to the Issuer and the Credit Agent of such written notice, unless such Event of Default is cured or waived prior to such date and (y) the date of acceleration of any Senior Indebtedness under the Credit Agreement. In the event of a declaration of acceleration because an Event of Default specified in Section 4.1(4) has occurred and is continuing, such declaration of acceleration shall be automatically annulled if such payment default is cured or waived or the holders of the Indebtedness which is the subject of such Event of Default have rescinded their declaration of acceleration in respect of such Indebtedness within 60 days thereof and the Trustee has received written notice of such cure, waiver or

rescission and no other Event of Default under Section 4.1(4) has occurred and is continuing with respect to which 60 days have elapsed since the declaration of acceleration of the Indebtedness which is the subject of such other event of default (without rescission of the declaration of acceleration of such Indebtedness). If an Event of Default specified in clause (6) or (7) of Section 4.1 occurs, the unpaid principal of and any accrued but unpaid interest on all the Securities shall ipso facto become and be immediately due and payable without any declaration or other act on the part of the Trustee or any Holder. The Holders of a majority in principal amount of the then outstanding Securities by written notice to the Trustee may rescind an acceleration and its consequences if the rescission would not conflict with any judgment or decree and if all existing Events of Default (except nonpayment of principal or interest that has become due solely because of the acceleration) have been cured or waived. No such rescission shall affect any subsequent Default or Event of Default or impair any right consequent thereto.

SECTION 4.3 Other Remedies. If an Event of Default occurs and is continuing, the Trustee may pursue any available remedy to collect the payment of principal of or interest on the Securities or to enforce the performance of any provision of the Securities or this Indenture.

The Trustee may maintain a proceeding even if it does not possess any of the Securities or does not produce any of them in the proceeding. A delay or omission by the Trustee or any Holder in exercising any right or remedy accruing upon an Event of Default shall not impair the right or remedy or constitute a waiver of or acquiescence in the Event of Default. Except as set forth in Section 2.6 hereof, all remedies are cumulative to the extent permitted by law.

SECTION 4.4 Waiver of Defaults. Subject to Section 7.2 hereof, the Holders of a majority in principal amount of the then outstanding Securities by notice to the Trustee may waive any past Default or Event of Default and its consequences except a continuing Default or Event of Default in the payment of the principal of or interest on any Security. Upon any such waiver, such Default or Event of Default shall cease to exist and together with any Event of Default arising therefrom, shall be deemed to have been cured for every purpose of this Indenture, but no such waiver shall extend to any subsequent or other Default or impair any right consequent thereon.

SECTION 4.5 Control by Majority. The Holders of

a majority in principal amount of the then outstanding Securities may direct the time, method and place of conducting any proceeding for any remedy available to the Trustee or exercising any trust or power conferred on it. However, the Trustee may (i) refuse to follow any direction that conflicts with law or this Indenture, that the Trustee reasonably determines may be unduly prejudicial to the rights of other Holders or that may subject the Trustee to personal liability or (ii) take any other action that it deems proper that is not inconsistent with such decision. The Trustee shall be entitled to indemnification reasonably satisfactory to it against losses or expenses caused by the taking or not taking of such action.

SECTION 4.6 Limitation on Suits. A Holder may pursue a remedy with respect to this Indenture or the Securities only if:

(1) the Holder gives to the Trustee written notice of a continuing Event of Default;

(2) the Holders of at least 30% (or 25% in the case of an Event of Default specified in Section 4.1(1) or 4.2(2) hereof) in principal amount of the then outstanding Securities make a written request to the Trustee to pursue the remedy;

(3) such Holder or Holders offer and, if requested, provide, to the Trustee indemnity satisfactory to the Trustee against any loss, liability or expense;

(4) the Trustee does not comply with the request within 60 days after receipt of the request and the offer and, if requested, the provision of indemnity; and

(5) during such 60-day period the Holders of a majority in principal amount of the then outstanding Securities do not give the Trustee a direction which, in the opinion of the Trustee, is inconsistent with the request.

A Holder may not use this Indenture to prejudice the rights of another Holder or to obtain a preference or priority over another Holder.

SECTION 4.7 Rights of Holders to Receive Payment. Notwithstanding any other provision of this Indenture, the right of any Holder to receive payment of principal of and interest on the Security, on or after the respective due

dates expressed in the Security, or to bring suit for the enforcement of any such payment on or after such respective dates, shall not be impaired or affected without the consent of the Holder.

SECTION 4.8 Collection Suit by Trustee. If an Event of Default specified in Section 4.1(1) or (2) occurs and is continuing, the Trustee is authorized to recover judgment in its own name and as trustee of an express trust against the Issuer for the whole amount of principal and interest remaining unpaid on the Securities and interest on overdue principal and, to the extent lawful, interest and such further amount as shall be sufficient to cover the costs and expenses of collection, including the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel.

SECTION 4.9 Trustee May File Proofs of Claim. The Trustee is authorized to file such proofs of claim and other papers or documents as may be necessary or advisable in order to have the claims of the Trustee (including any claim for the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel) and the Holders allowed in any judicial proceedings relative to the Issuer (or any other obligor upon the Securities), its creditors or its property and shall be entitled and empowered to collect, receive and distribute any money or other property payable or deliverable on any such claims and any custodian in any such judicial proceeding is hereby authorized by each Holder to make such payments to the Trustee, and in the event that the Trustee shall consent to the making of such payments directly to the Holders, to pay to the Trustee any amount due to it for the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel, and any other amounts due the Trustee under Section 5.6 hereof. To the extent that the payment of any such compensation, expenses, disbursements and advances of the Trustee, its agents and counsel, and any other amounts due the Trustee under Section 5.6 hereof out of the estate in any such proceeding, shall be denied for any reason, payment of the same shall be secured by a Lien on, and shall be paid out of, any and all distributions, dividends, money, securities and other properties which the Holders may be entitled to receive in such proceeding whether in liquidation or under any plan of reorganization or arrangement or otherwise. Nothing herein contained shall be deemed to authorize the Trustee to authorize or consent to or accept or adopt on behalf of any Holder any plan of reorganization, arrangement, adjustment or composition affecting the Securities or the rights of any Holder, or to authorize the

Trustee to vote in respect of the claim of any Holder in any such proceeding. If the Trustee does not file a proper claim or proof of debt in the form required in any such proceeding prior to 30 days before the expiration of the time to file such claim or claims, then the Credit Agent shall have the right to file and is hereby authorized to file an appropriate claim for and on behalf of the Holders.

SECTION 4.10 Priorities. If the Trustee collects any money pursuant to this Article, it shall pay out the money in the following order:

First: to the Trustee, its agents and attorneys for amounts due under Section 5.6, including payment of all compensation, expense and liabilities incurred, and all advances made, by the Trustee and the costs and expenses of collection;

Second: to the Holders for amounts due and unpaid on the Securities for principal and interest, ratably, without preference or priority of any kind, according to the amounts due and payable on the Securities for principal and interest, respectively; and

Third: to the Issuer.

The Trustee may fix a record date and payment date for any payment to Holders.

SECTION 4.11 Undertaking for Costs. In any suit for the enforcement of any right or remedy under this Indenture or in any suit against the Trustee for any action taken or omitted by it as a Trustee, a court in its discretion may require the filing by any party litigant in the suit of an undertaking to pay the costs of the suit, and the court in its discretion may assess reasonable costs, including reasonable attorneys' fees, against any party litigant in the suit, having due regard to the merits and good faith of the claims or defenses made by the party litigant. This Section does not apply to a suit by the Trustee, a suit by a Holder pursuant to Section 4.7, or a suit by Holders of more than 10% in principal amount of the then outstanding Securities.

ARTICLE FIVE

CONCERNING THE TRUSTEE.

SECTION 5.1 Duties and Responsibilities of the

Trustee; During Default; Prior to Default. The Trustee, prior to the occurrence of an Event of Default and after the curing or waiving of all Events of Default which may have occurred, undertakes to perform such duties and only such duties as are specifically set forth in this Indenture. In case an Event of Default has occurred (which has not been cured or waived) the Trustee shall exercise such of the rights and powers vested in it by this Indenture, and use the same degree of care and skill in their exercise, as a prudent man would exercise or use under the circumstances in the conduct of his own affairs.

No provision of this Indenture shall be construed to relieve the Trustee from liability for its own negligent action, its own negligent failure to act or its own wilful misconduct, except that

(a) prior to the occurrence of an Event of Default and after the curing or waiving of all such Events of Default which may have occurred:

(i) the duties and obligations of the Trustee shall be determined solely by the express provisions of this Indenture, and the Trustee shall not be liable except for the performance of such duties and obligations as are specifically set forth in this Indenture, and no implied covenants or obligations shall be read into this Indenture against the Trustee; and

(ii) in the absence of bad faith on the part of the Trustee, the Trustee may conclusively rely, as to the truth of the statements and the correctness of the opinions expressed therein, upon any statements, certificates or opinions furnished to the Trustee and conforming to the requirements of this Indenture; but in the case of any such statements, certificates or opinions which by any provision hereof are specifically required to be furnished to the Trustee, the Trustee shall be under a duty to examine the same to determine whether or not they conform to the requirements of this Indenture;

(b) the Trustee shall not be liable for any error of judgment made in good faith by a responsible officer or responsible officers of the Trustee, unless it shall be proved that the Trustee was negligent in

ascertaining the pertinent facts; and

(c) the Trustee shall not be liable with respect to any action taken or omitted to be taken by it in good faith in accordance with the direction of the holders of not less than a majority in principal amount of the Securities at the time outstanding relating to the time, method and place of conducting any proceeding for any remedy available to the Trustee, or exercising any trust or power conferred upon the Trustee, under this Indenture.

None of the provisions contained in this Indenture shall require the Trustee to expend or risk its own funds or otherwise incur personal financial liability in the performance of any of its duties or in the exercise of any of its rights or powers, if there shall be reasonable ground for believing that the repayment of such funds or adequate indemnity against such liability is not reasonably assured to it.

This Section 5.1 is in furtherance of and subject to Sections 315 and 316 of the Trust Indenture Act of 1939.

SECTION 5.2 Certain Rights of the Trustee. In furtherance of and subject to the Trust Indenture Act of 1939, and subject to Section 5.1:

(a) the Trustee may rely and shall be protected in acting or refraining from acting upon any resolution, Officers' Certificate or any other certificate, statement, instrument, opinion, report, notice, request, consent, order, bond, debenture, note, coupon, security or other paper or document believed by it to be genuine and to have been signed or presented by the proper party or parties;

(b) any request, direction, order or demand of the Issuer mentioned herein shall be sufficiently evidenced by an Officers' Certificate (unless other evidence in respect thereof be herein specifically prescribed); and any resolution of the Board of Directors may be evidenced to the Trustee by a copy thereof certified by the secretary or an assistant secretary of the Issuer;

(c) the Trustee may consult with counsel and any advice or Opinion of Counsel shall be full and complete authorization and protection in respect of any action taken, suffered or omitted to be taken by it hereunder in good faith and in accordance with such advice or

Opinion of Counsel;

(d) the Trustee shall be under no obligation to exercise any of the trusts or powers vested in it by this Indenture at the request, order or direction of any of the Securityholders pursuant to the provisions of this Indenture, unless such Securityholders shall have offered to the Trustee reasonable security or indemnity against the costs, expenses and liabilities which might be incurred therein or thereby;

(e) the Trustee shall not be liable for any action taken or omitted by it in good faith and believed by it to be authorized or within the discretion, rights or powers conferred upon it by this Indenture;

(f) prior to the occurrence of an Event of Default hereunder and after the curing or waiving of all Events of Default, the Trustee shall not be bound to make any investigation into the facts or matters stated in any resolution, certificate, statement, instrument, opinion, report, notice, request, consent, order, approval, appraisal, bond, debenture, note, coupon, security, or other paper or document unless requested in writing so to do by the holders of not less than a majority in aggregate principal amount of the Securities then outstanding; provided that, if the payment within a reasonable time to the Trustee of the costs, expenses or liabilities likely to be incurred by it in the making of such investigation is, in the opinion of the Trustee, not reasonably assured to the Trustee by the security afforded to it by the terms of this Indenture, the Trustee may require reasonable indemnity against such expenses or liabilities as a condition to proceeding; the reasonable expenses of every such examination shall be paid by the Issuer or, if paid by the Trustee or any predecessor trustee, shall be repaid by the Issuer upon demand; and

(g) the Trustee may execute any of the trusts or powers hereunder or perform any duties hereunder either directly or by or through agents or attorneys not regularly in its employ and the Trustee shall not be responsible for any misconduct or negligence on the part of any such agent or attorney appointed with due care by it hereunder.

SECTION 5.3 Trustee Not Responsible for Recitals, Disposition of Securities or Application of Proceeds Thereof. The recitals contained herein and in the

Securities, except the Trustee's certificates of authentication, shall be taken as the statements of the Issuer, and the Trustee assumes no responsibility for the correctness of the same. The Trustee makes no representation as to the validity or sufficiency of this Indenture or of the Securities or as to the adequacy of any disclosure document used in connection with the sale of the Securities. The Trustee shall not be accountable for the use or application by the Issuer of any of the Securities or of the proceeds thereof.

SECTION 5.4 Trustee and Agents May Hold Securities; Collections, etc. The Trustee or any agent of the Issuer or the Trustee, in its individual or any other capacity, may become the owner or pledgee of Securities with the same rights it would have if it were not the Trustee or such agent and may otherwise deal with the Issuer and receive, collect, hold and retain collections from the Issuer with the same rights it would have if it were not the Trustee or such agent.

SECTION 5.5 Moneys Held by Trustee. Subject to the provisions of Section 9.4 hereof, all moneys received by the Trustee shall, until used or applied as herein provided, be held in trust for the purposes for which they were received, but need not be segregated from other funds except to the extent required by mandatory provisions of law. Neither the Trustee nor any agent of the Issuer or the Trustee shall be under any liability for interest on any moneys received by it hereunder.

SECTION 5.6 Compensation and Indemnification of Trustee and Its Prior Claim. The Issuer covenants and agrees to pay to the Trustee from time to time, and the Trustee shall be entitled to, reasonable compensation (which shall not be limited by any provision of law in regard to the compensation of a trustee of an express trust) and the Issuer covenants and agrees to pay or reimburse the Trustee and each predecessor Trustee upon its request for all reasonable expenses, disbursements and advances incurred or made by or on behalf of it in accordance with any of the provisions of this Indenture (including the reasonable compensation and the expenses and disbursements of its counsel and of all agents and other persons not regularly in its employ) except any such expense, disbursement or advance as may arise from its negligence or bad faith. The Issuer also covenants to indemnify the Trustee and each predecessor Trustee for, and to hold it harmless against, any loss, liability or expense incurred without negligence or bad faith on its part, arising out of or in connection with the acceptance or administration of this Indenture or the trusts

hereunder and its duties hereunder, including the costs and expenses of defending itself against or investigating any claim of liability in the premises. The obligations of the Issuer under this Section to compensate and indemnify the Trustee and each predecessor Trustee and to pay or reimburse the Trustee and each predecessor Trustee for expenses, disbursements and advances shall constitute additional indebtedness hereunder and shall survive the satisfaction and discharge of this Indenture. Such additional indebtedness shall be a senior claim to that of the Securities upon all property and funds held or collected by the Trustee as such, except funds held in trust for the benefit of the holders of particular Securities, and the Securities are hereby subordinated to such senior claim. If the Trustee incurs expenses or renders services after an Event of Default specified in clause (6) or (7) of Section 4.1 occurs, such expenses and the compensation for such services are intended to constitute expenses of administration under any Bankruptcy Law.

SECTION 5.7 Right of Trustee to Rely on Officers' Certificate, etc. Subject to Sections 5.1 and 5.2, whenever in the administration of the trusts of this Indenture the Trustee shall deem it necessary or desirable that a matter be proved or established prior to taking or suffering or omitting any action hereunder, such matter (unless other evidence in respect thereof be herein specifically prescribed) may, in the absence of negligence or bad faith on the part of the Trustee, be deemed to be conclusively proved and established by an Officers' Certificate delivered to the Trustee, and such certificate, in the absence of negligence or bad faith on the part of the Trustee, shall be full warrant to the Trustee for any action taken, suffered or omitted by it under the provisions of this Indenture upon the faith thereof.

SECTION 5.8 Persons Eligible for Appointment as Trustee. The Trustee hereunder shall at all times be a corporation having a combined capital and surplus of at least $5,000,000, and which is eligible in accordance with the provisions of Section 310(a) of the Trust Indenture Act of 1939. If such corporation publishes reports of condition at least annually, pursuant to law or to the requirements of a Federal, State or District of Columbia supervising or examining authority, then for the purposes of this Section, the combined capital and surplus of such corporation shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published.

SECTION 5.9 Resignation and Removal; Appointment of Successor Trustee. (a) The Trustee may at any time

resign by giving written notice of resignation to the Issuer and by mailing notice thereof by first-class mail to holders of Securities at their last addresses as they shall appear on the Security register. Upon receiving such notice of resignation, the Issuer shall promptly appoint a successor trustee by written instrument in duplicate, executed by authority of the Board of Directors, one copy of which instrument shall be delivered to the resigning Trustee and one copy to the successor trustee. If no successor trustee shall have been so appointed and have accepted appointment within 30 days after the mailing of such notice of resignation, the resigning trustee may petition any court of competent jurisdiction for the appointment of a successor trustee, or any Securityholder who has been a bona fide holder of a Security or Securities for at least six months may, on behalf of himself and all others similarly situated, petition any such court for the appointment of a successor trustee. Such court may thereupon, after such notice, if any, as it may deem proper and prescribe, appoint a successor trustee.

(b) In case at any time any of the following shall occur:

(i) the Trustee shall fail to comply with the provisions of Section 310(b) of the Trust Indenture Act of 1939, after written request therefor by the Issuer or by any Securityholder who has been a bona fide holder of a Security or Securities for at least six months; or

(ii) the Trustee shall cease to be eligible in accordance with the provisions of Section 5.8 and shall fail to resign after written request therefor by the Issuer or by any such Securityholder; or

(iii) the Trustee shall become incapable of acting, or shall be adjudged a bankrupt or insolvent, or a receiver or liquidator of the Trustee or of its property shall be appointed, or any public officer shall take charge or control of the Trustee or of its property or affairs for the purpose of rehabilitation, conservation or liquidation;

then, in any such case, the Issuer may remove the Trustee and appoint a successor trustee by written instrument, in duplicate, executed by order of the Board of Directors of the Issuer, one copy of which instrument shall be delivered to the Trustee so removed and one copy to the successor trustee, or, subject to Section 315(e) of the Trust Indenture Act of 1939, any Securityholder who has been a bona fide holder of a Security or Securities for at least

six months may on behalf of himself and all others similarly situated, petition any court of competent jurisdiction for the removal of the Trustee and the appointment of a successor trustee. Such court may thereupon, after such notice, if any, as it may deem proper and prescribe, remove the Trustee and appoint a successor trustee.

(c) The holders of a majority in aggregate principal amount of the Securities at the time outstanding may at any time remove the Trustee and appoint a successor trustee by delivering to the Trustee so removed, to the successor trustee so appointed and to the Issuer the evidence provided for in Section 6.1 of the action in that regard taken by the Securityholders.

(d) Any resignation or removal of the Trustee and any appointment of a successor trustee pursuant to any of the provisions of this Section 5.9 shall become effective upon acceptance of appointment by the successor trustee as provided in Section 5.10.

SECTION 5.10 Acceptance of Appointment by Successor Trustee. Any successor trustee appointed as provided in Section 5.9 shall execute and deliver to the Issuer and to its predecessor trustee an instrument accepting such appointment hereunder, and thereupon the resignation or removal of the predecessor trustee shall become effective and such successor trustee, without any further act, deed or conveyance, shall become vested with all rights, powers, duties and obligations of its predecessor hereunder, with like effect as if originally named as trustee herein; but, nevertheless, on the written request of the Issuer or of the successor trustee, upon payment of its charges then unpaid, the trustee ceasing to act shall, subject to Section 9.4, pay over to the successor trustee all moneys at the time held by it hereunder and shall execute and deliver an instrument transferring to such successor trustee all such rights, powers, duties and obligations. Upon request of any such successor trustee, the Issuer shall execute any and all instruments in writing for more fully and certainly vesting in and confirming to such successor trustee all such rights and powers. Any trustee ceasing to act shall, nevertheless, retain a prior claim upon all property or funds held or collected by such trustee to secure any amounts then due it pursuant to the provisions of Section 5.6.

Upon acceptance of appointment by a successor trustee as provided in this Section 5.10, the Issuer shall mail notice thereof by first-class mail to the holders of Securities at their last addresses as they shall appear in

the Security register. If the acceptance of appointment is substantially contemporaneous with the resignation, then the notice called for by the preceding sentence may be combined with the notice called for by Section 5.9. If the Issuer fails to mail such notice within 10 days after acceptance of appointment by the successor trustee, the successor trustee shall cause such notice to be mailed at the expense of the Issuer.

SECTION 5.11 Merger, Conversion, Consolidation or Succession to Business of Trustee. Any corporation into which the Trustee may be merged or converted or with which it may be consolidated, or any corporation resulting from any merger, conversion or consolidation to which the Trustee shall be a party, or any corporation succeeding to the corporate trust business of the Trustee, shall be the successor of the Trustee hereunder, provided that such corporation shall be eligible under the provisions of Section 5.8, without the execution or filing of any paper or any further act on the part of any of the parties hereto, anything herein to the contrary notwithstanding.

In case at the time such successor to the Trustee shall succeed to the trusts created by this Indenture any of the Securities shall have been authenticated but not delivered, any such successor to the Trustee may adopt the certificate of authentication of any predecessor Trustee and deliver such Securities so authenticated; and, in case at that time any of the Securities shall not have been authenticated, any successor to the Trustee may authenticate such Securities either in the name of any predecessor hereunder or in the name of the successor Trustee; and in all such cases such certificate shall have the full force which it is anywhere in the Securities or in this Indenture provided that the certificate of the Trustee shall have; provided, that the right to adopt the certificate of authentication of any predecessor Trustee or to authenticate Securities in the name of any predecessor Trustee shall apply only to its successor or successors by merger, conversion or consolidation.

SECTION 5.12 Indenture Not Creating Potential Conflicting Interests for the Trustee. The following indenture is hereby specifically described for the purposes of Section 310(b) of the Trust Indenture Act of 1939: the indenture dated as of November 16, 1992 between the Issuer and First Trust National Association, as trustee, relating to the 10 7/8% Notes.

ARTICLE SIX

CONCERNING THE SECURITYHOLDERS.

SECTION 6.1 Evidence of Action Taken by Securityholders. Any request, demand, authorization, direction, notice, consent, waiver or other action provided by this Indenture to be given or taken by Securityholders may be embodied in and evidenced by one or more instruments of substantially similar tenor signed by such Securityholders in person or by agent duly appointed in writing; and, except as herein otherwise expressly provided, such action shall become effective when such instrument or instruments are delivered to the Trustee. Proof of execution of any instrument or of a writing appointing any such agent shall be sufficient for any purpose of this Indenture and (subject to Sections 5.1 and 5.2) conclusive in favor of the Trustee and the Issuer, if made in the manner provided in this Article.

SECTION 6.2 Proof of Execution of Instruments and of Holding of Securities; Record Date. Subject to Sections 5.1 and 5.2, the execution of any instrument by a Securityholder or his agent or proxy may be proved in accordance with such reasonable rules and regulations as may be prescribed by the Trustee or in such manner as shall be satisfactory to the Trustee. The holding of Securities shall be proved by the Security register or by a certificate of the registrar thereof. The Issuer may set a record date for purposes of determining the identity of holders of Securities entitled to vote or consent to any action referred to in Section 6.1, which record date may be set at any time or from time to time by notice to the Trustee, for any date or dates (in the case of any adjournment or resolicitation) not more than 60 days nor less than five days prior to the proposed date of such vote or consent, and thereafter, notwithstanding any other provisions hereof, only holders of Securities of record on such record date shall be entitled to so vote or give such consent or to withdraw such vote or consent.

SECTION 6.3 Holders to Be Treated as Owners. The Issuer, the Trustee and any agent of the Issuer or the Trustee may deem and treat the person in whose name any Security shall be registered upon the Security register as the absolute owner of such Security (whether or not such Security shall be overdue and notwithstanding any notation of ownership or other writing thereon) for the purpose of receiving payment of or on account of the principal of and, subject to the provisions of this Indenture, interest on

such Security and for all other purposes; and neither the Issuer nor the Trustee nor any agent of the Issuer or the Trustee shall be affected by any notice to the contrary. All such payments so made to any such person, or upon his order, shall be valid, and, to the extent of the sum or sums so paid, effectual to satisfy and discharge the liability for moneys payable upon any such Security.

SECTION 6.4 Securities Owned by Issuer Deemed Not Outstanding. In determining whether the holders of the requisite aggregate principal amount of Securities have concurred in any direction, consent or waiver under this Indenture, Securities which are owned by the Issuer or any other obligor on the Securities or by any person directly or indirectly controlling or controlled by or under direct or indirect common control with the Issuer or any other obligor on the Securities shall be disregarded and deemed not to be outstanding for the purpose of any such determination, except that for the purpose of determining whether the Trustee shall be protected in relying on any such direction, consent or waiver only Securities which the Trustee knows are so owned shall be so disregarded. Securities so owned which have been pledged in good faith may be regarded as outstanding if the pledgee establishes to the satisfaction of the Trustee the pledgee's right so to act with respect to such Securities and that the pledgee is not the Issuer or any other obligor upon the Securities or any person directly or indirectly controlling or controlled by or under direct or indirect common control with the Issuer or any other obligor on the Securities. In case of a dispute as to such right, the advice of counsel shall be full protection in respect of any decision made by the Trustee in accordance with such advice. Upon request of the Trustee, the Issuer shall furnish to the Trustee promptly an Officers' Certificate listing and identifying all Securities, if any, known by the Issuer to be owned or held by or for the account of any of the above-described persons; and, subject to Sections 5.1 and 5.2, the Trustee shall be entitled to accept such Officers' Certificate as conclusive evidence of the facts therein set forth and of the fact that all Securities not listed therein are outstanding for the purpose of any such determination.

SECTION 6.5 Right of Revocation of Action Taken. At any time prior to (but not after) the evidencing to the Trustee, as provided in Section 6.1, of the taking of any action by the holders of the percentage in aggregate principal amount of the Securities specified in this Indenture in connection with such action, any holder of a Security the certificate number of which is shown by the evidence to be included among the certificate numbers of the Securities the holders of which have consented to such

action may, by filing written notice at the Corporate Trust Office and upon proof of holding as provided in this Article, revoke such action so far as concerns such Security. Except as aforesaid any such action taken by the holder of any Security shall be conclusive and binding upon such holder and upon all future holders and owners of such Security and of any Securities issued in exchange or substitution therefor, irrespective of whether or not any notation in regard thereto is made upon any such Security. Any action taken by the holders of the percentage in aggregate principal amount of the Securities specified in this Indenture in connection with such action shall be conclusively binding upon the Issuer, the Trustee and the holders of all the Securities.

ARTICLE SEVEN

SUPPLEMENTAL INDENTURES.

SECTION 7.1 Supplemental Indentures Without Consent of Securityholders. The Issuer, when authorized by a resolution of its Board of Directors, and the Trustee may from time to time and at any time enter into an indenture or indentures supplemental hereto for one or more of the following purposes:

(a) to evidence the succession of another corporation to the Issuer, or successive successions, and the assumption by the successor corporation of the covenants, agreements and obligations of the Issuer pursuant to Article Eight;

(b) to add to the covenants of the Issuer such further covenants, restrictions, conditions or provisions as its Board of Directors and the Trustee shall consider to be for the protection of the holders of Securities, and to make the occurrence, or the occurrence and continuance, of a default in any such additional covenants, restrictions, conditions or provisions an Event of Default permitting the enforcement of all or any of the several remedies provided in this Indenture as herein set forth; provided, that in respect of any such additional covenant, restriction, condition or provision such supplemental indenture may provide for a particular period of grace after default (which period may be shorter or longer than that allowed in the case of other defaults) or may provide for an immediate

enforcement upon such an Event of Default or may limit the remedies available to the Trustee upon such an Event of Default or may limit the right of the holders of a majority in aggregate principal amount of the Securities to waive such an Event of Default;

(c) to cure any ambiguity or to correct or supplement any provision contained herein or in any supplemental indenture which may be defective or inconsistent with any other provision contained herein or in any supplemental indenture; or to make such other provisions in regard to matters or questions arising under this Indenture or under any supplemental indenture as the Board of Directors may deem necessary or desirable and which shall not materially and adversely affect the interests of the holders of the Securities; and

(d) to provide for the issuance under this Indenture of Securities in coupon form (including Securities registrable as to principal only) and to provide for exchangeability of such Securities with Securities issued hereunder in fully registered form, and to make all appropriate changes for such purpose.

The Trustee is hereby authorized to join in the execution of any such supplemental indenture, to make any further appropriate agreements and stipulations which may be therein contained and to accept the conveyance, transfer, assignment, mortgage or pledge of any property thereunder, but the Trustee shall not be obligated to enter into any such supplemental indenture which affects the Trustee's own rights, duties or immunities under this Indenture or otherwise.

Any supplemental indenture authorized by the provisions of this Section may be executed without the consent of the holders of any of the Securities at the time outstanding, notwithstanding any of the provisions of Section 7.2.

SECTION 7.2 Supplemental Indentures With Consent of Securityholders. With the consent (evidenced as provided in Article Six) of the holders of not less than a majority in aggregate principal amount of the Securities at the time outstanding, the Issuer, when authorized by a resolution of its Board of Directors, and the Trustee may, from time to time and at any time, enter into an indenture or indentures supplemental hereto for the purpose of adding any provisions to or changing in any manner or eliminating any of the provisions of this Indenture or of any supplemental

indenture or of modifying in any manner the rights of the holders of the Securities; provided, that no such supplemental indenture shall (a) extend the final maturity of any Security, or reduce the principal amount thereof, or reduce the rate or extend the time of payment of interest thereon, or reduce the premium, if any, payable thereon, or reduce any amount payable on redemption thereof, or impair or affect the right of any Securityholder to institute suit for the payment thereof, or waive a default in the payment of principal of, premium, if any, or interest on any Security, change the currency of payment of principal of, premium, if any, or interest on any Security, or modify any provision of this Indenture with respect to the priority of the Securities in right of payment without the consent of the holder of each Security so affected, or (b) reduce the aforesaid percentage of Securities, the consent of the holders of which is required for any such supplemental indenture, without the consent of the holders of all Securities then outstanding.

Upon the request of the Issuer, accompanied by a copy of a resolution of the Board of Directors certified by the Secretary or an Assistant Secretary of the Issuer authorizing the execution of any such supplemental indenture, and upon the filing with the Trustee of evidence of the consent of Securityholders and other documents, if any, required by Section 6.1, the Trustee shall join with the Issuer in the execution of such supplemental indenture unless such supplemental indenture affects the Trustee's own rights, duties or immunities under this Indenture or otherwise, in which case the Trustee may in its discretion, but shall not be obligated to, enter into such supplemental indenture.

It shall not be necessary for the consent of the Securityholders under this Section to approve the particular form of any proposed supplemental indenture, but it shall be sufficient if such consent shall approve the substance thereof.

Promptly after the execution by the Issuer and the Trustee of any supplemental indenture pursuant to the provisions of this Section, the Issuer shall mail a notice thereof by first-class mail to the holders of Securities at their addresses as they shall appear on the registry books of the Issuer, setting forth in general terms the substance of such supplemental indenture. Any failure of the Issuer to mail such notice, or any defect therein, shall not, however, in any way impair or affect the validity of any such supplemental indenture.

SECTION 7.3 Effect of Supplemental Indenture. Upon the execution of any supplemental indenture pursuant to the provisions hereof, this Indenture shall be and be deemed to be modified and amended in accordance therewith and the respective rights, limitations of rights, obligations, duties and immunities under this Indenture of the Trustee, the Issuer and the holders of Securities shall thereafter be determined, exercised and enforced hereunder subject in all respects to such modifications and amendments, and all the terms and conditions of any such supplemental indenture shall be and be deemed to be part of the terms and conditions of this Indenture for any and all purposes.

SECTION 7.4 Documents to Be Given to Trustee. The Trustee, subject to the provisions of Sections 5.1 and 5.2, may receive an Officers' Certificate and an Opinion of Counsel as conclusive evidence that any such supplemental indenture complies with the applicable provisions of this Indenture.

SECTION 7.5 Notation on Securities in Respect of Supplemental Indentures. Securities authenticated and delivered after the execution of any supplemental indenture pursuant to the provisions of this Article may bear a notation in form approved by the Trustee as to any matter provided for by such supplemental indenture or as to any action taken at any such meeting. If the Issuer or the Trustee shall so determine, new Securities so modified as to conform, in the opinion of the Trustee and the Board of Directors, to any modification of this Indenture contained in any such supplemental indenture may be prepared by the Issuer, authenticated by the Trustee and delivered in exchange for the Securities then outstanding.

ARTICLE EIGHT

CONSOLIDATION, MERGER, SALE OR CONVEYANCE.

SECTION 8.1 When Issuer May Merge, etc. The Issuer shall not consolidate or merge with or into, or sell, transfer, lease or convey all or substantially all of its assets to, any person unless:

(1) the person formed by or surviving any such consolidation or merger (if other than the Issuer), or to which such sale, transfer, lease or conveyance shall have been made, is a corporation organized and existing under the laws of the

United States, any state thereof or the District of Columbia;

(2) the corporation formed by or surviving any such consolidation or merger (if other than the Issuer), or to which such sale, transfer, lease or conveyance shall have been made, assumes by supplemental indenture in a form reasonably satisfactory to the Trustee all the obligations of the Issuer under the Securities and this Indenture;

(3) immediately after the transaction no Default or Event of Default exists;

(4) the Issuer or any corporation formed by or surviving any such consolidation or merger, or to which such sale, transfer, lease or conveyance shall have been made, shall have an Adjusted Consolidated Net Worth (immediately after the transaction but prior to any purchase accounting adjustments resulting from the transaction) equal to or greater than the Adjusted Consolidated Net Worth of the Issuer immediately preceding the transaction; provided, however, that this clause (4) shall not apply to any transaction where the consideration consists solely of common stock or other Equity Interests of the Issuer or any surviving corporation and any liabilities of such other person are not assumed by and are specifically non-recourse to the Issuer or such surviving corporation; and

(5) after giving effect to such transaction and immediately thereafter, the Issuer or any corporation formed by or surviving any such consolidation or merger, or to which such sale, transfer, lease or conveyance shall have been made, shall be permitted to incur at least $1.00 of additional Indebtedness pursuant to Section 3.11(a), provided that, if the Fixed Charge Coverage Ratio of the Issuer immediately prior to such transaction is within the range set forth in Column A below, then the pro forma Fixed Charge Coverage Ratio of the Issuer or the surviving entity, as the case may be, immediately after such transaction, shall be at least equal to the lesser of (1) the ratio determined by multiplying the percentage set forth in column (B) below by the Fixed Charge Coverage Ratio of the Issuer prior to such transaction and (2) the ratio set forth in

column (C) below:

(A)	(B)	(C)
1.11:1 to 1.99:1		90%1.5:1
2.00:1 to 2.99:1		80%2.1:1
3.00:1 to 3.99:1		70%2.4:1
4.00:1 or more		60%2.5:1

and provided, further, that if, immediately after giving effect to such transaction on a pro forma basis, the Fixed Charge Coverage Ratio of the Issuer or the surviving entity, as the case may be, is 2.5:1 or more, the calculation in the preceding proviso shall be inapplicable and such transaction shall be deemed to have complied with the requirements of this clause (5).

The Issuer shall deliver to the Trustee prior to the consummation of the proposed transaction an Officers' Certificate to the foregoing effect and an Opinion of Counsel stating that the proposed transaction and such supplemental Indenture comply with this Section 8.1. The Trustee shall be entitled to rely conclusively upon such Officers' Certificate and Opinion of Counsel.

SECTION 8.2 Successor Corporation Substituted. Upon any consolidation or merger, or any sale, transfer, lease, conveyance or other disposition of all or substantially all of the assets of the Issuer in accordance with Section 8.1, the successor corporation formed by such consolidation or into or with which the Issuer is merged or to which such sale, lease, conveyance or other disposition is made shall succeed to, and be substituted for, and may exercise every right and power of, the Issuer under this Indenture with the same effect as if such successor person has been named as the Issuer herein and thereafter, except in the case of a lease, the predecessor corporation shall be relieved of all obligations and covenants under this Indenture and the Securities.

ARTICLE NINE

SATISFACTION AND DISCHARGE OF INDENTURE; UNCLAIMED MONEYS; DEFEASANCE.

SECTION 9.1 Satisfaction and Discharge of Indenture. If at any time (a) the Issuer shall have paid or

caused to be paid the principal of and interest on all the Securities outstanding hereunder, as and when the same shall have become due and payable, or (b) the Issuer shall have delivered to the Trustee for cancellation all Securities theretofore authenticated (other than any Securities which shall have been destroyed, lost or stolen and which shall have been replaced or paid as provided in Section 2.6) or (c) all Securities not theretofore cancelled or delivered to the Trustee for cancellation shall have become due and payable, or are by their terms to become due and payable within 1 year or are to be called for redemption within 1 year under arrangements satisfactory to the Trustee for the giving of notice of redemption, and the Issuer shall deposit with the Trustee, in trust, funds sufficient to pay at maturity or upon redemption of all the Securities (other than any Securities which shall have been destroyed, lost or stolen and which shall have been replaced or paid as provided in Section 2.6) not theretofore cancelled or delivered to the Trustee for cancellation, including principal and interest due or to become due to such date of maturity or redemption date, as the case may be, but excluding, however, the amount of any moneys for the payment of principal of or interest on the Securities theretofore repaid to the Issuer in accordance with the provisions of Section 9.4 or paid to any State or the District of Columbia pursuant to its unclaimed property or similar laws, and if the Issuer shall also pay or cause to be paid all other sums payable hereunder by the Issuer, then this Indenture shall cease to be of further effect (except as to (i) rights of registration of transfer and exchange, and the Issuer's right of optional redemption, (ii) substitution of apparently mutilated, defaced, destroyed, lost or stolen Securities, (iii) rights of holders to receive payments of principal thereof and interest thereon, (iv) the rights, obligations and immunities of the Trustee hereunder, (v) the rights of the Securityholders as beneficiaries hereof with respect to the property so deposited with the Trustee payable to all or any of them and (vi) the obligation of the Issuer to maintain an office or agency as provided in Section 3.2) and the Trustee, on demand of the Issuer accompanied by an Officers' Certificate and an Opinion of Counsel and at the cost and expense of the Issuer, shall execute proper instruments acknowledging such satisfaction of and discharging this Indenture. The Issuer agrees to reimburse the Trustee for any costs or expenses thereafter reasonably and properly incurred and to compensate the Trustee for any services thereafter reasonably and properly rendered by the Trustee in connection with this Indenture or the Securities.

SECTION 9.2 Application by Trustee of Funds

Deposited for Payment of Securities. Subject to Section 9.4, all moneys deposited with the Trustee pursuant to Section 9.1 or 9.5 shall be held in trust and applied by it to the payment, either directly or through any paying agent (including the Issuer acting as its own paying agent), to the holders of the particular Securities for the payment or redemption of which such moneys have been deposited with the Trustee, of all sums due and to become due thereon for principal and interest; but such money need not be segregated from other funds except to the extent required by law.

SECTION 9.3 Repayment of Moneys Held by Paying Agent. In connection with the satisfaction and discharge of this Indenture all moneys then held by any paying agent under the provisions of this Indenture shall, upon demand of the Issuer, be repaid to it or paid to the Trustee and thereupon such paying agent shall be released from all further liability with respect to such moneys.

SECTION 9.4 Return of Moneys Held by Trustee and Paying Agent Unclaimed for Three Years. Any moneys deposited with or paid to the Trustee or any paying agent for the payment of the principal of or interest on any Security and not applied but remaining unclaimed for three years after the date upon which such principal or interest shall have become due and payable, shall, upon the written request of the Issuer and unless otherwise required by mandatory provisions of applicable escheat or abandoned or unclaimed property law, be repaid to the Issuer by the Trustee or such paying agent, and the holder of such Security shall, unless otherwise required by mandatory provisions of applicable escheat or abandoned or unclaimed property laws, thereafter look only to the Issuer for any payment which such holder may be entitled to collect, and all liability of the Trustee or any paying agent with respect to such moneys shall thereupon cease.

SECTION 9.5 Defeasance. At the Issuer's option, either (a) the Issuer shall be deemed to have been Discharged (as defined below) from its respective obligations under the Securities on the 91st day after the applicable conditions set forth below have been satisfied or (b) the Issuer shall cease to be under any obligation to comply with any term, provision or condition set forth in Sections 3.9 through 3.17, 8.1 and 8.2 with respect to the Securities at any time after the applicable conditions set forth below have been satisfied:

(1) the Issuer shall have deposited or caused to be deposited irrevocably with the Trustee as funds in

trust, specifically pledged as security for, and dedicated solely to, the benefit of the Holders of the Securities, (i) funds in an amount sufficient to pay the principal amount of the Securities in full on the date of maturity of the Securities or a selected date of redemption of the Securities as permitted under this Indenture (if such Securities are to be called for redemption and satisfactory arrangements have been made with the Trustee for the giving of notice of redemption) and the interest on such aggregate principal amount to the date of maturity of the Securities or such date of redemption, taking into account all intervening interest payment dates, for the period from the date through which interest on the Securities has been paid to the date of maturity of the Securities or such date of redemption and all other sums payable hereunder by the Issuer; and provided that such funds, if invested, shall be invested only in U.S. Government Obligations maturing prior to the date of maturity of the Securities or, to the extent applicable, such date of redemption and such intervening interest payment dates; and, provided further, however, that the Trustee shall have no obligation to invest such funds; or (ii) U.S. Government Obligations in such aggregate principal amount and maturity on such dates as will, together with the income or increment to accrue thereon, but without consideration of any reinvestment of such income or increment, be sufficient to pay when due (including any intervening interest payment dates) the amounts set forth in the foregoing clauses (A) and (B); or (iii) a combination of (i) and (ii), sufficient (in the cases of deposits made pursuant to (ii) or (iii)), in the opinion of a nationally recognized firm of independent public accountants expressed in a written certification thereof delivered to the Trustee, to pay and discharge each installment of principal of, and interest on, the outstanding Securities on the dates such installments of principal or interest are due;

(2) no Event of Default or event which with notice or lapse of time would become an Event of Default with respect to the Securities shall have occurred and be continuing on the date of such deposit;

(3) the Issuer shall have delivered to the Trustee (A) an Opinion of Counsel to the effect that the deposit of such funds or investments or both to defease the Issuer's obligations in respect of the Securities is in accordance with the provisions of this Indenture and (B) either (i) an Opinion of Counsel to

the effect that Holders of the Securities will not recognize income, gain or loss for United States federal income tax purposes as a result of the exercise of the option under this Section 9.5 and will be subject to United States Federal income tax on the same amount and in the same manner and at the same time as would have been the case if such option had not been exercised, or (ii) a private letter ruling to that effect directed to the Trustee received from the United States Internal Revenue Service; and

(4) the deposit of such funds or investments shall not contravene applicable law.

"Discharged" means that the Issuer shall be deemed to have paid and discharged the entire indebtedness represented by, and obligations under, the Securities and to have satisfied all the obligations under this Indenture and the Securities (and the Trustee, at the request and the expense of the Issuer, shall execute proper instruments acknowledging the same), except (i) the rights of Holders of Securities to receive, from the trust fund described in clause (1) above, payment of the Principal of and the interest on the Securities when such payments are due; (ii) the Issuer's obligations with respect to the Securities under Section 2.5, 2.6, and 9.4; (iii) the rights, powers, trusts, duties and immunities of the Trustee hereunder, and (iv) the obligation of the Issuer to maintain an office or agency as provided in Section 3.2.

ARTICLE TEN

MISCELLANEOUS PROVISIONS.

SECTION 10.1 Incorporators, Stockholders, Officers and Directors of Issuer Exempt from Individual Liability. No recourse under or upon any obligation, covenant or agreement contained in this Indenture, or in any Security, or because of any indebtedness evidenced thereby, shall be had against any incorporator, as such, or against any past, present or future stockholder, officer or director, as such, of the Issuer or of any successor, either directly or through the Issuer or any successor, under any rule of law, statute or constitutional provision or by the enforcement of any assessment or by any legal or equitable proceeding or otherwise, all such liability being expressly waived and released by the acceptance of the Securities by the holders thereof and as part of the consideration for the issue of the Securities.

SECTION 10.2 Provisions of Indenture for the Sole Benefit of Parties and Securityholders. Nothing in this Indenture or in the Securities, expressed or implied, shall give or be construed to give to any person, firm or corporation, other than the parties hereto and their successors and the holders of Senior Indebtedness and the holders of the Securities, any legal or equitable right, remedy or claim under this Indenture or under any covenant or provision herein contained, all such covenants and provisions being for the sole benefit of the parties hereto and their successors and of the holders of Senior Indebtedness and the holders of the Securities.

SECTION 10.3 Successors and Assigns of Issuer Bound by Indenture. All the covenants, stipulations, promises and agreements in this Indenture contained by or in behalf of the Issuer shall bind its successors and assigns, whether so expressed or not.

SECTION 10.4 Notices and Demands on Issuer, Trustee and Securityholders. Any notice or demand which by any provision of this Indenture is required or permitted to be given or served by the Trustee or by the holders of Securities to or on the Issuer may be given or served by hand delivery, by overnight courier or by being deposited postage prepaid, first-class mail (except, in each case, as otherwise specifically provided herein), in each case addressed (until another address of the Issuer is filed by the Issuer with the Trustee) to Flagstar Corporation, 203 East Main Street, Spartanburg, South Carolina 29319, Attention: Chief Financial Officer. Any notice, direction, request or demand by the Issuer or any Securityholder to or upon the Trustee shall be deemed to have been sufficiently given or made, for all purposes, if given or made at the Corporate Trust Office.

Where this Indenture provides for notice to holders, such notice shall be sufficiently given (unless otherwise herein expressly provided) if in writing and delivered by hand, delivered by overnight courier or mailed, first-class postage prepaid, to each holder entitled thereto, at his last address as it appears in the Security register. In any case where notice to holders is given by any of the foregoing means, neither the failure to give such notice by such means, nor any defect in any notice so given, to any particular holder shall affect the sufficiency of such notice with respect to other holders. Where this Indenture provides for notice in any manner, such notice may be waived in writing by the person entitled to receive such notice, either before or after the event, and such waiver

shall be the equivalent of such notice. Waivers of notice by holders shall be filed with the Trustee, but such filing shall not be a condition precedent to the validity of any action taken in reliance upon such waiver.

In case, by reason of the suspension of or irregularities in regular mail service, it shall be impracticable to mail notice to the Issuer and Securityholders when such notice is required to be given pursuant to any provision of this Indenture, then any manner of giving such notice as shall be satisfactory to the Trustee shall be deemed to be a sufficient giving of such notice.

SECTION 10.5 Officers' Certificates and Opinions of Counsel; Statements to Be Contained Therein. Upon any application or demand by the Issuer to the Trustee to take any action under any of the provisions of this Indenture, the Issuer shall furnish to the Trustee an Officers' Certificate stating that all conditions precedent provided for in this Indenture relating to the proposed action have been complied with and an Opinion of Counsel stating that in the opinion of such counsel all such conditions precedent have been complied with, except that in the case of any such application or demand as to which the furnishing of such documents is specifically required by any provision of this Indenture relating to such particular application or demand, no additional certificate or opinion need be furnished.

Each certificate or opinion provided for in this Indenture and delivered to the Trustee with respect to compliance with a condition or covenant provided for in this Indenture shall include (a) a statement that the person making such certificate or opinion has read such covenant or condition, (b) a brief statement as to the nature and scope of the examination or investigation upon which the statements or opinions contained in such certificate or opinion are based, (c) a statement that, in the opinion of such person, he has made such examination or investigation as is necessary to enable him to express an informed opinion as to whether or not such covenant or condition has been complied with and (d) a statement as to whether or not, in the opinion of such person, such condition or covenant has been complied with.

Any certificate, statement or opinion of an officer of the Issuer may be based, insofar as it relates to legal matters, upon a certificate or opinion of or representations by counsel, unless such officer knows that the certificate or opinion or representations with respect to the matters upon which his certificate, statement or

opinion may be based as aforesaid are erroneous, or in the exercise of reasonable care should know that the same are erroneous. Any certificate, statement or opinion of counsel may be based, insofar as it relates to factual matters information with respect to which is in the possession of the Issuer, upon the certificate, statement or opinion of or representations by an officer or officers of the Issuer, unless such counsel knows that the certificate, statement or opinion or representations with respect to the matters upon which his certificate, statement or opinion may be based as aforesaid are erroneous, or in the exercise of reasonable care should know that the same are erroneous.

Any certificate, statement or opinion of an officer of the Issuer or of counsel may be based, insofar as it relates to accounting matters, upon a certificate or opinion of or representations by an accountant or firm of accountants in the employ of the Issuer, unless such officer or counsel, as the case may be, knows that the certificate or opinion or representations with respect to the accounting matters upon which his certificate, statement or opinion may be based as aforesaid are erroneous, or in the exercise of reasonable care should know that the same are erroneous.

Any certificate or opinion of any independent firm of public accountants filed with the Trustee shall contain a statement that such firm is independent.

SECTION 10.6 Payments Due on Saturdays, Sundays and Holidays. If the date of maturity of interest on or principal of the Securities or the date fixed for redemption of any Security shall not be a Business Day, then payment of interest or principal need not be made on such date, but may be made on the next succeeding Business Day with the same force and effect as if made on the date of maturity or the date fixed for redemption, and no interest shall accrue for the period after such date.

SECTION 10.7 Conflict of Any Provision of Indenture with Trust Indenture Act of 1939. If and to the extent that any provision of this Indenture limits, qualifies or conflicts with another provision included in this Indenture by operation of Sections 310 to 317, inclusive, of the Trust Indenture Act of 1939 (an "incorporated provision"), such incorporated provision shall control.

SECTION 10.8 New York Law to Govern. This Indenture and each Security shall be deemed to be a contract under the laws of the State of New York, and for all purposes shall be construed in accordance with the laws of

said State, except as may otherwise be required by mandatory provisions of law.

SECTION 10.9 Counterparts. This Indenture may be executed in any number of counterparts, each of which shall be an original; but such counterparts shall together constitute but one and the same instrument.

SECTION 10.10 Effect of Headings. The Article and Section headings herein and the Table of Contents are for convenience only and shall not affect the construction hereof.

ARTICLE ELEVEN

REDEMPTION OF SECURITIES.

SECTION 11.1 Right of Optional Redemption. The Securities may not be redeemed at the option of the Issuer prior to maturity, except that the Securities may be redeemed in part at the option of the Issuer prior to September 15, 1996 upon the terms and subject to the conditions set forth in the form of Security hereinabove recited.

SECTION 11.2 Notice of Redemption; Partial Redemptions. Notice of redemption to the holders of Securities to be redeemed as a whole or in part shall be given by mailing notice of such redemption by first class mail, postage prepaid, at least 30 days and not more than 60 days prior to the date fixed for redemption to such holders of Securities at their last addresses as they shall appear upon the registry books. Any notice which is mailed in the manner herein provided shall be conclusively presumed to have been duly given, whether or not the holder receives the notice. Failure to give notice by mail, or any defect in the notice to the holder of any Security designated for redemption as a whole or in part shall not affect the validity of the proceedings for the redemption of any other Security.

The notice of redemption to each such holder shall specify the principal amount of each Security held by such holder to be redeemed, the date fixed for redemption, the redemption price, the place or places of payment, that payment will be made upon presentation and surrender of such Securities, that interest accrued to the date fixed for redemption will be paid as specified in said notice and that

on and after said date interest thereon or on the portions thereof to be redeemed will cease to accrue. In case any Security is to be redeemed in part only the notice of redemption shall state the portion of the principal amount thereof to be redeemed and shall state that on and after the date fixed for redemption, upon surrender of such Security, a new Security or Securities in principal amount equal to the unredeemed portion thereof will be issued.

The notice of redemption of Securities to be redeemed at the option of the Issuer shall be given by the Issuer or, at the Issuer's request, by the Trustee in the name and at the expense of the Issuer.

On or prior to the redemption date specified in the notice of redemption given as provided in this Section, the Issuer will deposit with the Trustee or with one or more paying agents (or, if the Issuer is acting as its own paying agent, set aside, segregate and hold in trust as provided in Section 3.4) an amount of money sufficient to redeem on the redemption date all the Securities so called for redemption at the appropriate redemption price, together with accrued interest to the date fixed for redemption. If less than all the outstanding Securities are to be redeemed the Issuer will deliver to the Trustee at least 70 days prior to the date fixed for redemption an Officers' Certificate stating the aggregate principal amount of Securities to be redeemed.

If less than all the Securities are to be redeemed, the Trustee shall select, in such manner as it shall deem appropriate and fair but generally pro rata or by lot, Securities to be redeemed in whole or in part. Securities may be redeemed in part in multiples of $1,000 only. The Trustee shall promptly notify the Issuer in writing of the Securities selected for redemption and, in the case of any Securities selected for partial redemption, the principal amount thereof to be redeemed. For all purposes of this Indenture, unless the context otherwise requires, all provisions relating to the redemption of Securities shall relate, in the case of any Security redeemed or to be redeemed only in part, to the portion of the principal amount of such Security which has been or is to be redeemed.

SECTION 11.3 Payment of Securities Called for Redemption. If notice of redemption has been given as above provided, the Securities or portions of Securities specified in such notice shall become due and payable on the date and at the place stated in such notice at the applicable redemption price, together with interest accrued to the date fixed for redemption, and on and after said date (unless the

Issuer shall default in the payment of such Securities at the redemption price, together with interest accrued to said date) interest on the Securities or portions of Securities so called for redemption shall cease to accrue and, except as provided in Sections 5.5 and 9.4, such Securities shall cease from and after the date fixed for redemption to be entitled to any benefit or security under this Indenture, and the holders thereof shall have no right in respect of such Securities except the right to receive the redemption price thereof and unpaid interest to the date fixed for redemption. On presentation and surrender of such Securities at a place of payment specified in said notice, said Securities or the specified portions thereof shall be paid and redeemed by the Issuer at the applicable redemption price, together with interest accrued thereon to the date fixed for redemption; provided that any semi-annual payment of interest becoming due on the date fixed for redemption shall be payable to the holders of such Securities registered as such on the relevant record date subject to the terms and provisions of Section 2.4 hereof.

If any Security called for redemption shall not be so paid upon surrender thereof for redemption, the principal shall, until paid or duly provided for, bear interest from the date fixed for redemption at the rate borne by the Security.

Upon presentation of any Security redeemed in part only, the Issuer shall execute and the Trustee shall authenticate and deliver to or on the order of the holder thereof, at the expense of the Issuer, a new Security or Securities, of authorized denominations, in principal amount equal to the unredeemed portion of the Security so presented.

SECTION 11.4 Exclusion of Certain Securities from Eligibility for Selection for Redemption. Securities shall be excluded from eligibility for selection for redemption if they are identified by registration and certificate number in a written statement signed by an authorized officer of the Issuer and delivered to the Trustee at least 40 days prior to the last date on which notice of redemption may be given as being owned of record and beneficially by, and not pledged or hypothecated by either (a) the Issuer or (b) an entity specifically identified in such written statement directly or indirectly controlling or controlled by or under direct or indirect common control with the Issuer.

SECTION 11.5 Offer to Redeem by Application of Net Proceeds. At such time as the Issuer determines to make a Net Proceeds Offer pursuant to the provisions of Section

3.13 hereof, the Issuer shall deliver to the Trustee a notice to such effect specifying the aggregate principal amount of the Securities for which the Net Proceeds Offer will be made. Within 15 days thereafter, the Trustee shall select the Securities to be offered to be redeemed in accordance with Section 11.2 hereof. Within 10 days thereafter the Issuer shall mail or cause the Trustee to mail (in the Issuer's name and at its expense and pursuant to an Officer's Certificate as required by Section 3.13 hereof) a Net Proceeds Offer to redeem to each Holder of Securities whose Securities are to be offered to be redeemed. The Net Proceeds Offer shall identify the Securities to which it relates and shall contain the information required by the second paragraph of Section 11.2 hereof and shall provide for a redemption date no earlier than 65 days after the mailing of the Net Proceeds Offer.

A Holder receiving a Net Proceeds Offer may elect to have redeemed the Securities to which the Net Proceeds Offer relates by providing written notice thereof to the Trustee and the Issuer on or before 35 days preceding the redemption date and shall thereafter complete the form entitled "Option of Holder to Elect to Have Security Redeemed" on the reverse of the Security and surrender the Security to the Issuer, or depositary, if appointed by the Issuer, or a paying agent at least three days prior to the redemption date. A Holder may not elect to have redeemed less than all of the Securities to which the Net Proceeds Offer relates.

Other than as specifically provided in this Section 11.5, any redemption pursuant to this Section 11.5 shall be made pursuant to the provisions of Sections 11.2 through 11.4 hereof.

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

FLAGSTAR CORPORATION

By /s/ Karl H. Sedlarz
Title: Vice President and Treasurer

Attest:

By /s/ George E. Moseley
Title: Secretary

FIRST TRUST NATIONAL
ASSOCIATION,
as Trustee

By /s/ Frank Leslie
Title: Assistant Vice President

Attest:

By /s/
Title: Assistant Vice President

STATE OF NEW YORK)
: ss.:
COUNTY OF NEW YORK)

On this 23rd day of September, 1993, before me personally came Karl H. Sedlarz, to me known, who being by me personally sworn, did depose and say that he is the Vice President and Treasurer of Flagstar Corporation, the corporation described in and on behalf of which he has executed the above instrument, and that he is authorized by said corporation to execute the same.

/s/ Kate Kamish
Notary Public

STATE OF MINNESOTA)
: ss.:
COUNTY OF RAMSEY)

On this 23rd day of September, 1993, before me personally came Frank P. Leslie III, to me known, who being by me personally sworn, did depose and say that he is the Assistant Vice President of First Trust National Association, the corporation described in and on behalf of which he has executed the above instrument, and that he is authorized by said corporation to execute the same.

/s/ Mary K. Reber

Notary Public

Exhibit 4.25
Conformed Copy

FLAGSTAR CORPORATION

AND

NATIONSBANK OF GEORGIA, NATIONAL ASSOCIATION, TRUSTEE

Indenture

Dated as of September 23, 1993

$125,000,000

11 3/8% Senior Subordinated Debentures Due 2003

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SUBORDINATION OF SECURITIES.

THIS INDENTURE, dated as of September 23, 1993 between Flagstar Corporation, a Delaware corporation (the "Issuer"), and NationsBank of Georgia, National Association, a national banking association, as Trustee (the "Trustee"),

W I T N E S S E T H :

WHEREAS, the Issuer has duly authorized the issue of its 11 3/8% Senior Subordinated Debentures Due 2003 (the "Securities") and, to provide, among other things, for the authentication, delivery and administration thereof, the Issuer has duly authorized the execution and delivery of this Indenture; and

WHEREAS, the Securities and the Trustee's certificate of authentication shall be in substantially the following form:

[FORM OF FACE OF SECURITY]

No.

$

FLAGSTAR CORPORATION
11 3/8% Senior Subordinated Debentures Due 2003

Flagstar Corporation, a Delaware corporation (the "Issuer"), for value received hereby promises to pay to or registered assigns the principal sum of Dollars at the Issuer's office or agency for said purpose on September 15, 2003 in such coin or currency of the United States of America as at the time of payment shall be legal tender for the payment of public and private debts, and to pay interest, semi-annually on March 15 and September 15 of each year, on said principal sum in like coin or currency at the rate per annum set forth above at said office or agency from the March 15 or the September 15, as the case may be, next preceding the date of this Security to which interest on the Securities has been paid or duly provided for, unless the date hereof is a date to which interest on the Securities has been paid or duly provided for, in which case from the date of this Security, or unless no interest has been paid or duly provided for on the Securities, in which case from September 23, 1993, until payment of said principal sum has been made or duly provided for. Notwithstanding the foregoing, if the date hereof is after March 1 or September 1, as the case may be, and before the following March 15 or September 15, this Security shall bear interest from such March 15 or September 15; provided, that if the Issuer shall default in the payment of interest due on such March 15 or September 15, then this Security shall bear interest from the next preceding March 15 or September 15 to which interest on the Securities has been paid or duly provided for, or, if no interest has been paid or duly provided for on the Securities, from September 23, 1993. The interest so payable on any March 15 or September 15 will, except as otherwise provided in the Indenture referred to on the reverse hereof, be paid to the person in whose name this Security is registered at the close of business on the March 1 or September 1 preceding such March 15 or September 15, whether or not such day is a business day; provided that interest may be paid, at the option of the Issuer, by mailing a check therefor payable to the registered holder entitled thereto at his last address as it appears on the Security register or by wire transfer to such holder.

Reference is made to the further provisions set forth on the reverse hereof, including without limitation provisions subordinating the payment of principal of, premium, if any, and interest on the Securities to the payment in full of all Senior Indebtedness as defined in said Indenture. Such further provisions shall for all purposes have the same effect as though fully set forth at this place.

This Security shall not be valid or obligatory until the certificate of authentication hereon shall have been duly signed by the Trustee acting under the Indenture.

IN WITNESS WHEREOF, the Issuer has caused this instrument to be duly executed under its corporate seal.

Dated:

[Seal]

_____

_____

[FORM OF REVERSE OF SECURITY]

Flagstar Corporation

11 3/8% Senior Subordinated Debentures Due 2003

This Security is one of a duly authorized issue of debt securities of the Issuer, limited to the aggregate principal amount of $125,000,000 (except as otherwise provided in the Indenture mentioned below), issued or to be issued pursuant to an indenture dated as of September 23, 1993 (the "Indenture"), duly executed and delivered by the Issuer to NationsBank of Georgia, National Association, as Trustee (herein called the "Trustee"). Reference is hereby made to the Indenture and all indentures supplemental thereto for a description of the rights, limitations of rights, obligations, duties and immunities thereunder of the Trustee, the Issuer and the holders (the words "holders" or "holder" meaning the registered holders or registered holder) of the Securities.

If an Event of Default, as defined in the

Indenture, shall have occurred and be continuing, the Trustee or the holders of at least 30% (or 25% in the case of a default with respect to payment of principal of, premium, if any, or interest on the Securities) in principal amount of the then outstanding Securities may declare the principal amount of the Securities to be due and payable immediately; provided, however, that if any Senior Indebtedness is outstanding pursuant to the Credit Agreement, upon a declaration of acceleration, such principal and interest shall be payable upon the earlier of (x) the day that is five Business Days after the provision to the Issuer and the Credit Agent of such written notice unless such Event of Default has been cured or waived prior to such date and (y) the date of acceleration of any Senior Indebtedness under the Credit Agreement. In the case of an Event of Default arising from certain events of bankruptcy or insolvency, all outstanding Securities become due and payable immediately without further action or notice. The Indenture provides that in certain events a declaration of acceleration and its consequences may be waived by the holders of a majority in aggregate principal amount of the Securities then outstanding and that the holders of a majority in aggregate principal amount of the Securities then outstanding may waive any default under the Indenture and its consequences except a default in the payment of principal of, premium, if any, or interest on any of the Securities. Any such consent or waiver by the holder of this Security (unless revoked as provided in the Indenture) shall be conclusive and binding upon such holder and upon all future holders and owners of this Security and any Security which may be issued in exchange or substitution herefor, whether or not any notation thereof is made upon this Security or such other Securities.

The Indenture permits the Issuer and the Trustee, with the consent of the holders of not less than a majority in aggregate principal amount of the Securities at the time outstanding, evidenced as in the Indenture provided, to execute supplemental indentures adding any provisions to or changing in any manner or eliminating any of the provisions of the Indenture or of any supplemental indenture or modifying in any manner the rights of the holders of the Securities; provided that no such supplemental indenture shall (a) extend the final maturity of any Security, or reduce the principal amount thereof, or reduce the rate or extend the time of payment of interest thereon, or reduce the premium, if any, payable thereon, or reduce any amount payable on the redemption thereof or impair or affect the rights of any Securityholder to institute suit for the payment thereof, or waive a default in the payment of principal of, premium, if any, or interest on any Security,

change the currency of payment of principal of, premium, if any, or interest on any Security, or modify any provision in the Indenture with respect to the priority of the Securities in right of payment without the consent of the holder of each Security so affected; or (b) reduce the aforesaid percentage of Securities, the consent of the holders of which is required for any such supplemental indenture, without the consent of the holders of all Securities then outstanding.

The Securities are subordinated to Senior Indebtedness (as defined in the Indenture), which includes (a) all Senior Indebtedness of the Issuer and its Subsidiaries arising under or in respect of the Credit Agreement, the Senior Notes and the 10 7/8% Notes (each as defined in the Indenture) and all obligations and claims related thereto, (b) all Obligations of the Issuer in respect of Interest Rate Agreements (as defined in the Indenture) and (c) all other Indebtedness permitted by the Indenture to be thereafter created, incurred, assumed or guaranteed by the Issuer which is not expressly by its terms subordinated to, or pari passu with, the Securities and all obligations and claims related thereto. Indebtedness is defined in the Indenture to include (i) all obligations in respect of borrowed money, (ii) all obligations evidenced by bonds, notes, debentures or similar instruments other than Interest Rate Agreements, (iii) all reimbursement obligations and other liabilities with respect to letters of credit, (iv) all obligations to pay the deferred purchase price of property or services, except accounts payable arising in the ordinary course of business, (v) all capital lease obligations under capital leases and (vi) the guaranty of items which would be included in the definition of Indebtedness pursuant to clauses (i) through (v) above; provided that in the case of clauses (i) through (v) above, Indebtedness of any person shall include only obligations reported as liabilities in the financial statements of such person in accordance with generally accepted accounting principles. To the extent provided in the Indenture, Senior Indebtedness must be paid before the Securities may be paid. The Issuer agrees, and each holder by its acceptance of this Security agrees, to the subordination provided in the Indenture and authorizes the Trustee to give it effect. The Securities are senior in right of payment to the 10% Convertible Junior Subordinated Debentures Due 2014 of the Issuer issued pursuant to the indenture dated as of November 1, 1989 between the Issuer and United States Trust Company of New York, trustee, as supplemented. The Securities are pari passu with the 11.25% Senior Subordinated Debentures Due 2004 of the Issuer issued pursuant to the indenture dated as of November 16, 1992 between the Issuer and

NationsBank of Georgia, National Association, trustee.

No reference herein to the Indenture and no provision of this Security or of the Indenture shall alter or impair the obligation of the Issuer, which is absolute and unconditional, to pay the principal of, premium, if any and interest on this Security at the place, times, and rate, and in the currency, herein prescribed.

The Securities are issuable only as registered Securities without coupons in denominations of $1,000 and any multiple of $1,000.

At the office or agency of the Issuer referred to on the face hereof and in the manner and subject to the limitations provided in the Indenture, Securities may be exchanged for a like aggregate principal amount of Securities of other authorized denominations.

Upon due presentment for registration of transfer of this Security at the above-mentioned office or agency of the Issuer, a new Security or Securities of authorized denominations, for a like aggregate principal amount, will be issued to the transferee as provided in the Indenture. No service charge shall be made for any such transfer, but the Issuer may require payment of a sum sufficient to cover any tax or other governmental charge that may be imposed in relation thereto.

Except as set forth in the following paragraph, the Securities may not be redeemed at the option of the Issuer prior to September 15, 1998. The Securities will be redeemable, in whole or in part, at the option of the Issuer, upon mailing of a notice of such redemption not less than 30 or more than 60 days prior to the redemption date to each holder of Securities to be redeemed, at the redemption prices (expressed as percentages of the principal amount) set forth below, plus accrued and unpaid interest, if any, to the redemption date, if redeemed during the 12-month period beginning September 15 of the years indicated below:

Year	Percentage
1998.....	105.688%
1999.....	102.844
2000 and thereafter	100.000

provided that if the date fixed for redemption is March 15 or September 15, then the interest payable on such date shall be paid to the holder of record on the next preceding March 1 or September 1.

Prior to September 15, 1996, the Issuer may redeem up to 35% of the original aggregate principal amount of the Securities, at a redemption price (expressed as a percentage of the principal amount) of 110%, plus accrued and unpaid interest, if any, to the redemption date, with that portion, if any, of the net proceeds of any public offering for cash of FCI Common Stock that is used by FCI to acquire from the Issuer shares of common stock of the Issuer; provided that any such redemption is effected within 60 days after the closing of such public offering of FCI Common Stock.

Notice of redemption shall be mailed at least 30 and not more than 60 days prior to the date fixed for redemption to each holder of Securities to be redeemed at his registered address. Securities may be redeemed in part only in multiples of $1,000.

Subject to the terms of the Indenture, if the Issuer consummates any Asset Sale or sells a Business Segment (as such terms are defined in the Indenture), the Issuer shall be obligated to apply the proceeds thereof to one or more of the following in such combination as the Issuer may choose: (i) an investment in another asset or business in the same line of business as the Issuer and its Subsidiaries, provided such investment occurs within 366 days of such Asset Sale or sale of a Business Segment, (ii) an offer, expiring within 366 days of such Asset Sale or such sale of a Business Segment, to redeem Securities at a redemption price not less than 100% of the principal amount thereof plus accrued and unpaid interest, if any, to the redemption date (a "Net Proceeds Offer") or (iii) the prepayment of outstanding Senior Indebtedness within 366 days of such Asset Sale or sale of a Business Segment; provided, however, that if the net amount not invested pursuant to clause (i) or applied pursuant to clause (iii) above to the prepayment of Senior Indebtedness is less than $25,000,000, the Issuer shall not be further obligated to offer to redeem Securities pursuant to clause (ii) above. Holders of Securities which are the subject of an offer to redeem shall receive an offer to redeem from the Issuer prior to any related redemption date, and may elect to have such Securities redeemed by completing the form entitled "Option of Holder to Elect to Have Security Redeemed" appearing below. Notwithstanding any provision of the Indenture to the contrary, the Issuer may, for a period of 120 days after the last date on which holders of Securities are permitted to elect to have their Securities redeemed in a Net Proceeds Offer, use any Net Proceeds that were available to make such Net Proceeds Offer but not used to redeem Securities pursuant thereto, to purchase, redeem or

otherwise acquire or retire for value securities of the Issuer ranking junior in right of payment to the Securities at a price, stated as a percentage of the principal or face amount of such junior securities, not greater than the price, stated as a percentage of the principal amount of the Securities, offered in the Net Proceeds Offer; provided that if the Net Proceeds Offer is for a principal amount (the "Net Proceeds Offer Amount") of the Securities less than the aggregate principal amount of the Securities then outstanding, then the Net Proceeds available for use by the Issuer for such a purchase, redemption or other acquisition or retirement for value of junior securities shall not exceed the Net Proceeds Offer Amount.

Subject to payment by the Issuer of a sum sufficient to pay the amount due on redemption, interest on this Security (or portion hereof if this Security is redeemed in part) shall cease to accrue upon the date duly fixed for redemption of this Security (or portion hereof if this Security is redeemed in part).

The Issuer, the Trustee, and any authorized agent of the Issuer or the Trustee, may deem and treat the registered holder hereof as the absolute owner of this Security (whether or not this Security shall be overdue and notwithstanding any notation of ownership or other writing hereon made by anyone other than the Issuer or the Trustee or any authorized agent of the Issuer or the Trustee), for the purpose of receiving payment of, or on account of, the principal hereof and premium, if any, and, subject to the provisions on the face hereof, interest hereon and for all other purposes, and neither the Issuer nor the Trustee nor any authorized agent of the Issuer or the Trustee shall be affected by any notice to the contrary.

No recourse shall be had for the payment of the principal of or premium, if any, or the interest on this Security, for any claim based hereon, or otherwise in respect hereof, or based on or in respect of the Indenture or any indenture supplemental thereto, against any incorporator, shareholder, officer or director, as such, past, present or future, of the Issuer or of any successor corporation, either directly or through the Issuer or any successor corporation, whether by virtue of any constitution, statute or rule of law or by the enforcement of any assessment or penalty or otherwise, all such liability being, by the acceptance hereof and as part of the consideration for the issue hereof, expressly waived and released.

[FORM OF TRUSTEE'S CERTIFICATE OF AUTHENTICATION]

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

NATIONSBANK OF GEORGIA,
NATIONAL ASSOCIATION,
as Trustee

Authorized Signatory

OPTION OF HOLDER TO ELECT TO HAVE SECURITY REDEEMED

If you have received a Net Proceeds Offer from the Issuer and want to elect to have this Security redeemed by the Issuer pursuant to Section 11.5 of the Indenture, check the box: [ ]

Date: _____ Your Signature: _____

(Sign exactly as your name appears on the other side of this Security)

Signature Guarantee: _____

AND WHEREAS, all things necessary to make the Securities, when executed by the Issuer and authenticated and delivered by the Trustee as in this Indenture provided, the valid, binding and legal obligations of the Issuer, and to constitute these presents a valid indenture and agreement according to its terms, have been done;

NOW, THEREFORE:

In consideration of the premises and the purchases of the Securities by the holders thereof, the Issuer and the Trustee mutually covenant and agree for the equal and proportionate benefit of the respective holders from time to time of the Securities as follows:

ARTICLE ONE

DEFINITIONS.

SECTION 1.1 Certain Terms Defined. The following terms (except as otherwise expressly provided or unless the context otherwise clearly requires) for all purposes of this Indenture and of any indenture supplemental hereto shall have the respective meanings specified in this Section. All other terms used in this Indenture which are defined in the Trust Indenture Act of 1939 or the definitions of which in the Securities Act of 1933 are referred to in the Trust Indenture Act of 1939 (except as herein otherwise expressly provided or unless the context otherwise clearly requires), shall have the meanings assigned to such terms in said Trust Indenture Act and in said Securities Act as in force at the date of this Indenture. All accounting terms used herein and not expressly defined shall have the meanings given to them in accordance with generally accepted accounting principles, and the term "generally accepted accounting principles" shall mean such accounting principles which are generally accepted at the date or time of any computation or at the date hereof. The words "herein", "hereof" and "hereunder" and other words of similar import refer to this Indenture as a whole and not to any particular Article, Section or other subdivision. The terms defined in this Article include the plural as well as the singular.

"Acquisition Indebtedness" means Indebtedness of any person existing at the time such person becomes a Subsidiary of the Issuer (or at the time such person is merged with or into a Subsidiary of the Issuer), excluding Indebtedness of any Subsidiary of the Issuer (other than such person) incurred in connection with, or in contemplation of, such person becoming a Subsidiary of the Issuer.

"Adjusted Consolidated Net Worth" with respect to the Issuer means, as of any date, the Consolidated Net Worth of the Issuer plus (i) the respective amounts reported on the Issuer's most recent consolidated balance sheet with respect to any preferred stock (other than Disqualified Stock) that by its terms is not entitled to the payment of dividends unless such dividends may be declared and paid only out of net earnings in respect of the year of such declaration and payment, but only to the extent of any cash received by the Issuer upon issuance of such preferred stock or of securities converted into such preferred stock, excluding (ii) any amount reflecting any equity adjustment resulting from a foreign currency translation on a consolidated balance sheet of the Issuer, but only to the extent not excluded in calculating Consolidated Net Worth of the Issuer, plus (iii) any gain realized upon the sale or other disposition of any Business Segments to the extent such gains do not exceed the sum of the aggregate amount of

any losses included (on a net after tax basis) in the computation of Consolidated Net Worth, plus (iv) transaction fees and expenses related to the Recapitalization and any related transactions including amortization thereof, but only to the extent such fees and expenses were included in calculating Consolidated Net Worth of the Issuer.

"Affiliate" means any person directly or indirectly controlling or controlled by or under direct or indirect common control with the Issuer. For the purposes of this definition, beneficial ownership of 10% or more of the voting common equity of a person shall be deemed to be control unless ownership of a lesser amount may be deemed to be control under the Trust Indenture Act; provided, however, that neither DLJ Capital nor any of its affiliates shall be deemed to be an Affiliate for purposes of the covenants in this Indenture.

"Agent" means any registrar, paying agent or co-registrar for the Securities.

"Asset Segment" means (i) Denny's Holdings, Inc., (ii) Spartan Holdings, Inc., (iii) Canteen Holdings, Inc., or (iv) any Subsidiary, group of Subsidiaries or group of assets (other than inventory held for sale in the ordinary course of business) of the Issuer or its Subsidiaries which (A) accounts for at least 20 percent of the total assets of the Issuer and its Subsidiaries on a consolidated basis as of the end of the last fiscal quarter immediately preceding the date for which such determination is being made or (B) accounts for at least 20 percent of the income from continuing operations before income taxes, extraordinary items and cumulative effects of changes in accounting principles of the Issuer and its Subsidiaries on a consolidated basis for the four full fiscal quarters immediately preceding the date for which such calculation is being made.

"Associates" means TW Associates, L.P. and KKR Partners II, L.P.

"Bankruptcy Law" means Title 11, U.S. Code or any similar Federal or state law for the relief of debtors.

"Board of Directors" means either the Board of Directors of the Issuer or any committee of such Board duly authorized to act hereunder.

"Business Day" means a day which in the city (or in any of the cities, if more than one) where amounts are payable in respect of the Securities, as specified on the

face of the form of Security recited above, is neither a legal holiday nor a day on which banking institutions are authorized by law or regulation to close.

"Business Segment" means: (i) each of the Issuer's Significant Subsidiaries, (ii) the capital stock of any of the Issuer's Subsidiaries or (iii) any group of assets of the Issuer or any Subsidiary whether now owned or hereafter acquired, provided, in each case, that the sale (other than the sale of inventory in the ordinary course of business), lease, conveyance or other disposition of such Significant Subsidiary, capital stock or group of assets, as the case may be, either in a single transaction or group of related transactions that are part of a common plan, results in Net Proceeds to the Issuer and its Subsidiaries of $50 million or more.

"Capital Stock" means any and all shares, interests, participations, rights or other equivalents (however designated) of corporate stock.

"Cash Equivalents" means (i) securities issued or directly and fully guaranteed or insured by the United States of America or any agency or instrumentality thereof (provided that the full faith and credit of the United States of America is pledged in support thereof), (ii) time deposits and certificates of deposit of any domestic commercial bank of recognized standing having capital and surplus in excess of $500,000,000 or a commercial bank organized under the laws of any other country that is a member of the OECD and having total assets in excess of $500,000,000 with a maturity date not more than one year from the date of acquisition, (iii) repurchase obligations with a term of not more than 7 days for underlying securities of the types described in clause (i) above entered into with any bank meeting the qualifications specified in clause (ii) above, (iv) commercial paper issued by the parent corporation of any domestic commercial bank of recognized standing having capital and surplus in excess of $500,000,000 and commercial paper issued by others rated at least A-2 or the equivalent thereof by Standard & Poor's Corporation or at least P-2 or the equivalent thereof by Moody's Investors Service, Inc. and in each case maturing within one year after the date of acquisition and (v) investments in money market funds substantially all of whose assets comprise securities of the types described in clauses (i) through (iv) above.

"Code" means the Internal Revenue Code of 1986, as it may be amended from time to time.

"Commission" means the Securities and Exchange Commission.

"Consolidated Fixed Charges" means, with respect to any person for a given period, consolidated interest expense of such person and its consolidated Subsidiaries to the extent deducted in computing Consolidated Net Income (including, without limitation, amortization of original issue discount and non-cash interest payments, all net payments and receipts in respect of Interest Rate Agreements and the interest component of capital leases, but excluding deferred financing costs existing immediately after the closing of the Equity Investment or incurred in connection with the Recapitalization and amortization thereof) plus the amount of all cash dividend payments on any series of preferred stock of such person; provided that if, during such period (i) such person or any of its Subsidiaries shall have made any asset sales (other than, in the case of the Issuer and its Subsidiaries, sales of the Capital Stock of or any assets of Unrestricted Subsidiaries), Consolidated Fixed Charges of such person and its Subsidiaries for such period shall be reduced by an amount equal to the Consolidated Fixed Charges directly attributable to the assets which are the subject of such asset sales for such period and (ii) such person or any of its Subsidiaries has made any acquisition of assets or Capital Stock (occurring by merger or otherwise), including, without limitation, any acquisition of assets or Capital Stock occurring in connection with the transaction causing a calculation to be made hereunder, Consolidated Fixed Charges of such person and its Subsidiaries shall be calculated on a pro forma basis as if such acquisition of assets or Capital Stock (including the incurrence of any Indebtedness in connection with any such acquisition and the application of the proceeds thereof) took place on the first day of such period; and provided, further, that in the case of the Issuer, if the closing of any aspect of the Recapitalization occurred during such period, Consolidated Fixed Charges of the Issuer and its Subsidiaries for such period shall be calculated on a pro forma basis as if such closing (including the incurrence of any Indebtedness in connection with such closing and the application of the proceeds thereof) took place on the first day of such period.

"Consolidated Net Income" with respect to any person (the "Subject Person") means, for a given period, the aggregate of the Net Income of such Subject Person and its Subsidiaries for such period, on a consolidated basis, determined in accordance with generally accepted accounting principles, provided that (i) the Net Income of any person that is not a Subsidiary of the Subject Person or is

accounted for by the equity method of accounting shall be included only to the extent of the amount of dividends or distributions paid to the Subject Person and its Subsidiaries, (ii) the Net Income of any person that is a Subsidiary (other than a Subsidiary of which at least 80% of the capital stock having ordinary voting power for the election of directors or other governing body of such Subsidiary is owned by the Subject Person directly or indirectly through one or more Subsidiaries) shall be included only to the extent of the lesser of (a) the amount of dividends or distributions paid to the Subject Person and its Subsidiaries and (b) the Net Income of such person, (iii) the Net Income of any person acquired by the Subject Person and its Subsidiaries in a pooling of interests transaction for any period prior to the date of such acquisition shall be excluded and (iv) the Net Income (if positive) of any person that becomes a Subsidiary of the Issuer after the date hereof shall be included only to the extent that the declaration or payment of dividends on Capital Stock or similar distributions by that Subsidiary to the Issuer or to any other consolidated Subsidiary of the Issuer of such Net Income is at the time permitted under the terms of its charter and all agreements, instruments, judgments, decrees, orders, statutes, rules and governmental regulations binding upon or applicable to that Subsidiary, provided that if the exclusion from an otherwise positive Net Income of certain amounts pursuant to this clause (iv) would cause such Net Income to be negative, then such Net Income shall be deemed to be zero.

"Consolidated Net Worth" means, with respect to any person, at any date of determination, the sum of the Capital Stock and additional paid-in capital plus retained earnings (or minus accumulated deficit) of such person and its Subsidiaries on a consolidated basis, each item to be determined in conformity with generally accepted accounting principles (excluding the effects of foreign currency exchange adjustments under Financial Accounting Standards Board Statement of Financial Accounting Standards No. 52), except that all effects of the application of Accounting Principles Board Opinions Nos. 16 and 17 and related interpretations and all charges related to the Recapitalization shall be disregarded.

"Controlled Corporation EBITDA Amount" means, for any Controlled Corporation securities of which have been distributed in a Section 355 Transaction, the EBITDA of the Controlled Corporation for the four full fiscal quarters of the Issuer last preceding the date such Section 355 Transaction is effected.

"Corporate Trust Office" means the office of the Trustee at which the corporate trust business of the Trustee shall, at any particular time, be principally administered, which office is, at the date as of which this Indenture is dated, located at 600 Peachtree Street, N.E., Suite 900, Atlanta, Georgia 30308, Attention: Corporate Trust Administration.

"Credit Agent" means Citibank, N.A., as Managing Agent under the Credit Agreement, or any successor thereto; provided that "Credit Agent" shall also mean any person acting as managing agent (or in a similar capacity) under any agreement pursuant to which the Credit Agreement is refunded or refinanced if such person is designated as such by each person that is at the time of such designation a Credit Agent; and provided further that if at any time there shall be more than one Credit Agent, then "Credit Agent" shall mean each such Credit Agent, and any notice, consent or waiver to be given by, action to be taken by, or notice to be given to, the Credit Agent shall be given or taken by, or given to, each such Credit Agent.

"Credit Agreement" means the Amended and Restated Credit Agreement dated as of October 26, 1992 among the Issuer, the lenders party thereto and Citibank, N.A., as Managing Agent, including any and all related notes, collateral and security documents, instruments and agreements executed in connection therewith (including, without limitation, all Loan Documents (as defined in such Credit Agreement)) and all obligations of the Issuer and its Subsidiaries incurred thereunder or in respect thereof, and in each case as amended, supplemented, restructured or otherwise modified, extended or renewed and each other agreement pursuant to which any or all of the foregoing may be refunded or refinanced, from time to time.

"Default" means any event that is, or after notice or passage of time would be, an Event of Default.

"Disqualified Stock" means any capital stock that, by its terms (or by the terms of any security into which it is convertible or for which it is exchangeable), or upon the happening of any event, matures or is mandatorily redeemable, pursuant to a sinking fund obligation or otherwise, or is redeemable at the option of the holder thereof, in whole or in part, on or prior to the maturity date of the Securities.

"DLJ" means Donaldson, Lufkin & Jenrette Securities Corporation.

"DLJ Capital" means DLJ Capital Corporation.

"EBITDA" means, with respect to any person and its consolidated Subsidiaries for a given period, the Consolidated Net Income of such person for such period plus (i) an amount equal to any net loss realized upon the sale or other disposition of any Business Segment (to the extent such loss was deducted in computing Consolidated Net Income), (ii) any provision for taxes based on income or profits deducted in computing Consolidated Net Income and any provision for taxes utilized in computing net loss under clause (i) hereof, (iii) consolidated interest expense (including amortization of original issue discount and non-cash interest payments, all net payments and receipts in respect of Interest Rate Agreements and the interest component of capital leases), and (iv) depreciation and amortization (including amortization of goodwill, deferred financing costs existing immediately after the closing of the Equity Investment or incurred in connection with the Recapitalization, and other intangibles) to the extent required under generally accepted accounting principles, all on a consolidated basis; provided that if, during such period (A) such person or any of its Subsidiaries shall have made any asset sales (other than, in the case of the Issuer and its Subsidiaries, sales of the Capital Stock of or any assets of Unrestricted Subsidiaries), EBITDA of such person and its Subsidiaries for such period shall be reduced by an amount equal to the EBITDA directly attributable to the assets which are the subject of such asset sales for such period and (B) such person or any of its Subsidiaries has made any acquisition of assets or Capital Stock (occurring by merger or otherwise), including, without limitation, any acquisition of assets or Capital Stock occurring in connection with the transaction causing a calculation to be made hereunder, EBITDA of such person and its Subsidiaries shall be calculated, excluding any expenses which in the good faith estimate of management will be eliminated as a result of such acquisition, on a pro forma basis as if such acquisition of assets or Capital Stock (including the incurrence of any Indebtedness in connection with any such acquisition and the application of the proceeds thereof) took place on the first day of such period; and provided, further, that in the case of the Issuer, if the closing of any aspect of the Recapitalization occurred during such period, EBITDA of the Issuer and its Subsidiaries for such period shall be calculated on a pro forma basis as if such closing (including the incurrence of any Indebtedness in connection with such closing and the application of the proceeds thereof) took place on the first day of such period.

"11.25% Debentures" means the 11.25% Senior Subordinated Debentures Due 2004 of the Issuer in an aggregate principal amount not to exceed $738,800,000.

"Equity Interests" means Capital Stock or warrants, options or other rights to acquire Capital Stock (but excluding any debt security that is convertible into or exchangeable for Capital Stock).

"Equity Investment" means the purchase by Associates of 100 million shares of FCI Common Stock and 75 million warrants to purchase FCI Common Stock on November 16, 1992.

"Event of Default" means any event or condition specified as such in Section 4.1 which shall have continued for the period of time, if any, therein designated.

"Excluded Properties" means each of (i) the Issuer's food distribution and warehouse facility located in Rancho Cucamonga, California and (ii) the Issuer's corporate headquarters property in Spartanburg, South Carolina.

"Existing Indebtedness" means Indebtedness of the Issuer or any subsidiary existing on the date hereof.

"FCI" means Flagstar Companies, Inc. (formerly TW Holdings, Inc.), a Delaware corporation.

"FCI Common Stock" means the common stock, par value $.50 per share, of FCI.

"Fixed Charge Coverage Ratio" means, with respect to any person, for a given period, the ratio of the EBITDA of such person for such period to the Consolidated Fixed Charges of such person for such period.

"GTO" means Gollust, Tierney and Oliver, a New Jersey general partnership, or Gollust, Tierney and Oliver Incorporated, a New York corporation.

"GTO Fee" means an annual fee of $250,000 payable to GTO or any of its affiliates for each of 1993 and 1994.

"Holder", "holder of Securities", "Securityholder" or other similar terms means the registered holder of any Security.

"Indebtedness" with respect to any person means at any date, without duplication, (i) all obligations of such person for borrowed money, (ii) all obligations of such

person evidenced by bonds, debentures, notes or other similar instruments other than Interest Rate Agreements, (iii) all reimbursement obligations and other liabilities of such person with respect to letters of credit issued for such person's account, (iv) all obligations of such person to pay the deferred purchase price of property or services, except accounts payable arising in the ordinary course of business, (v) all obligations of such person as lessee in respect of capital lease obligations under capital leases and (vi) all obligations of others of a nature described in any of clauses (i) through (v) above guaranteed by such person; provided that in the case of clauses (i) through (v) above, Indebtedness shall include only obligations reported as liabilities in the financial statements of such person in accordance with generally accepted accounting principles.

"Indenture" means this instrument as originally executed and delivered or, if amended or supplemented as herein provided, as so amended or supplemented.

"Indentures" means collectively this Indenture, the Senior Note Indenture and the indentures pursuant to which the 11.25% Debentures, the 10 7/8% Notes and the 10% Debentures are issued.

"Interest Rate Agreement" means any interest rate protection agreement, interest rate future, interest rate option, interest rate swap, interest rate cap or other interest rate hedge arrangement to or under which the Issuer or any of its subsidiaries is or becomes a party or a beneficiary.

"Investment" means any direct or indirect advance, loan (other than advances to customers in the ordinary course of business, which are recorded as accounts receivable on the balance sheet of any person or its subsidiaries) or other extension of credit or capital contribution to (by means of any transfer of cash or other property to others or any payment for property or services for the account or use of others), or any purchase or acquisition of capital stock, bonds, notes, debentures or other securities issued by, any other person.

"Issuer" means (except as otherwise provided in Article Five) Flagstar Corporation, a Delaware corporation, and, subject to Article Eight, its successors and assigns.

"KKR" means Kohlberg Kravis Roberts & Co., a Delaware limited partnership, or KKR Associates, a New York limited partnership.

"Lien" means, with respect to any asset, any mortgage, lien, pledge, charge, security interest or encumbrance of any kind in respect of such asset, whether or not filed, recorded or otherwise perfected under applicable law (including any conditional sale or other title retention agreement, any capital lease, any option or other agreement to sell and any filing of or agreement to give any financing statement under the Uniform Commercial Code (or equivalent statutes) of any jurisdiction).

"Mortgage Financing" means the incurrence by the Issuer or a Subsidiary of the Issuer of any Indebtedness secured by a mortgage or other Lien on real property acquired or improved by the Issuer or any Subsidiary of the Issuer after the date hereof.

"Mortgage Financing Proceeds" means, with respect to any Mortgage Financing, the aggregate amount of cash proceeds received or receivable by the Issuer or any Subsidiary of the Issuer in connection with such financing after deducting therefrom brokerage commissions, legal fees, finder's fees, closing costs and other expenses incidental to such Mortgage Financing and the amount of taxes payable in connection with or as a result of such transaction, to the extent, but only to the extent, that the amounts so deducted are, at the time of receipt of such cash, actually paid to a person that is not an Affiliate and are properly attributable to such transaction or to the asset that is the subject thereof.

"Mortgage Refinancing" means the incurrence by the Issuer or a Subsidiary of the Issuer of any Indebtedness secured by a mortgage or other Lien on real property subject to a mortgage or other Lien existing on the date hereof or created or incurred subsequent to the date hereof as permitted hereby and owned by the Issuer or any Subsidiary of the Issuer.

"Mortgage Refinancing Proceeds" means, with respect to any Mortgage Refinancing, the aggregate amount of cash proceeds received or receivable by the Issuer or any Subsidiary of the Issuer in connection with such refinancing after deducting therefrom the original mortgage amount of the underlying Indebtedness refinanced therewith and brokerage commissions, legal fees, finder's fees, closing costs and other expenses incidental to such Mortgage Refinancing and the amount of taxes payable in connection with or as a result of such transaction, to the extent, but only to the extent, that the amounts so deducted are, at the time of receipt of such cash, actually paid to a person that is not an Affiliate and are properly attributable to such

transaction or to the asset that is the subject thereof.

"Net Income" of any person shall mean the net income (loss) of such person, determined in accordance with generally accepted accounting principles, excluding, however, (i) any gain or loss, together with any related provision for taxes on such gain or loss, realized upon the sale or other disposition (including, without limitation, dispositions pursuant to sale and leaseback transactions) of a Business Segment, (ii) any charges arising as a result of the Recapitalization, and (iii) any gain or loss realized upon the sale or other disposition by such person of any capital stock or marketable securities.

"Net Proceeds" with respect to any Asset Sale, sale and leaseback transaction or sale or other disposition of a Business Segment, means (i) cash (freely convertible into U.S. dollars) received by the Issuer or any Subsidiary from such transaction, after (a) provision for all income or other taxes measured by or resulting from such transaction, (b) payment of all brokerage commissions and other expenses (including, without limitation, the payment of principal, premium (if any) and interest on Indebtedness required (other than pursuant to Section 3.13(a)) to be paid as a result of such transaction) in connection with such transaction and (c) deduction of appropriate amounts to be provided by the Issuer as a reserve, in accordance with generally accepted accounting principles, against any liabilities associated with the asset disposed of in such transaction and retained by the Issuer after such sale or other disposition thereof, including, without limitation, pension and other post-employment benefit liabilities and liabilities related to environmental matters or against any indemnification obligations associated with such transaction and (ii) promissory notes received by the Issuer or any Subsidiary in connection with such transaction upon the liquidation or conversion of such notes into cash.

"Obligations" means, with respect to any Indebtedness or any Interest Rate Agreement, any principal, premium, interest (including, without limitation, interest, whether or not allowed, after the filing of a petition initiating certain bankruptcy proceedings), penalties, commissions, charges, expenses, fees, indemnifications, reimbursements and other liabilities or amounts payable under or in respect of the documentation governing such Indebtedness or such Interest Rate Agreement.

"OECD" means the Organization for Economic Cooperation and Development.

"Officers' Certificate" means a certificate signed by the Chairman of the Board of Directors or the President or any Vice President (whether or not designated by a number or numbers or a word or words added before or after the title "Vice President") and by the Treasurer or the Secretary or any Assistant Secretary of the Issuer and delivered to the Trustee. Each such certificate shall comply with Section 314 of the Trust Indenture Act of 1939 and include the statements provided for in Section 10.5.

"Opinion of Counsel" means an opinion in writing signed by legal counsel who may be an employee of or counsel to the Issuer. Each such opinion shall comply with Section 314 of the Trust Indenture Act and include the statements provided for in Section 10.5, if and to the extent required hereby.

"Outstanding", when used with reference to Securities, shall, subject to the provisions of Section 6.4, mean, as of any particular time, all Securities authenticated and delivered by the Trustee under this Indenture, except

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

(b) Securities, or portions thereof, for the payment or redemption of which moneys in the necessary amount shall have been deposited in trust with the Trustee or with any paying agent (other than the Issuer) or shall have been set aside, segregated and held in trust by the Issuer (if the Issuer shall act as its own paying agent), provided that if such Securities are to be redeemed prior to the maturity thereof, notice of such redemption shall have been given as herein provided, or provision satisfactory to the Trustee shall have been made for giving such notice; and

(c) Securities in substitution for which other Securities shall have been authenticated and delivered, or which shall have been paid, pursuant to the terms of Section 2.6 (unless proof satisfactory to the Trustee is presented that any of such Securities is held by a person in whose hands such Security is a legal, valid and binding obligation of the Issuer).

"Permitted Investments" means (i) cash (including major foreign currency or currency of a country in which the Issuer or any of its Subsidiaries has operations) or Cash Equivalents, (ii) investments that are in persons at least a

majority of whose revenues are derived from food service operations, ancillary operations or related activities and that have the purpose of furthering the food service operations of the Issuer or any of its Subsidiaries, (iii) advances to employees not in excess of $5,000,000 at any one time outstanding, (iv) accounts receivable created or acquired in the ordinary course of business, (v) obligations or shares of stock received in connection with any good faith settlement or bankruptcy proceeding involving a claim relating to a Permitted Investment, (vi) evidences of Indebtedness, obligations or other investments not exceeding $5,000,000 in the aggregate held at any one time by the Issuer or any of its Subsidiaries and (vii) currency swap agreements and other similar agreements designed to hedge against fluctuations in foreign exchange rates entered into in the ordinary course of business in connection with the operation of the business.

"Preferred Stock" means, with respect to any person, any and all shares, interests, participations or other equivalents (however designated) of such person's preferred or preference stock whether now outstanding or issued after the date of the Indenture.

"principal" wherever used with reference to the Securities or any Security or any portion thereof, shall be deemed to include "and premium, if any".

"Recapitalization" means the recapitalization of FCI contemplated by the Stock and Warrant Purchase Agreement dated as of August 11, 1992 between FCI and Associates.

"Remaining Section 355 Amount" means at any time an amount equal to (i) 30% of the Specified Issuer EBITDA less (ii) the sum of the Controlled Corporation EBITDA Amounts for the Controlled Corporations in each Section 355 Transaction effected by the Issuer prior to such time.

"Responsible Officer" when used with respect to the Trustee means the chairman of the board of directors, any vice chairman of the board of directors, the chairman of the trust committee, the chairman of the executive committee, any vice chairman of the executive committee, the president, any vice president (whether or not designated by numbers or words added before or after the title "vice president"), the cashier, the secretary, the treasurer, any trust officer, any assistant trust officer, any assistant vice president, any assistant cashier, any assistant secretary, any assistant treasurer, or any other officer or assistant officer of the Trustee customarily performing functions similar to those performed by the persons who at

the time shall be such officers, respectively, or to whom any corporate trust matter is referred because of his knowledge of and familiarity with the particular subject.

"Restricted Investments" means any investments in, capital contributions, loans or advances to or purchases of equity interests in, any person that is not a wholly owned subsidiary, or other transfers of assets to Subsidiaries or Affiliates that are not wholly owned (other than any such other transfers of assets to Subsidiaries or Affiliates that are not wholly owned in transactions the terms of which are fair and reasonable to the transferor and are at least as favorable as the terms that could be obtained by the transferor in a comparable transaction made on an arm's length basis between unaffiliated parties (as conclusively determined, for any such transfer involving aggregate consideration in excess of $5 million, by a majority of the directors of the Issuer unaffiliated with such Subsidiary or Affiliate or, if there are no such directors, by a majority of the directors of the Issuer, and otherwise as conclusively determined by the Issuer)), except in each case for Permitted Investments and any such investments existing on the date hereof.

"Section 355 Percentage" means, for the first Section 355 Transaction effected after the date hereof, 30%, and shall thereafter be subject to reduction as follows: Immediately after the time at which any Section 355 Transaction is effected through a distribution of securities of a Controlled Corporation pursuant to clause (7) of the second paragraph of Section 3.9, the Section 355 Percentage shall equal (i) the Section 355 Percentage immediately prior to such time less (ii) the percentage of (x) the EBITDA of the Issuer for the four full fiscal quarters of the Issuer last preceding the date such Section 355 Transaction is effected represented by (y) the EBITDA of such Controlled Corporation for such period.

"Section 355 Transaction" means a transaction that qualifies for tax-free treatment under Section 355 of the Code, or any similar taxable transaction, any of which is effected after the date hereof.

"Security" or "Securities" means any of the 11 3/8% Senior Subordinated Debentures Due 2003 authenticated and delivered under this Indenture.

"Senior Indebtedness" means (i) all obligations of the Issuer and its Subsidiaries now or hereafter existing under or in respect of the Credit Agreement, the Senior Notes and the 10 7/8% Notes whether for principal, interest

(including, without limitation, interest accruing after the filing of a petition initiating any proceeding referred to in Section 4.1(6) or Section 4.1(7) hereof, whether or not such interest is an allowable claim under such proceeding), penalties, commissions, charges, indemnifications, liabilities, reimbursement obligations in respect of letters of credit, fees, expenses or other amounts payable under or in respect of the Credit Agreement and all obligations and claims related thereto, (ii) all Obligations of the Issuer in respect of Interest Rate Agreements and (iii) additional Indebtedness permitted by Section 3.11(a), Section 3.11(b), Section 3.11(c) or Section 3.11(e) hereof which is not expressly by its terms subordinated to, or pari passu with, the Securities, and all Obligations and claims related thereto.

Notwithstanding anything to the contrary in the foregoing, Senior Indebtedness shall not include (x) any Indebtedness of the Issuer to any of its Subsidiaries or (y) Indebtedness incurred for the purchase of goods or materials or for services (other than services provided by the Credit Agent in connection with the Credit Agreement or any other party to an agreement evidencing Senior Indebtedness in connection with such agreement) obtained in the ordinary course of business. Senior Indebtedness under or in respect of the Credit Agreement, the Senior Notes and the 10 7/8% Notes shall continue to constitute Senior Indebtedness for all purposes of this Indenture, and the provisions of Article 12 shall continue to apply to such Senior Indebtedness, notwithstanding that such Senior Indebtedness or any obligations or claims in respect thereof may be disallowed, avoided or subordinated pursuant to any Bankruptcy Law or other applicable insolvency law or equitable principles.

"Senior Notes" means the 10 3/4% Senior Notes Due 2001 of the Issuer in an aggregate amount not to exceed $275,000,000.

"Senior Note Indenture" means the indenture governing the Senior Notes, as the same may be amended, supplemented or restated from time to time.

"Significant Subsidiary" means any Subsidiary of the Issuer that would be a "significant subsidiary" as defined in Rule 1-02 of Regulation S-X under the Securities Act of 1933, as amended (the "Act"), and the Securities Exchange Act of 1934, as amended (the "Exchange Act") (as such Regulation is in effect on the date of the Indenture) (excluding, except for the purposes of determining an Event of Default, subparagraph (c) of such definition).

"Specified Issuer EBITDA" means the EBITDA of the Issuer for the four full fiscal quarters of the Issuer last preceding the date of the first Section 355 Transaction effected after the date hereof.

"Specified Senior Indebtedness" means (i) Senior Indebtedness under or in respect of the Credit Agreement, (ii) Senior Indebtedness outstanding pursuant to the Senior Notes, (iii) Senior Indebtedness outstanding pursuant to the 10 7/8% Notes and (iv) any other Senior Indebtedness designated as Specified Senior Indebtedness by the Issuer.

"Subsidiary" of any person means any entity of which shares of the capital stock or other equity interests (including partnership interests) entitled to cast at least a majority of the votes that may be cast by all shares or equity interests having ordinary voting power for the election of directors or other governing body of such entity is owned by such person directly and/or through one or more Subsidiaries; provided that, except for purposes of Section 12, each Unrestricted Subsidiary shall be excluded from the definition of Subsidiary.

"10% Debentures" means the 10% Convertible Junior Subordinated Debentures Due 2014 of the Issuer in an aggregate principal amount not to exceed $100,000,000.

"10 7/8% Notes" means the 10 7/8% Senior Notes Due 2002 of the Issuer in an aggregate principal amount not to exceed $300,000,000.

"Trustee" means the entity identified as "Trustee" in the first paragraph hereof and, subject to the provisions of Article Five, shall also include any successor trustee.

"Trust Indenture Act of 1939" (except as otherwise provided in Sections 7.1 and 7.2) means the Trust Indenture Act of 1939 as in force at the date as of which this Indenture was originally executed.

"Unrestricted Subsidiary" means (i) any subsidiary of the Issuer which at the time of determination is an Unrestricted Subsidiary (as designated by the Board of Directors, as provided below) and (ii) any subsidiary of an Unrestricted Subsidiary. The Board of Directors may designate any subsidiary of the Issuer (including any Subsidiary and any newly acquired or newly formed subsidiary) to be an Unrestricted Subsidiary unless such subsidiary owns any Capital Stock of, or owns, or holds any Lien on, any property of, any Subsidiary of the Issuer

(other than any subsidiary of the subsidiary to be so designated), provided that (a) any Unrestricted Subsidiary must be an entity of which shares of the capital stock or other equity interests (including partnership interests) entitled to cast at least a majority of the votes that may be cast by all shares or equity interests having ordinary voting power for the election of directors or other governing body are owned, directly or indirectly, by the Issuer, (b) the Issuer certifies that such designation complies with Section 3.9 and Section 3.18 and (c) each of (I) the subsidiary to be so designated and (II) its subsidiaries has not at the time of designation, and does not thereafter, create, incur, issue, assume, guarantee or otherwise become directly or indirectly liable with respect to any Indebtedness pursuant to which the lender has recourse to any of the assets of the Issuer or any of its Subsidiaries. The Board of Directors may designate any Unrestricted Subsidiary to be a Subsidiary; provided that immediately after giving effect to such designation, the Issuer and its Subsidiaries could incur at least $1 of additional Indebtedness pursuant to the Fixed Charge Coverage Ratio test set forth in Section 3.11(a) on a pro forma basis taking into account such designation.

"Weighted Average Life to Maturity" means, when applied to any Indebtedness at any date, the number of years obtained by dividing (i) the then outstanding aggregate principal amount of such Indebtedness into (ii) the total of the product obtained by multiplying (a) the amount of each then remaining installment, sinking fund, serial maturity or other required payment of principal, including payment at final maturity, in respect thereof, by (b) the number of years (calculated to the nearest one-twelfth) which will elapse between such date and the making of such payment.

ARTICLE TWO

ISSUE, EXECUTION, FORM AND REGISTRATION OF SECURITIES.

SECTION 2.1 Authentication and Delivery of Securities. Upon the execution and delivery of this Indenture, or from time to time thereafter, Securities in an aggregate principal amount not in excess of the amount specified in the form of Security hereinabove recited (except as otherwise provided in Section 2.6) may be executed by the Issuer and delivered to the Trustee for authentication, and the Trustee shall thereupon authenticate

and deliver said Securities to or upon the written order of the Issuer, signed by both (a) its Chairman of the Board of Directors, or any Vice Chairman of the Board of Directors, or its President or any Vice President (whether or not designated by a number or numbers or a word or words added before or after the title "Vice President") and (b) by its Treasurer or any Assistant Treasurer without any further action by the Issuer.

SECTION 2.2 Execution of Securities. The Securities shall be signed on behalf of the Issuer by both (a) its Chairman of the Board of Directors or any Vice Chairman of the Board of Directors or its President or any Vice President (whether or not designated by a number or numbers or a word or words added before or after the title "Vice President") and (b) by its Treasurer or any Assistant Treasurer or its Secretary or any Assistant Secretary, under its corporate seal which may, but need not, be attested. Such signatures may be the manual or facsimile signatures of the present or any future such officers. The seal of the Issuer may be in the form of a facsimile thereof and may be impressed, affixed, imprinted or otherwise reproduced on the Securities. Typographical and other minor errors or defects in any such reproduction of the seal or any such signature shall not affect the validity or enforceability of any Security which has been duly authenticated and delivered by the Trustee.

In case any officer of the Issuer who shall have signed any of the Securities shall cease to be such officer before the Security so signed shall be authenticated and delivered by the Trustee or disposed of by the Issuer, such Security nevertheless may be authenticated and delivered or disposed of as though the person who signed such Security had not ceased to be such officer of the Issuer; and any Security may be signed on behalf of the Issuer by such persons as, at the actual date of the execution of such Security, shall be the proper officers of the Issuer, although at the date of the execution and delivery of this Indenture any such person was not such officer.

SECTION 2.3 Certificate of Authentication. Only such Securities as shall bear thereon a certificate of authentication substantially in the form hereinbefore recited, executed by the Trustee by manual signature of one of its authorized signatories, shall be entitled to the benefits of this Indenture or be valid or obligatory for any purpose. Such certificate by the Trustee upon any Security executed by the Issuer shall be conclusive evidence that the Security so authenticated has been duly authenticated and delivered hereunder and that the holder is entitled to the

benefits of this Indenture.

SECTION 2.4 Form, Denomination and Date of Securities; Payments of Interest. The Securities and the Trustee's certificates of authentication shall be substantially in the form recited above. The Securities shall be issuable as registered securities without coupons and in denominations provided for in the form of Security above recited. The Securities shall be numbered, lettered, or otherwise distinguished in such manner or in accordance with such plans as the officers of the Issuer executing the same may determine with the approval of the Trustee.

Any of the Securities may be issued with appropriate insertions, omissions, substitutions and variations, and may have imprinted or otherwise reproduced thereon such legend or legends, not inconsistent with the provisions of this Indenture, as may be required to comply with any law or with any rules or regulations pursuant thereto, or with the rules of any securities market in which the Securities are admitted to trading, or to conform to general usage.

Each Security shall be dated the date of its authentication, shall bear interest from the applicable date and shall be payable on the dates and in the manner specified on the face of the form of Security recited above.

The person in whose name any Security is registered at the close of business on any record date with respect to any interest payment date shall be entitled to receive the interest, if any, payable on such interest payment date notwithstanding any transfer or exchange of such Security subsequent to the record date and prior to such interest payment date, except if and to the extent the Issuer shall default in the payment of the interest due on such interest payment date, in which case such defaulted interest shall be paid to the persons in whose names outstanding Securities are registered at the close of business on a subsequent record date (which shall be not less than five business days prior to the date of payment of such defaulted interest) established by notice given by mail by or on behalf of the Issuer to the holders of Securities not less than 15 days preceding such subsequent record date. The term "record date" as used with respect to any interest payment date (except a date for payment of defaulted interest) shall mean if such interest payment date is the first day of a calendar month, the fifteenth day of the next preceding calendar month and shall mean, if such interest payment date is the fifteenth day of a calendar month, the first day of such calendar month, whether or not such record

date is a business day. Interest will be computed on the basis of a 360-day year of twelve 30-day months.

SECTION 2.5 Registration, Transfer and Exchange. The Issuer will keep at each office or agency to be maintained for the purpose as provided in Section 3.2 a register or registers in which, subject to such reasonable regulations as it may prescribe, it will register, and will register the transfer of, Securities as in this Article provided. Such register shall be in written form in the English language or in any other form capable of being converted into such form within a reasonable time. At all reasonable times such register or registers shall be open for inspection by the Trustee.

Upon due presentation for registration of transfer of any Security at each such office or agency, the Issuer shall execute and the Trustee shall authenticate and deliver in the name of the transferee or transferees a new Security or Securities in authorized denominations for a like aggregate principal amount.

Any Security or Securities may be exchanged for a Security or Securities in other authorized denominations, in an equal aggregate principal amount. Securities to be exchanged shall be surrendered at each office or agency to be maintained by the Issuer for the purpose as provided in Section 3.2, and the Issuer shall execute and the Trustee shall authenticate and deliver in exchange therefor the Security or Securities which the Securityholder making the exchange shall be entitled to receive, bearing numbers not contemporaneously outstanding.

All Securities presented for registration of transfer, exchange, redemption or payment shall (if so required by the Issuer or the Trustee) be duly endorsed by, or be accompanied by a written instrument or instruments of transfer in form satisfactory to the Issuer and the Trustee duly executed by, the holder or his attorney duly authorized in writing.

The Issuer may require payment of a sum sufficient to cover any tax or other governmental charge that may be imposed in connection with any exchange or registration of transfer of Securities. No service charge shall be made for any such transaction.

The Issuer shall not be required to exchange or register a transfer of (a) any Securities for a period of 15 days next preceding the first mailing of notice of redemption of Securities to be redeemed, or (b) any

Securities selected, called or being called for redemption except, in the case of any Security where public notice has been given that such Security is to be redeemed in part, the portion thereof not so to be redeemed.

All Securities issued upon any transfer or exchange of Securities shall be valid obligations of the Issuer, evidencing the same debt, and entitled to the same benefits under this Indenture, as the Securities surrendered upon such transfer or exchange.

SECTION 2.6 Mutilated, Defaced, Destroyed, Lost and Stolen Securities. In case any temporary or definitive Security shall become mutilated, defaced or be apparently destroyed, lost or stolen, the Issuer in its discretion may execute, and upon the written request of any officer of the Issuer, the Trustee shall authenticate and deliver, a new Security, bearing a number not contemporaneously outstanding, in exchange and substitution for the mutilated or defaced Security, or in lieu of and substitution for the Security so apparently destroyed, lost or stolen. In every case the applicant for a substitute Security shall furnish to the Issuer and to the Trustee and any agent of the Issuer or the Trustee such security or indemnity as may be required by them to indemnify and defend and to save each of them harmless and, in every case of destruction, loss or theft evidence to their satisfaction of the apparent destruction, loss or theft of such Security and of the ownership thereof.

Upon the issuance of any substitute Security, the Issuer may require the payment of a sum sufficient to cover any tax or other governmental charge that may be imposed in relation thereto and any other expenses (including the fees and expenses of the Trustee) connected therewith. In case any Security which has matured or is about to mature, or has been called for redemption in full, shall become mutilated or defaced or be apparently destroyed, lost or stolen, the Issuer may, instead of issuing a substitute Security, pay or authorize the payment of the same (without surrender thereof except in the case of a mutilated or defaced Security), if the applicant for such payment shall furnish to the Issuer and to the Trustee and any agent of the Issuer or the Trustee such security or indemnity as any of them may require to save each of them harmless from all risks, however remote, and, in every case of apparent destruction, loss or theft, the applicant shall also furnish to the Issuer and the Trustee and any agent of the Issuer or the Trustee evidence to their satisfaction of the apparent destruction, loss or theft of such Security and of the ownership thereof.

Every substitute Security issued pursuant to the provisions of this Section by virtue of the fact that any Security is apparently destroyed, lost or stolen shall constitute an additional contractual obligation of the Issuer, whether or not the apparently destroyed, lost or stolen Security shall be at any time enforceable by anyone and shall be entitled to all the benefits of (but shall be subject to all the limitations of rights set forth in) this Indenture equally and proportionately with any and all other Securities duly authenticated and delivered hereunder. All Securities shall be held and owned upon the express condition that, to the extent permitted by law, the foregoing provisions are exclusive with respect to the replacement or payment of mutilated, defaced, or apparently destroyed, lost or stolen Securities and shall preclude any and all other rights or remedies notwithstanding any law or statute existing or hereafter enacted to the contrary with respect to the replacement or payment of negotiable instruments or other securities without their surrender.

SECTION 2.7 Cancellation of Securities; Destruction Thereof. All Securities surrendered for payment, redemption, registration of transfer or exchange, if surrendered to the Issuer or any agent of the Issuer or the Trustee, shall be delivered to the Trustee for cancellation or, if surrendered to the Trustee, shall be cancelled by it; and no Securities shall be issued in lieu thereof except as expressly permitted by any of the provisions of this Indenture. The Trustee shall destroy cancelled Securities held by it and deliver a certificate of destruction to the Issuer. If the Issuer shall acquire any of the Securities, such acquisition shall not operate as a redemption or satisfaction of the indebtedness represented by such Securities unless and until the same are delivered to the Trustee for cancellation.

SECTION 2.8 Temporary Securities. Pending the preparation of definitive Securities, the Issuer may execute and the Trustee shall authenticate and deliver temporary Securities (printed, lithographed, typewritten or otherwise reproduced, in each case in form satisfactory to the Trustee). Temporary Securities shall be issuable as registered Securities without coupons, of any authorized denomination, and substantially in the form of the definitive Securities but with such omissions, insertions and variations as may be appropriate for temporary Securities, all as may be determined by the Issuer with the concurrence of the Trustee. Temporary Securities may contain such reference to any provisions of this Indenture as may be appropriate. Every temporary Security shall be executed by the Issuer and be authenticated by the Trustee

upon the same conditions and in substantially the same manner, and with like effect, as the definitive Securities. Without unreasonable delay the Issuer shall execute and shall furnish definitive Securities and thereupon temporary Securities may be surrendered in exchange therefor without charge at each office or agency to be maintained by the Issuer for the purpose pursuant to Section 3.2, and the Trustee shall authenticate and deliver in exchange for such temporary Securities a like aggregate principal amount of definitive Securities of authorized denominations. Until so exchanged the temporary Securities shall be entitled to the same benefits under this Indenture as definitive Securities.

ARTICLE THREE

COVENANTS OF THE ISSUER AND THE TRUSTEE.

SECTION 3.1 Payment of Principal and Interest. The Issuer covenants and agrees that it will duly and punctually pay or cause to be paid the principal of, and interest on, each of the Securities at the place or places, at the respective times and in the manner provided in the Securities. Each installment of interest on the Securities may, at the option of the Issuer, be paid by wire transfer or by check mailed to the holders of Securities entitled thereto as they shall appear on the registry books of the Issuer.

SECTION 3.2 Offices for Payments, etc. So long as any of the Securities remain outstanding, the Issuer will maintain the following: (a) an office or agency where the Securities may be presented for payment, (b) an office or agency where the Securities may be presented for registration of transfer and for exchange as in this Indenture provided and (c) an office or agency where notices and demands to or upon the Issuer in respect of the Securities or of this Indenture may be served. The Issuer will give to the Trustee written notice of the location of any such office or agency and of any change of location thereof. The Issuer hereby initially designates the Corporate Trust Office of the Trustee as the office or agency for each such purpose. In case the Issuer shall fail to maintain any such office or agency or shall fail to give such notice of the location or of any change in the location thereof, presentations and demands may be made and notices may be served at the Corporate Trust Office.

SECTION 3.3 Appointment to Fill a Vacancy in Office of Trustee. The Issuer, whenever necessary to avoid or fill a vacancy in the office of Trustee, will appoint, in the manner provided in Section 5.9, a Trustee, so that there shall at all times be a Trustee hereunder.

SECTION 3.4 Paying Agents. Whenever the Issuer shall appoint a paying agent other than the Trustee, it will cause such paying agent to execute and deliver to the Trustee an instrument in which such agent shall agree with the Trustee, subject to the provisions of this Section,

(a) that it will hold all sums received by it as such agent for the payment of the principal of or interest on the Securities (whether such sums have been paid to it by the Issuer or by any other obligor on the Securities) in trust for the benefit of the holders of the Securities or of the Trustee,

(b) that it will give the Trustee notice of any failure by the Issuer (or by any other obligor on the Securities) to make any payment of the principal of or interest on the Securities when the same shall be due and payable, and

(c) that it will pay any such sums so held in trust by it to the Trustee upon the Trustee's written request at any time during the continuance of the failure referred to in clause (b) above.

The Issuer will, on or prior to each due date of the principal of or interest on the Securities, deposit with the paying agent a sum sufficient to pay such principal or interest, and (unless such paying agent is the Trustee) the Issuer will promptly notify the Trustee of any failure to take such action.

If the Issuer shall act as its own paying agent, it will, on or before each due date of the principal of or interest on the Securities, set aside, segregate and hold in trust for the benefit of the holders of the Securities a sum sufficient to pay such principal or interest so becoming due. The Issuer will promptly notify the Trustee of any failure to take such action.

Anything in this Section to the contrary notwithstanding, the Issuer may at any time, for the purpose of obtaining a satisfaction and discharge of this Indenture or for any other reason, pay or cause to be paid to the Trustee all sums held in trust by the Issuer or any paying

agent hereunder, as required by this Section, such sums to be held by the Trustee upon the trusts herein contained.

Anything in this Section to the contrary notwithstanding, the agreement to hold sums in trust as provided in this Section are subject to the provisions of Sections 9.3 and 9.4.

SECTION 3.5 Certificates to Trustee. The Issuer will, so long as any of the Securities are outstanding:

(a) deliver to the Trustee, forthwith upon becoming aware of any default or defaults in the performance of any covenant, agreement or condition contained in this Indenture (including notice of any event of default which with the giving of notice and lapse of time would become an Event of Default under Section 4.1 hereof), an Officers' Certificate specifying such default or defaults; and

(b) deliver to the Trustee within 120 days after the end of each fiscal year of the Issuer beginning with the fiscal year ending December 31, 1993, an Officers' Certificate in compliance with Section 314(a)(4) of the Trust Indenture Act of 1939.

SECTION 3.6 Securityholder Lists. If and so long as the Trustee shall not be the Security registrar, the Issuer will furnish or cause to be furnished to the Trustee a list in such form as the Trustee may reasonably require of the names and addresses of the holders of the Securities pursuant to Section 312 of the Trust Indenture Act (a) semi-annually not more than 15 days after each record date for the payment of semi-annual interest on the Securities, as hereinabove specified, as of such record date, and (b) at such other times as the Trustee may request in writing, within thirty days after receipt by the Issuer of any such request as of a date not more than 15 days prior to the time such information is furnished.

SECTION 3.7 Reports by the Issuer. The Issuer covenants:

(a) to file with the Commission and, within 15 days after the Issuer is required to file the same with the Commission, with the Trustee copies of the annual reports and of the information, documents, and other reports which the Issuer may be required to file with the Commission pursuant to Section 13 or Section 15(d) of the Exchange Act and, if the Issuer is not required to file such information, documents, or reports with

the Commission, to file with the Commission and the Trustee the same such information, documents or reports as if the Issuer were so subject;

(b) to file with the Trustee and the Commission, in accordance with rules and regulations prescribed from time to time by the Commission, such additional information, documents, and reports with respect to compliance by the Issuer with the conditions and covenants provided for in this Indenture as may be required from time to time by such rules and regulations; and

(c) to transmit by mail to the Holders of Securities, within 30 days after the filing thereof with the Trustee, any information, documents and reports required to be filed by the Issuer with the Trustee pursuant to (a) and (b) of this Section 3.7.

SECTION 3.8 Reports by the Trustee. Within 60 days after May 15 of each year beginning May 15, 1994, for so long as any Securities are outstanding hereunder, the Trustee shall transmit by mail to all Securityholders, as their names and addresses appear in the registry books, in the manner and to the extent provided in Section 313(c) of the Trust Indenture Act of 1939, a brief report dated as of such May 15 if required by and in compliance with Section 313(a) of the Trust Indenture Act of 1939.

SECTION 3.9 Limitation on Restricted Payments. Subject to the other provisions of this Section 3.9, the Issuer shall not and shall not permit any of its Subsidiaries to, directly or indirectly:

(a) declare or pay any dividend or make any distribution on account of the Issuer's or any Subsidiary's capital stock or other Equity Interests (other than (i) dividends or distributions payable in Equity Interests (other than Disqualified Stock) of the Issuer or such Subsidiary and (ii) dividends or distributions payable by a Subsidiary so long as, in the case of any dividend or distribution payable on any class or series of securities issued by a Subsidiary other than a wholly owned Subsidiary, the Issuer or a Subsidiary of the Issuer receives at least its pro rata basis share of such dividend or distribution in accordance with its Equity Interest in such class or series of securities); or

(b) purchase, redeem or otherwise acquire or retire for value any Equity Interests of the Issuer or

any Subsidiary of the Issuer (other than any such Equity Interests owned by the Issuer or any Subsidiary of the Issuer); or

(c) voluntarily prepay Indebtedness that is subordinated to the Securities other than in connection with any (i) refinancing of such Indebtedness specifically permitted pursuant to Section 3.11(c) or Section 3.11(e) hereof, (ii) Indebtedness between the Issuer and a Subsidiary of the Issuer or between Subsidiaries of the Issuer or (iii) Mortgage Financing or Mortgage Refinancing; or

(d) make any Restricted Investments (other than an Investment in any Unrestricted Subsidiary)

(all of the foregoing dividends, distributions, purchases, redemptions or other acquisitions, retirements, prepayments or Restricted Investments set forth in clauses (a) through (d) above being collectively referred to as "Restricted Payments"), if at the time of such Restricted Payment:

(i) a Default or Event of Default shall have occurred and be continuing or shall occur as a consequence thereof,

(ii) immediately after such Restricted Payment and after giving effect thereto on a pro forma basis, the Issuer would not be able to incur $1 of additional Indebtedness pursuant to the Fixed Charge Coverage Ratio test set forth in Section 3.11(a), or

(iii) such Restricted Payment, together with (A) the aggregate of all other Restricted Payments (in each case valued, where other than cash, at their fair market value as of the date such Restricted Payments are made) made after the date hereof and (B) the amount by which the aggregate of all then outstanding Investments in Unrestricted Subsidiaries exceeds $75 million, is greater than the sum of: (v) 50% of the aggregate Consolidated Net Income of the Issuer for the period (taken as one accounting period) from the beginning of the first quarter immediately after the date hereof to the end of the Issuer's most recently ended fiscal quarter at the time of such Restricted Payment (provided that if Consolidated Net Income for such period is less than zero, then minus 100% of the amount of such loss) plus (w)

50% of the aggregate amortization of goodwill for the period specified in (v) above, plus (x) 100% of the aggregate net cash proceeds and the fair market value of marketable securities received by the Issuer from the issue or sale, after the date hereof, of capital stock of the Issuer (other than capital stock issued and sold to a Subsidiary of the Issuer and other than Disqualified Stock), or any Indebtedness or other security convertible into any such capital stock that has been so converted plus (y) 100% of the aggregate amounts contributed to the capital of the Issuer plus (z) 100% of the aggregate amounts received in cash and the fair market value of marketable securities (other than Restricted Investments) received from (I) the sale or other disposition of Restricted Investments made by the Issuer and its Subsidiaries or (II) the sale of the stock of an Unrestricted Subsidiary or the sale of all or substantially all of the assets of an Unrestricted Subsidiary to the extent that a liquidating dividend is paid to the Issuer or any Subsidiary from the proceeds of such sale.

For purposes of clause (iii) above, the fair market value of property other than cash may be conclusively determined in good faith by the Board of Directors.

The provisions of this Section 3.9 shall not prohibit:

(1) the payment of any dividend within 60 days after the date of declaration thereof, if at said date of declaration such payment would have complied with the provisions hereof;

(2)(A) the retirement of any shares of the Capital Stock of the Issuer (the "Retired Capital Stock") in exchange for, or out of the net proceeds of the substantially concurrent sale (other than to a Subsidiary of the Issuer) of, other shares of the Capital Stock of the Issuer (the "Refunding Capital Stock"), other than any Disqualified Stock, and (B) if immediately prior to such retirement of such Retired Capital Stock the declaration and payment of dividends thereon was permitted under clause (5) of this paragraph, the declaration and payment of dividends on the Refunding Capital Stock in an aggregate amount per year no greater than the aggregate amount of dividends per year that was declarable and payable on such Retired Capital Stock immediately prior to such

retirement;

(3) the payment of dividends or the making of distributions for the purpose of (A) financing the repurchase, redemption or other acquisition or retirement for value of any Equity Interests in FCI issued to present and former members of management of the Issuer and its subsidiaries pursuant to subscription and option agreements in effect on the date hereof and Equity Interests in FCI issued to future members of management pursuant to subscription agreements executed subsequent to the date hereof, containing provisions for the repurchase of such Equity Interests upon death, disability or termination of employment of such persons which are substantially identical to those contained in the subscription agreements in effect on the date hereof, provided that the amount of such dividends or distributions, after the date hereof, in the aggregate will not exceed the sum of (I) $30 million plus (II) the cash proceeds from any reissuance of such Equity Interests by FCI to members of management of the Issuer and its subsidiaries, to the extent such proceeds are contributed to the Issuer, (B) enabling FCI to pay accounting and legal fees and expenses and any other fees and expenses of FCI (such as financing and underwriting costs) incurred in the ordinary course of business as a holding company for the Issuer and (C) financing the repurchase by FCI of FCI Common Stock from GTO and its affiliates or DLJ and its affiliates, provided that the aggregate amount of such dividends or distributions made pursuant to this clause (C), after the date hereof, will not exceed $50 million;

(4) the repurchase, redemption or other acquisition or retirement for value of Indebtedness of the Issuer which is subordinated in right of payment to the Securities in exchange for or with the proceeds of the issuance of shares of the Issuer's Equity Interests (other than Disqualified Stock);

(5) the declaration and payment of dividends to holders of any class or series of the Issuer's Preferred Stock (other than Disqualified Stock) issued after the date hereof (including, without limitation, the declaration and payment of dividends on Refunding Capital Stock in excess of the dividends declarable and payable thereon pursuant to clause (2) of this paragraph), provided that at the time of such issuance the Fixed Charge Coverage Ratio of the Issuer, after giving effect to such issuance, would be greater than 1.25 to 1;

(6) the redemption, repurchase or retirement of any Indebtedness that is subordinated to the Securities (A) with the proceeds of, or in exchange for, Indebtedness incurred pursuant to Section 3.11(c) or Section 3.11(e) or (B) if, after giving effect to such redemption, repurchase or retirement, the Issuer could incur at least $1 of additional Indebtedness pursuant to the Fixed Charge Coverage Ratio test set forth in Section 3.11(a);

(7) the distribution to stockholders of securities of a corporation controlled by the Issuer (a "Controlled Corporation") in a Section 355 Transaction, but only if (a) the EBITDA of the Controlled Corporation for the four full fiscal quarters of the Issuer last preceding the date the Section 355 Transaction is effected is no greater than (I) in the case of the first Section 355 Transaction effected after the date hereof, a percentage of the Specified Issuer EBITDA equal to the Section 355 Percentage at the time such first Section 355 Transaction is effected and (II) in the case of any subsequent Section 355 Transaction, the lesser of (A) the Remaining Section 355 Amount at the time of such Section 355 Transaction and (B) the Section 355 Percentage at the time such Section 355 Transaction is effected multiplied by the EBITDA of the Issuer for the four full fiscal quarters of the Issuer last preceding the date such Section 355 Transaction is effected, (b) the Issuer's Fixed Charge Coverage Ratio for its four full fiscal quarters last preceding the date the Section 355 Transaction is effected would have been at least 2:1, determined on a pro forma basis as if the Section 355 Transaction had been effected at the beginning of such four-quarter period and (c) the ratio of the Indebtedness of the Issuer and its Subsidiaries on a consolidated basis immediately after the Section 355 Transaction to EBITDA of the Issuer for its four full fiscal quarters last preceding the date the Section 355 Transaction is effected, determined on a pro forma basis as if such transaction had occurred at the beginning of such four quarter period, would be no greater than the ratio of the Indebtedness of the Issuer and its Subsidiaries on a consolidated basis immediately prior to the Section 355 Transaction to EBITDA of the Issuer for its four full fiscal quarters last preceding the date the Section 355 Transaction is effected;

(8) the declaration and payment, following the first public offering of FCI Common Stock to occur

after the date hereof, of dividends on the common stock of the Issuer of up to 6% per annum of the net proceeds received by FCI in such public offering and any subsequent public offerings of FCI Common Stock;

(9) any redemption, repurchase or repayment of any outstanding Obligations under the 10% Debentures, including any premium or fee incurred in connection therewith;

(10) payments by the Issuer or any Subsidiary of the Issuer in respect of its obligations pursuant to any tax sharing agreement with FCI, the Issuer or any Subsidiary of FCI; or

(11) the purchase, redemption or other acquisition or retirement for value of Equity Interests of any Subsidiary of the Issuer (other than any such Equity Interests owned by the Issuer or any Subsidiary of the Issuer) in an amount of (a) up to $5 million for the first year following the date hereof and (b) for each year thereafter, up to $5 million plus the unused portion of the amount permitted to be expended for such purpose in all preceding years;

provided that in determining the aggregate amount expended for Restricted Payments in accordance with clause (iii) of the first paragraph of this Section 3.9, (i) no amounts expended under clauses (2)(A), (3)(B), (4), (6), (7), (9) and (10) of this paragraph shall be included, (ii) 100% of the amounts expended under clauses (2)(B), (3)(A), (3)(C), (5), (8) and (11) of this paragraph shall be included, and (iii) 100% of the amounts expended under clause (1), to the extent not included under subclauses (i) or (ii) of this proviso, shall be included.

SECTION 3.10 Limitation on Dividends and Other Payment Restrictions Affecting Subsidiaries. The Issuer shall not, and shall not permit any of its Subsidiaries (other than unconsolidated Subsidiaries) to, directly or indirectly, create or otherwise cause or suffer to exist or become effective any consensual encumbrance or restriction on the ability of any such Subsidiary to (a) pay dividends or make any other distributions on its capital stock or any other interest or participation in, or measured by, its profits, owned by the Issuer or any Subsidiary of the Issuer, or pay any Indebtedness owed to, the Issuer or a Subsidiary of the Issuer, (b) make loans or advances to the Issuer or a Subsidiary of the Issuer or (c) transfer any of its properties or assets to the Issuer or a Subsidiary of the Issuer, except in each case for such encumbrances or

restrictions existing under or by reason of (i) applicable law, (ii) the Indentures, (iii) the Credit Agreement or any other agreement entered into in connection therewith or as contemplated thereby, (iv) customary provisions restricting subletting or assignment of any lease governing a leasehold interest of the Issuer or a Subsidiary of the Issuer, (v) any instrument governing Indebtedness of a Person acquired by the Issuer or any Subsidiary of the Issuer at the time of such acquisition, (vi) Existing Indebtedness, or additional Indebtedness in an aggregate principal amount of up to $250,000,000 at any one time outstanding or other contractual obligation of the Issuer or any of its Subsidiaries existing on the date hereof or any amendment, modification, renewal, extension, replacement, refinancing or refunding, provided, that the restrictions contained in any such amendment, modification, renewal, extension, replacement, refinancing or refunding are no less favorable in all material respects to the Holders, (vii) any Mortgage Financing or Mortgage Refinancing, (viii) any Permitted Investment or (ix) contracts for the sale of assets.

SECTION 3.11 Limitation on Additional Indebtedness and Issuance of Disqualified Stock.

(a) Subject to the other provisions of this Section 3.11,

(x) the Issuer shall not and shall not permit any of its Subsidiaries to, directly or indirectly, create, incur, issue, assume or guarantee any Indebtedness (other than Indebtedness between the Issuer and a Subsidiary of the Issuer or between Subsidiaries of the Issuer, or guarantees by any Subsidiary of Indebtedness of a Subsidiary or the Issuer) and

(y) the Issuer shall not issue any Disqualified Stock,

unless such Indebtedness or Disqualified Stock is either Acquisition Indebtedness or is created, incurred, issued, assumed or guaranteed by the Issuer and not a Subsidiary of the Issuer and the Issuer's Fixed Charge Coverage Ratio for its four full fiscal quarters last preceding the date such additional Indebtedness is created, incurred, assumed or guaranteed, or such additional stock is issued, would have been (I) if such date is prior to November 1, 1994, at least 1.75:1 and (II) if such date is on or after November 1, 1994, at least 2:1, determined in each case on a pro forma basis (including a pro forma application of the net proceeds of such Indebtedness or such issuance of stock) as if the additional Indebtedness had been created, incurred, assumed

or guaranteed, or such additional stock had been issued, at the beginning of such four-quarter period; provided, however, that the limitations of this Section 3.11(a) shall not apply to the incurrence by the Issuer or any of its Subsidiaries of (A) any Indebtedness pursuant to the Credit Agreement; provided, however, that the principal amount of such Indebtedness incurred pursuant to the Credit Agreement for the purposes of this Clause (A) shall not exceed the aggregate amount of the commitments under the Credit Agreement on the date hereof; and (B) any Indebtedness represented by the Securities or the Senior Notes.

(b) The limitations of Section 3.11(a) hereof notwithstanding, the Issuer or any Subsidiary may create, incur, issue, assume or guarantee Indebtedness pursuant to the Credit Agreement or otherwise (i) in connection with or arising out of Mortgage Financings relating to real property acquired after the date hereof or improvements on such property, Mortgage Refinancings or sale and lease-back transactions, provided the Mortgage Financing Proceeds, Mortgage Refinancing Proceeds (excluding any Mortgage Refinancing Proceeds received in connection with any refinancing of any Indebtedness secured by a mortgage or Lien on either or both of the Excluded Properties) or Net Proceeds, as the case may be, incurred, assumed or created in connection therewith are used to pay any outstanding Senior Indebtedness, (ii) constituting purchase money obligations for property acquired in the ordinary course of business or other similar financing transactions (including, without limitation, in connection with Mortgage Financings), provided that in the case of Indebtedness exceeding $2 million for any such obligation or transaction, such Indebtedness exists at the date of the purchase or transaction or is created within 180 days thereafter, (iii) in connection with capital expenditures (iv) constituting capital lease obligations, (v) constituting reimbursement obligations with respect to letters of credit, including, without limitation, letters of credit in respect of workers' compensation claims, issued for the account of the Issuer or a Subsidiary in the ordinary course of its business or other Indebtedness with respect to reimbursement type obligations regarding workers' compensation claims, (vi) constituting additional Indebtedness in an aggregate principal amount of up to $250,000,000 at any one time outstanding, whether incurred under the Credit Agreement or otherwise, (vii) constituting Indebtedness secured by either or both of the Excluded Properties and (viii) constituting Existing Indebtedness and permitted refinancings thereof in accordance with Section 3.11(c) or Section 3.11(e).

(c) The limitations of Section 3.11(a) hereof

notwithstanding, the Issuer or any Subsidiary may create, incur, issue, assume or guarantee any Indebtedness which serves to refund, refinance or restructure its Existing Indebtedness or any other Indebtedness incurred as permitted under this Indenture or any Indebtedness issued to so refund, refinance or restructure such Indebtedness, including additional Indebtedness incurred to pay premiums and fees in connection therewith (the "Refinancing Indebtedness"), prior to its respective maturity; provided, however, that such Refinancing Indebtedness (i) bears an interest rate per annum which is equal to or less than the interest rate per annum then payable under such Indebtedness being refunded or refinanced (calculated in accordance with any formula set forth in the documents evidencing any such Indebtedness) unless such Refinancing Indebtedness is incurred, created or assumed within twelve months of the scheduled maturity of the Indebtedness being refinanced, (ii) has a Weighted Average Life to Maturity at the time such Refinancing Indebtedness is incurred which is not less than the remaining Weighted Average Life to Maturity of such Indebtedness being refunded or refinanced, and (iii) to the extent such Refinancing Indebtedness refinances Indebtedness subordinated to the Securities, such Refinancing Indebtedness is subordinated to the Securities at least to the same extent as the Indebtedness being refinanced or refunded; provided, further, however, that clauses (i), (ii) and (iii) above shall not apply to any refunding or refinancing of any Senior Indebtedness.

(d) The foregoing limitations notwithstanding, any unconsolidated Subsidiary of the Issuer created after the date of this Indenture may create, incur, issue, assume, guarantee or otherwise become liable with respect to any additional Indebtedness, provided that such Indebtedness is nonrecourse to the Issuer and its consolidated Subsidiaries, and the Issuer and its consolidated Subsidiaries have no liability with respect to such additional Indebtedness.

(e) The foregoing limitations notwithstanding, the Issuer or any Subsidiary may create, incur, issue, assume or guarantee any Indebtedness which serves to refund, refinance or restructure the 10% Debentures, including any premium or fee incurred in connection therewith.

SECTION 3.12 Limitation on Transactions with Affiliates. The Issuer shall not, and shall not permit any of its Subsidiaries to, directly or indirectly, enter into any transaction (including, without limitation, the purchase, sale, lease or exchange of any property or the rendering of any service) involving aggregate consideration in excess of $5,000,000 for any one transaction with any

Affiliate, except for (a) transactions (including any investments or loans or advances by or to any Affiliate) in good faith the terms of which are fair and reasonable to the Issuer or such Subsidiary, as the case may be, and are at least as favorable as the terms which could be obtained by the Issuer or such Subsidiary, as the case may be, in a comparable transaction made on an arm's length basis between unaffiliated parties (in each case as conclusively determined by a majority of the directors of the Issuer unaffiliated with such Affiliate or, if there are no such directors, as conclusively determined by a majority of the Board of Directors), (b) payments by the Issuer or any of its Subsidiaries to KKR or any Affiliate thereof made pursuant to any financial advisory, financing, underwriting or placement agreement, (c) transactions in which the Issuer or any of its Subsidiaries, as the case may be, delivers to the Holders a written opinion of a nationally recognized investment banking firm stating that such transaction is fair to the Issuer or such Subsidiary from a financial point of view, (d) transactions between the Issuer and its Subsidiaries or between Subsidiaries of the Issuer which are not otherwise prohibited under Section 3.9 of this Indenture, (e) payments or loans to employees or consultants pursuant to employment or consultancy contracts which are approved by the Board of Directors in good faith, (f) payments to FCI which are not otherwise prohibited by Section 3.9 of this Indenture and (g) the payment by the Issuer of management fees to KKR and/or its affiliates and the payment by the Issuer of the GTO Fee.

SECTION 3.13 Sale of Assets.

(a) Neither the Issuer nor any of its Subsidiaries (other than unconsolidated Subsidiaries) shall (A) (I) sell, lease, convey or otherwise dispose of in any transaction or group of transactions that are part of a common plan all or substantially all of the assets or capital stock of any Asset Segment (provided that the sale, lease, conveyance or other disposition of all or substantially all of the Issuer's assets shall not be subject to this Section 3.13 but shall be governed by the provisions of Section 8.1 hereof) or (II) issue or sell equity securities of any Asset Segment (each of the foregoing, an "Asset Sale") or (B) sell, lease, convey or otherwise dispose of any Business Segment, unless in each case the Issuer shall apply the Net Proceeds from such Asset Sale or such sale, lease, conveyance or other disposition of a Business Segment to one or more of the following in such combination as the Issuer may choose: (i) an investment in another asset or business in the same line of business as, or a line of business similar to that of, the line of

business of the Issuer and its Subsidiaries and such investment occurs within 366 days of such Asset Sale or such sale, lease, conveyance or other disposition of a Business Segment, (ii) a Net Proceeds Offer (as defined below) expiring within 366 days of such Asset Sale or such sale, lease, conveyance or other disposition of a Business Segment or (iii) the purchase, redemption or other prepayment or repayment of outstanding Senior Indebtedness within 366 days of such Asset Sale or such sale, lease, conveyance or other disposition of a Business Segment; provided, however, if the net amount not invested pursuant to clause (i) above or applied pursuant to clause (iii) above is less than $25,000,000 the Issuer shall not be further obligated to offer to redeem Securities pursuant to clause (ii) above. Notwithstanding the foregoing, (i) the receipt of all proceeds of insurance paid on account of the loss of or damage to any Business Segment and awards of compensation for any such Business Segment taken by condemnation or eminent domain which result in Net Proceeds to the Issuer and its Subsidiaries of $50 million or more (excluding proceeds to be used for replacement of such Business Segment, provided the Trustee has received notice from the Issuer, within 90 days of such receipt, of its intention to use such proceeds for such purpose) will be deemed an "Asset Sale" and (ii) Permitted Investments and sales, leases, conveyances or other dispositions of assets by the Issuer or any Subsidiary to the Issuer or any wholly owned Subsidiary of the Issuer will not be deemed an "Asset Sale" or a sale or other disposition of a Business Segment.

(b) For purposes of subsection (ii) of clause (a) of this Section, the Issuer shall apply the Net Proceeds of the Asset Sale or the sale, lease, conveyance or other disposition of a Business Segment to make a tender offer in accordance with applicable law (a "Net Proceeds Offer") to repurchase the Securities at a price not less than 100% of the principal amount of the Securities plus accrued and unpaid interest thereon. Any Net Proceeds Offer shall be made by the Issuer only if and to the extent permitted under, and subject to prior compliance with, the terms of any agreement governing Senior Indebtedness. If on the date any Net Proceeds Offer is commenced securities of the Issuer ranking pari passu in right of payment with the Securities are outstanding and the terms of such securities provide that an offer to repurchase such securities similar to the Net Proceeds Offer is to be made with respect thereto, then the Net Proceeds Offer shall be made concurrently with such other offer, and securities of each issue shall be accepted on a pro rata basis, in proportion to the principal or face amount, as the case may be, of securities of each issue which the holders thereof elect to have redeemed. After the

last date on which holders of the Securities are permitted to tender their Securities in a Net Proceeds Offer, the Issuer shall not be restricted under this Section 3.13 as to its use of any Net Proceeds available to make such Net Proceeds Offer (up to the amount of Net Proceeds that would have been used to redeem Securities assuming 100% acceptance of the Net Proceeds Offer) but not used to redeem Securities pursuant thereto.

(c) Notwithstanding any other provision hereof to the contrary, for a period of 120 days after the last date on which holders of the Securities are permitted to elect to have their Securities redeemed in the Net Proceeds Offer, the Issuer may use any Net Proceeds available to make such Net Proceeds Offer but not used to redeem Securities pursuant thereto to purchase, redeem or otherwise acquire or retire for value any securities of the Issuer ranking junior in right of payment to the Securities at a price, stated as a percentage of the principal or face amount of such junior securities, not greater than the price, stated as a percentage of the principal amount of the Securities, offered in the Net Proceeds Offer; provided that if the Net Proceeds Offer is for a principal amount (the "Net Proceeds Offer Amount") of the Securities less than the aggregate principal amount of the Securities then outstanding, then the Net Proceeds available for use by the Issuer for such a purchase, redemption or other acquisition or retirement for value of junior securities shall not exceed the Net Proceeds Offer Amount.

(d) An offer to redeem Securities pursuant to this Section 3.13 shall be made pursuant to the provisions of Section 11.5 hereof. Simultaneously with the notification of such offer of redemption to the Trustee as required by Section 11.5 hereof, the Issuer shall provide the Trustee with an Officers' Certificate setting forth the information required to be included therein by Section 11.5 hereof and, in addition, setting forth the calculations used in determining the amount of Net Proceeds to be applied to the redemption of Securities.

(e) In the event that the Issuer shall make any payment of Net Proceeds to the Trustee which, to the actual knowledge of a trust officer of the Trustee, should properly have been made to holders or to the Representative of the holders of any Senior Indebtedness for the prepayment or repayment of such Senior Indebtedness pursuant to the provisions of this Section 3.13, such payment shall be held by the Trustee for the benefit of, and, upon written request of the holders of such Senior Indebtedness or their Representative, shall be paid forthwith over and delivered

to, the holders of such Senior Indebtedness or their Representative for application in accordance with the provisions of this Section 3.13. With respect to the holders of such Senior Indebtedness, the Trustee undertakes to perform only such obligations on the part of the Trustee as are specifically set forth in this Section 3.13(e), and no implied covenants or obligations with respect to the holders of such Senior Indebtedness shall be read into this Indenture against the Trustee. The Trustee shall not be deemed to owe any fiduciary duty to the holders of such Senior Indebtedness. If Net Proceeds are received by Holders which, pursuant to the provisions of this Section 3.13, should properly have been received by the holders of such Senior Indebtedness or their Representative for the prepayment or repayment of such Senior Indebtedness, the Holders who receive such Net Proceeds shall hold such Net Proceeds in trust for, and pay such Net Proceeds over to, the holders of such Senior Indebtedness or their Representative.

(f) Notwithstanding the foregoing, Permitted Investments and sales, leases, conveyances or other dispositions of assets by the Issuer or any Subsidiary to the Issuer or any wholly owned Subsidiary of the Issuer shall not be deemed an Asset Sale or a sale or other disposition of a Business Segment.

SECTION 3.14 Corporate Existence. Subject to Article 8 hereof and other than as permitted by the Credit Agreement, the Issuer shall do or cause to be done all things necessary to preserve and keep in full force and effect its corporate existence and the corporate, partnership or other existence of each Significant Subsidiary in accordance with the respective organizational documents as they may be from time to time amended of the Issuer and each such Subsidiary and the rights (charter and statutory), governmental licenses and governmental franchises of the Issuer and its Subsidiaries; provided, however, that the Issuer shall not be required to preserve any such right, license or franchise, or the corporate, partnership or other existence of any such Subsidiary, if the preservation thereof is no longer necessary in the conduct of the business of the Issuer and its Subsidiaries taken as a whole and the loss thereof is not adverse in any material respect to the Holders (which determination, if made in good faith by the Board of Directors, shall be conclusive).

SECTION 3.15 Limitation on Liens. (a)The Issuer shall not, and shall not permit any of its Subsidiaries to, create, incur, assume or suffer to exist any Lien on any

asset now owned or hereafter acquired by the Issuer or any such Subsidiary, except:

(i) Liens existing on the date hereof, Liens securing or arising under or in connection with any Indebtedness of the Issuer not expressly by its terms subordinate or junior in right of payment to any other Indebtedness of the Issuer (including, without limitation, Liens permitted by or required pursuant to the Credit Agreement), Liens arising under or in connection with Section 9.1 hereof and Liens relating to judgments to the extent such judgments do not give rise to an Event of Default pursuant to Section 4.1(5) hereof;

(ii) Liens for taxes or assessments and similar charges either (x) not delinquent or (y) contested in good faith by appropriate proceedings and as to which the Issuer or a Subsidiary shall have set aside on its books such reserves as may be required pursuant to generally accepted accounting principles;

(iii) Liens incurred or pledges and deposits in connection with workers' compensation, unemployment insurance and other social security benefits, or securing performance bids, tenders, leases, contracts (other than for the repayment of borrowed money), statutory obligations, progress payments, surety and appeal bonds and other obligations of like nature, incurred in the ordinary course of business;

(iv) Liens imposed by law, such as mechanics', carriers', warehousemen's, materialmen's and vendors' Liens, incurred in good faith in the ordinary course of business;

(v) zoning restrictions, easements, licenses, covenants, reservations, restrictions on the use of real property or minor irregularities of title incident thereto which do not in the aggregate materially detract from the value of the property or assets of the Issuer and its Subsidiaries, taken as a whole, or materially impair the operation of the business of the Issuer and its Subsidiaries, taken as a whole;

(vi) Liens created by Subsidiaries to secure Indebtedness of such Subsidiaries to the Issuer or its Subsidiaries;

(vii) pledges of or Liens on raw materials or on manufactured products as security for any drafts or bills of exchange in connection with the importation of

such raw materials or manufactured products in the ordinary course of business;

(viii) a Lien on any assets (x) securing Indebtedness incurred or assumed pursuant to Section 3.11(b) hereof for the purpose of financing all or any part of the cost of acquiring such asset or construction thereof or thereon or (y) existing on assets or businesses at the time of the acquisition thereof;

(ix) the Lien granted to the Trustee pursuant to Section 5.6 hereof and any substantially equivalent Lien granted to the respective trustees under the indentures for other debt securities of the issuer;

(x) Liens arising in connection with any Mortgage Financing or Mortgage Refinancing by the Issuer or any of its Subsidiaries;

(xi) Liens securing reimbursement obligations with respect to letters of credit issued for the account of the Issuer or any of its Subsidiaries in the ordinary course of business;

(xii) any Lien on either or both of the Excluded Properties;

(xiii) Liens securing an interest of a landlord in real property leases;

(xiv) all other Liens incurred in the ordinary course of business; provided that the aggregate amount of Indebtedness secured by such Liens shall not exceed $5,000,000 at any one time outstanding; or

(xv) Liens created in connection with the refinancing of any Indebtedness secured by Liens permitted to be incurred or to exist pursuant to the foregoing clauses; provided, however, that no additional assets are encumbered by such Liens in connection with such refinancing, unless permitted by clause (i) above or Section 3.15(b).

(b) Notwithstanding the provisions of paragraph (a) above, the Issuer or any Subsidiary may create or assume any Lien upon any of its properties or assets, whether now owned or hereafter acquired, if the Issuer makes or causes to be made effective provision whereby the Securities will be equally and ratably secured with any and all other Indebtedness secured by such Lien as long as any such other Indebtedness shall be so secured, provided that if such Lien

ceases to exist, such equal and ratable Lien shall thereupon automatically cease to exist.

SECTION 3.16 Issuer to Cause Certain Subsidiaries to Become Guarantors. The Issuer shall not permit any of its Subsidiaries to guarantee the payment of any Indebtedness of the Issuer that is expressly by its terms subordinate or junior in right of payment to any other Indebtedness of the Issuer (a "Subordinated Indebtedness Guarantee") unless (i) such Subsidiary executes and delivers a supplemental indenture evidencing its guarantee of the Issuer's Obligations hereunder and under the Securities on a substantially similar basis (the "Securities Guarantee"), (ii) if the Securities are senior in right of payment to such junior Indebtedness of the Issuer, then the Securities Guarantee is senior in right of payment to such Subordinated Indebtedness Guarantee to the same extent as the Securities are senior in right of payment to such junior Indebtedness of the Issuer and (iii) if the Securities are pari passu in right of payment with such junior Indebtedness of the Issuer, then the Securities Guarantee is pari passu in right of payment with such Subordinated Indebtedness Guarantee; provided that if such Subordinated Indebtedness Guarantee ceases to exist for any reason, then the Securities Guarantee shall thereupon automatically cease to exist.

SECTION 3.17 Limitation on Senior Subordinated Debt. Notwithstanding the provisions of Section 3.11 hereof, the Issuer shall not create, incur, assume, guarantee or otherwise become liable for any Indebtedness that is expressly by its terms subordinate or junior in right of payment to any Senior Indebtedness and senior in any respect in right of payment to the Securities, it being understood that Indebtedness shall not be deemed junior in right of payment to any Senior Indebtedness solely because it is unsecured or senior in right of payment to the Securities solely because it is secured.

SECTION 3.18 Investments in Unrestricted Subsidiaries. The Issuer will not, and will not permit any of its Subsidiaries to, directly or indirectly, make any Investment in any Unrestricted Subsidiary unless (i) the amount of such Investment does not exceed the amount then permitted to be used to make a Restricted Payment pursuant to clause (iii) of the first paragraph of Section 3.9 and (ii) immediately after such Investment, and after giving effect thereto on a pro forma basis deducting from net income the amount of any Investment the Issuer or any Subsidiary of the Issuer has made in an Unrestricted Subsidiary during the four full fiscal quarters last preceding the date of such Investment, the Issuer and its

Subsidiaries would be able to incur $1 of additional Indebtedness pursuant to the Fixed Charge Coverage Ratio test set forth in Section 3.11(a). Notwithstanding clause (i) and (ii) of this Section or any other provisions hereof to the contrary, the Issuer and its Subsidiaries shall be permitted to make Investments in Unrestricted Subsidiaries in an aggregate amount not to exceed $75 million at any one time outstanding. The amount by which the aggregate of all Investments in Unrestricted Subsidiaries exceeds $75 million shall be counted in determining the permissible amount of Restricted Payments pursuant to clause (iii) of the first paragraph of Section 3.9. The Issuer will not permit any Unrestricted Subsidiary to become a Subsidiary except pursuant to the last sentence of the definition of Unrestricted Subsidiary set forth in Section 1.1.

ARTICLE FOUR

REMEDIES OF THE TRUSTEE AND SECURITYHOLDERS ON EVENT OF DEFAULT.

SECTION 4.1 Events of Default. An "Event of Default" occurs if:

(1) the Issuer defaults in the payment of interest on any Security when the same becomes due and payable and the Default continues for a period of 30 days whether or not payment is prohibited by Article 12 hereof;

(2) the Issuer defaults in the payment of the principal of any Security when the same becomes due and payable at maturity, upon redemption or otherwise whether or not payment is prohibited by Article 12 hereof;

(3) the Issuer fails to comply with any of its other agreements or covenants in, or any other provisions of, the Securities or this Indenture and the Default continues for the period and after the notice specified in this Section 4.1;

(4) a default occurs under any mortgage, indenture or instrument under which there may be issued or by which there may be secured or evidenced any Indebtedness for money borrowed by the Issuer or any of its Subsidiaries (or the payment of which is guaranteed by the Issuer or any of its Subsidiaries) other than

(i) Indebtedness of the Issuer or any Subsidiary of the Issuer to the Issuer or any Subsidiary of the Issuer or (ii) Indebtedness permitted pursuant to Section 3.11(d) hereof, whether such Indebtedness or guarantee now exists or shall be created hereafter, if (a) either (x) such default results from the failure to pay principal upon the final maturity of such Indebtedness (after the expiration of any applicable grace period) or (y) as a result of such default the maturity of such Indebtedness has been accelerated prior to its final maturity and (b) the principal amount of such Indebtedness, together with the principal amount of any such Indebtedness with respect to which the principal amount remains unpaid upon its final maturity (after the expiration of any applicable grace period), or the maturity of which has been so accelerated, aggregates $30,000,000 or more and (c) such default does not result from compliance with any applicable law or any court order or governmental decree to which the Issuer or any of its Subsidiaries is subject;

(5) a final judgment or final judgments for the payment of money are entered by a court or courts of competent jurisdiction against the Issuer or any of its Subsidiaries and such judgment or judgments remain undischarged for a period (during which execution shall not be effectively stayed) of 60 days, provided that the aggregate of all such judgments (net of amounts covered by insurance, treating any deductibles, self-insurance or retention as not so covered) exceeds $10,000,000;

(6) the Issuer or any Significant Subsidiary of the Issuer pursuant to or within the meaning of any Bankruptcy Law:

(a) commences a voluntary case,

(b) consents to the entry of an order for relief against it in an involuntary case,

(c) consents to the appointment of a Custodian of it or for all or substantially all of its property, or

(d) makes a general assignment for the benefit of its creditors; or

(7) a court of competent jurisdiction enters an order or decree under any Bankruptcy Law that:

(a) is for relief against the Issuer or any Significant Subsidiary of the Issuer in an involuntary case,

(b) appoints a Custodian of the Issuer or any Significant Subsidiary of the Issuer or for all or substantially all of its property, or

(c) orders the liquidation of the Issuer or any Significant Subsidiary of the Issuer,

and the order or decree remains unstayed and in effect for 60 days.

The term "Custodian" means any receiver, trustee, assignee, liquidator or similar official under any Bankruptcy Law.

An Event of Default shall not be deemed to have occurred under clause (4) or (5) until the Issuer shall have received written notice from the Trustee or the Holders of at least 30% in principal amount of the then outstanding Securities. A Default under clause (3) is not an Event of Default until the Trustee notifies the Issuer, or the Holders of at least 30% in principal amount of the then outstanding Securities notify the Issuer and the Trustee, of the Default and the Issuer does not cure the Default within 30 days after receipt of the notice. The notice must specify the Default, demand that it be remedied and state that the notice is a "Notice of Default".

In the case of any Event of Default pursuant to the provisions of this Section 4.1 occurring by reason of any willful action (or inaction) taken (or not taken) by or on behalf of the Issuer with the intention of avoiding payment of the premium which the Issuer would have to pay if the Issuer then had elected to redeem the Securities pursuant to Section 11.1, an equivalent premium shall also become and be immediately due and payable to the extent permitted by law, anything in this Indenture or in the Securities contained to the contrary notwithstanding.

SECTION 4.2 Acceleration. If an Event of Default (other than an Event of Default specified in clause (6) or (7) of Section 4.1) occurs and is continuing, the Trustee may, by written notice to the Issuer, or the Holders of at least 30% (or 25% in the case of an Event of Default specified in Section 4.1(1) or 4.1(2)) in principal amount of the then outstanding Securities may, by written notice to the Issuer and the Trustee, and the Trustee shall, upon the request of such Holders, declare the unpaid principal of and

any accrued but unpaid interest on all the Securities to be due and payable. Upon such declaration the principal and interest shall be due and payable immediately; provided, however, that if any Senior Indebtedness is outstanding pursuant to the Credit Agreement, upon a declaration of acceleration, such principal and interest shall be due and payable upon the earlier of (x) the day that is five Business Days after the provision to the Issuer and the Credit Agent of such written notice, unless such Event of Default is cured or waived prior to such date and (y) the date of acceleration of any Senior Indebtedness under the Credit Agreement. In the event of a declaration of acceleration because an Event of Default specified in Section 4.1(4) has occurred and is continuing, such declaration of acceleration shall be automatically annulled if such payment default is cured or waived or the holders of the Indebtedness which is the subject of such Event of Default have rescinded their declaration of acceleration in respect of such Indebtedness within 60 days thereof and the Trustee has received written notice of such cure, waiver or rescission and no other Event of Default under Section 4.1(4) has occurred and is continuing with respect to which 60 days have elapsed since the declaration of acceleration of the Indebtedness which is the subject of such other event of default (without rescission of the declaration of acceleration of such Indebtedness). If an Event of Default specified in clause (6) or (7) of Section 4.1 occurs, the unpaid principal of and any accrued but unpaid interest on all the Securities shall ipso facto become and be immediately due and payable without any declaration or other act on the part of the Trustee or any Holder. The Holders of a majority in principal amount of the then outstanding Securities by written notice to the Trustee may rescind an acceleration and its consequences if the rescission would not conflict with any judgment or decree and if all existing Events of Default (except nonpayment of principal or interest that has become due solely because of the acceleration) have been cured or waived. No such rescission shall affect any subsequent Default or Event of Default or impair any right consequent thereto.

SECTION 4.3 Other Remedies. If an Event of Default occurs and is continuing, the Trustee may pursue any available remedy to collect the payment of principal of or interest on the Securities or to enforce the performance of any provision of the Securities or this Indenture.

The Trustee may maintain a proceeding even if it does not possess any of the Securities or does not produce any of them in the proceeding. A delay or omission by the Trustee or any Holder in exercising any right or remedy

accruing upon an Event of Default shall not impair the right or remedy or constitute a waiver of or acquiescence in the Event of Default. Except as set forth in Section 2.6 hereof, all remedies are cumulative to the extent permitted by law.

SECTION 4.4 Waiver of Defaults. Subject to Section 7.2 hereof, the Holders of a majority in principal amount of the then outstanding Securities by notice to the Trustee may waive any past Default or Event of Default and its consequences except a continuing Default or Event of Default in the payment of the principal of or interest on any Security. Upon any such waiver, such Default or Event of Default shall cease to exist and together with any Event of Default arising therefrom, shall be deemed to have been cured for every purpose of this Indenture, but no such waiver shall extend to any subsequent or other Default or impair any right consequent thereon.

SECTION 4.5 Control by Majority. The Holders of a majority in principal amount of the then outstanding Securities may direct the time, method and place of conducting any proceeding for any remedy available to the Trustee or exercising any trust or power conferred on it. However, the Trustee may (i) refuse to follow any direction that conflicts with law or this Indenture, that the Trustee reasonably determines may be unduly prejudicial to the rights of other Holders or that may subject the Trustee to personal liability or (ii) take any other action that it deems proper that is not inconsistent with such decision. The Trustee shall be entitled to indemnification reasonably satisfactory to it against losses or expenses caused by the taking or not taking of such action.

SECTION 4.6 Limitation on Suits. A Holder may pursue a remedy with respect to this Indenture or the Securities only if:

(1) the Holder gives to the Trustee written notice of a continuing Event of Default;

(2) the Holders of at least 30% (or 25% in the case of an Event of Default specified in Section 4.1(1) or 4.2(2) hereof) in principal amount of the then outstanding Securities make a written request to the Trustee to pursue the remedy;

(3) such Holder or Holders offer and, if requested, provide, to the Trustee indemnity satisfactory to the Trustee against any loss, liability or expense;

(4) the Trustee does not comply with the request within 60 days after receipt of the request and the offer and, if requested, the provision of indemnity; and

(5) during such 60-day period the Holders of a majority in principal amount of the then outstanding Securities do not give the Trustee a direction which, in the opinion of the Trustee, is inconsistent with the request.

A Holder may not use this Indenture to prejudice the rights of another Holder or to obtain a preference or priority over another Holder.

SECTION 4.7 Rights of Holders to Receive Payment. Notwithstanding any other provision of this Indenture, but subject to Article 12 hereof, the right of any Holder to receive payment of principal of and interest on the Security, on or after the respective due dates expressed in the Security, or to bring suit for the enforcement of any such payment on or after such respective dates, shall not be impaired or affected without the consent of the Holder.

SECTION 4.8 Collection Suit by Trustee. If an Event of Default specified in Section 4.1(1) or (2) occurs and is continuing, the Trustee is authorized to recover judgment in its own name and as trustee of an express trust against the Issuer for the whole amount of principal and interest remaining unpaid on the Securities and interest on overdue principal and, to the extent lawful, interest and such further amount as shall be sufficient to cover the costs and expenses of collection, including the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel.

SECTION 4.9 Trustee May File Proofs of Claim. The Trustee is authorized to file such proofs of claim and other papers or documents as may be necessary or advisable in order to have the claims of the Trustee (including any claim for the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel) and the Holders allowed in any judicial proceedings relative to the Issuer (or any other obligor upon the Securities), its creditors or its property and shall be entitled and empowered to collect, receive and distribute any money or other property payable or deliverable on any such claims and any custodian in any such judicial proceeding is hereby authorized by each Holder to make such payments to the Trustee, and in the event that the Trustee

shall consent to the making of such payments directly to the Holders, to pay to the Trustee any amount due to it for the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel, and any other amounts due the Trustee under Section 5.6 hereof. To the extent that the payment of any such compensation, expenses, disbursements and advances of the Trustee, its agents and counsel, and any other amounts due the Trustee under Section 5.6 hereof out of the estate in any such proceeding, shall be denied for any reason, payment of the same shall be secured by a Lien on, and shall be paid out of, any and all distributions, dividends, money, securities and other properties which the Holders may be entitled to receive in such proceeding whether in liquidation or under any plan of reorganization or arrangement or otherwise. Nothing herein contained shall be deemed to authorize the Trustee to authorize or consent to or accept or adopt on behalf of any Holder any plan of reorganization, arrangement, adjustment or composition affecting the Securities or the rights of any Holder, or to authorize the Trustee to vote in respect of the claim of any Holder in any such proceeding. If the Trustee does not file a proper claim or proof of debt in the form required in any such proceeding prior to 30 days before the expiration of the time to file such claim or claims, then the Credit Agent shall have the right to file and is hereby authorized to file an appropriate claim for and on behalf of the Holders.

SECTION 4.10 Priorities. If the Trustee collects any money pursuant to this Article, it shall, subject to the provisions of Article 12 hereof, pay out the money in the following order:

First: to the Trustee, its agents and attorneys for amounts due under Section 5.6, including payment of all compensation, expense and liabilities incurred, and all advances made, by the Trustee and the costs and expenses of collection;

Second: to the holders of Senior Indebtedness to the extent required by Article 12;

Third: to the Holders for amounts due and unpaid on the Securities for principal and interest, ratably, without preference or priority of any kind, according to the amounts due and payable on the Securities for principal and interest, respectively; and

Fourth: to the Issuer.

The Trustee may fix a record date and payment date

for any payment to Holders.

SECTION 4.11 Undertaking for Costs. In any suit for the enforcement of any right or remedy under this Indenture or in any suit against the Trustee for any action taken or omitted by it as a Trustee, a court in its discretion may require the filing by any party litigant in the suit of an undertaking to pay the costs of the suit, and the court in its discretion may assess reasonable costs, including reasonable attorneys' fees, against any party litigant in the suit, having due regard to the merits and good faith of the claims or defenses made by the party litigant. This Section does not apply to a suit by the Trustee, a suit by a Holder pursuant to Section 4.7, or a suit by Holders of more than 10% in principal amount of the then outstanding Securities.

ARTICLE FIVE

CONCERNING THE TRUSTEE.

SECTION 5.1 Duties and Responsibilities of the Trustee; During Default; Prior to Default. The Trustee, prior to the occurrence of an Event of Default and after the curing or waiving of all Events of Default which may have occurred, undertakes to perform such duties and only such duties as are specifically set forth in this Indenture. In case an Event of Default has occurred (which has not been cured or waived) the Trustee shall exercise such of the rights and powers vested in it by this Indenture, and use the same degree of care and skill in their exercise, as a prudent man would exercise or use under the circumstances in the conduct of his own affairs.

No provision of this Indenture shall be construed to relieve the Trustee from liability for its own negligent action, its own negligent failure to act or its own wilful misconduct, except that

(a) prior to the occurrence of an Event of Default and after the curing or waiving of all such Events of Default which may have occurred:

(i) the duties and obligations of the Trustee shall be determined solely by the express provisions of this Indenture, and the Trustee shall not be liable except for the performance of such duties and obligations as

are specifically set forth in this Indenture, and no implied covenants or obligations shall be read into this Indenture against the Trustee; and

(ii) in the absence of bad faith on the part of the Trustee, the Trustee may conclusively rely, as to the truth of the statements and the correctness of the opinions expressed therein, upon any statements, certificates or opinions furnished to the Trustee and conforming to the requirements of this Indenture; but in the case of any such statements, certificates or opinions which by any provision hereof are specifically required to be furnished to the Trustee, the Trustee shall be under a duty to examine the same to determine whether or not they conform to the requirements of this Indenture;

(b) the Trustee shall not be liable for any error of judgment made in good faith by a responsible officer or responsible officers of the Trustee, unless it shall be proved that the Trustee was negligent in ascertaining the pertinent facts; and

(c) the Trustee shall not be liable with respect to any action taken or omitted to be taken by it in good faith in accordance with the direction of the holders of not less than a majority in principal amount of the Securities at the time outstanding relating to the time, method and place of conducting any proceeding for any remedy available to the Trustee, or exercising any trust or power conferred upon the Trustee, under this Indenture.

None of the provisions contained in this Indenture shall require the Trustee to expend or risk its own funds or otherwise incur personal financial liability in the performance of any of its duties or in the exercise of any of its rights or powers, if there shall be reasonable ground for believing that the repayment of such funds or adequate indemnity against such liability is not reasonably assured to it.

This Section 5.1 is in furtherance of and subject to Sections 315 and 316 of the Trust Indenture Act of 1939.

SECTION 5.2 Certain Rights of the Trustee. In furtherance of and subject to the Trust Indenture Act of

1939, and subject to Section 5.1:

(a) the Trustee may rely and shall be protected in acting or refraining from acting upon any resolution, Officers' Certificate or any other certificate, statement, instrument, opinion, report, notice, request, consent, order, bond, debenture, note, coupon, security or other paper or document believed by it to be genuine and to have been signed or presented by the proper party or parties;

(b) any request, direction, order or demand of the Issuer mentioned herein shall be sufficiently evidenced by an Officers' Certificate (unless other evidence in respect thereof be herein specifically prescribed); and any resolution of the Board of Directors may be evidenced to the Trustee by a copy thereof certified by the secretary or an assistant secretary of the Issuer;

(c) the Trustee may consult with counsel and any advice or Opinion of Counsel shall be full and complete authorization and protection in respect of any action taken, suffered or omitted to be taken by it hereunder in good faith and in accordance with such advice or Opinion of Counsel;

(d) the Trustee shall be under no obligation to exercise any of the trusts or powers vested in it by this Indenture at the request, order or direction of any of the Securityholders pursuant to the provisions of this Indenture, unless such Securityholders shall have offered to the Trustee reasonable security or indemnity against the costs, expenses and liabilities which might be incurred therein or thereby;

(e) the Trustee shall not be liable for any action taken or omitted by it in good faith and believed by it to be authorized or within the discretion, rights or powers conferred upon it by this Indenture;

(f) prior to the occurrence of an Event of Default hereunder and after the curing or waiving of all Events of Default, the Trustee shall not be bound to make any investigation into the facts or matters stated in any resolution, certificate, statement, instrument, opinion, report, notice, request, consent, order, approval, appraisal, bond, debenture, note, coupon, security, or other paper or document unless requested in writing so to do by the holders of not

less than a majority in aggregate principal amount of the Securities then outstanding; provided that, if the payment within a reasonable time to the Trustee of the costs, expenses or liabilities likely to be incurred by it in the making of such investigation is, in the opinion of the Trustee, not reasonably assured to the Trustee by the security afforded to it by the terms of this Indenture, the Trustee may require reasonable indemnity against such expenses or liabilities as a condition to proceeding; the reasonable expenses of every such examination shall be paid by the Issuer or, if paid by the Trustee or any predecessor trustee, shall be repaid by the Issuer upon demand; and

(g) the Trustee may execute any of the trusts or powers hereunder or perform any duties hereunder either directly or by or through agents or attorneys not regularly in its employ and the Trustee shall not be responsible for any misconduct or negligence on the part of any such agent or attorney appointed with due care by it hereunder.

SECTION 5.3 Trustee Not Responsible for Recitals, Disposition of Securities or Application of Proceeds Thereof. The recitals contained herein and in the Securities, except the Trustee's certificates of authentication, shall be taken as the statements of the Issuer, and the Trustee assumes no responsibility for the correctness of the same. The Trustee makes no representation as to the validity or sufficiency of this Indenture or of the Securities or as to the adequacy of any disclosure document used in connection with the sale of the Securities. The Trustee shall not be accountable for the use or application by the Issuer of any of the Securities or of the proceeds thereof.

SECTION 5.4 Trustee and Agents May Hold Securities; Collections, etc. The Trustee or any agent of the Issuer or the Trustee, in its individual or any other capacity, may become the owner or pledgee of Securities with the same rights it would have if it were not the Trustee or such agent and may otherwise deal with the Issuer and receive, collect, hold and retain collections from the Issuer with the same rights it would have if it were not the Trustee or such agent.

SECTION 5.5 Moneys Held by Trustee. Subject to the provisions of Section 9.4 hereof, all moneys received by the Trustee shall, until used or applied as herein provided, be held in trust for the purposes for which they were received, but need not be segregated from other funds except

to the extent required by mandatory provisions of law. Neither the Trustee nor any agent of the Issuer or the Trustee shall be under any liability for interest on any moneys received by it hereunder.

SECTION 5.6 Compensation and Indemnification of Trustee and Its Prior Claim. The Issuer covenants and agrees to pay to the Trustee from time to time, and the Trustee shall be entitled to, reasonable compensation (which shall not be limited by any provision of law in regard to the compensation of a trustee of an express trust) and the Issuer covenants and agrees to pay or reimburse the Trustee and each predecessor Trustee upon its request for all reasonable expenses, disbursements and advances incurred or made by or on behalf of it in accordance with any of the provisions of this Indenture (including the reasonable compensation and the expenses and disbursements of its counsel and of all agents and other persons not regularly in its employ) except any such expense, disbursement or advance as may arise from its negligence or bad faith. The Issuer also covenants to indemnify the Trustee and each predecessor Trustee for, and to hold it harmless against, any loss, liability or expense incurred without negligence or bad faith on its part, arising out of or in connection with the acceptance or administration of this Indenture or the trusts hereunder and its duties hereunder, including the costs and expenses of defending itself against or investigating any claim of liability in the premises. The obligations of the Issuer under this Section to compensate and indemnify the Trustee and each predecessor Trustee and to pay or reimburse the Trustee and each predecessor Trustee for expenses, disbursements and advances shall constitute additional indebtedness hereunder and shall survive the satisfaction and discharge of this Indenture. Such additional indebtedness shall be a senior claim to that of the Securities upon all property and funds held or collected by the Trustee as such, except funds held in trust for the benefit of the holders of particular Securities, and the Securities are hereby subordinated to such senior claim. If the Trustee incurs expenses or renders services after an Event of Default specified in clause (6) or (7) of Section 4.1 occurs, such expenses and the compensation for such services are intended to constitute expenses of administration under any Bankruptcy Law.

SECTION 5.7 Right of Trustee to Rely on Officers' Certificate, etc. Subject to Sections 5.1 and 5.2, whenever in the administration of the trusts of this Indenture the Trustee shall deem it necessary or desirable that a matter be proved or established prior to taking or suffering or omitting any action hereunder, such matter (unless other

evidence in respect thereof be herein specifically prescribed) may, in the absence of negligence or bad faith on the part of the Trustee, be deemed to be conclusively proved and established by an Officers' Certificate delivered to the Trustee, and such certificate, in the absence of negligence or bad faith on the part of the Trustee, shall be full warrant to the Trustee for any action taken, suffered or omitted by it under the provisions of this Indenture upon the faith thereof.

SECTION 5.8 Persons Eligible for Appointment as Trustee. The Trustee hereunder shall at all times be a corporation having a combined capital and surplus of at least $5,000,000, and which is eligible in accordance with the provisions of Section 310(a) of the Trust Indenture Act of 1939. If such corporation publishes reports of condition at least annually, pursuant to law or to the requirements of a Federal, State or District of Columbia supervising or examining authority, then for the purposes of this Section, the combined capital and surplus of such corporation shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published.

SECTION 5.9 Resignation and Removal; Appointment of Successor Trustee. (a) The Trustee may at any time resign by giving written notice of resignation to the Issuer and by mailing notice thereof by first-class mail to holders of Securities at their last addresses as they shall appear on the Security register. Upon receiving such notice of resignation, the Issuer shall promptly appoint a successor trustee by written instrument in duplicate, executed by authority of the Board of Directors, one copy of which instrument shall be delivered to the resigning Trustee and one copy to the successor trustee. If no successor trustee shall have been so appointed and have accepted appointment within 30 days after the mailing of such notice of resignation, the resigning trustee may petition any court of competent jurisdiction for the appointment of a successor trustee, or any Securityholder who has been a bona fide holder of a Security or Securities for at least six months may, on behalf of himself and all others similarly situated, petition any such court for the appointment of a successor trustee. Such court may thereupon, after such notice, if any, as it may deem proper and prescribe, appoint a successor trustee.

(b) In case at any time any of the following shall occur:

(i) the Trustee shall fail to comply with the provisions of Section 310(b) of the Trust Indenture Act

of 1939, after written request therefor by the Issuer or by any Securityholder who has been a bona fide holder of a Security or Securities for at least six months; or

(ii) the Trustee shall cease to be eligible in accordance with the provisions of Section 5.8 and shall fail to resign after written request therefor by the Issuer or by any such Securityholder; or

(iii) the Trustee shall become incapable of acting, or shall be adjudged a bankrupt or insolvent, or a receiver or liquidator of the Trustee or of its property shall be appointed, or any public officer shall take charge or control of the Trustee or of its property or affairs for the purpose of rehabilitation, conservation or liquidation;

then, in any such case, the Issuer may remove the Trustee and appoint a successor trustee by written instrument, in duplicate, executed by order of the Board of Directors of the Issuer, one copy of which instrument shall be delivered to the Trustee so removed and one copy to the successor trustee, or, subject to Section 315(e) of the Trust Indenture Act of 1939, any Securityholder who has been a bona fide holder of a Security or Securities for at least six months may on behalf of himself and all others similarly situated, petition any court of competent jurisdiction for the removal of the Trustee and the appointment of a successor trustee. Such court may thereupon, after such notice, if any, as it may deem proper and prescribe, remove the Trustee and appoint a successor trustee.

(c) The holders of a majority in aggregate principal amount of the Securities at the time outstanding may at any time remove the Trustee and appoint a successor trustee by delivering to the Trustee so removed, to the successor trustee so appointed and to the Issuer the evidence provided for in Section 6.1 of the action in that regard taken by the Securityholders.

(d) Any resignation or removal of the Trustee and any appointment of a successor trustee pursuant to any of the provisions of this Section 5.9 shall become effective upon acceptance of appointment by the successor trustee as provided in Section 5.10.

SECTION 5.10 Acceptance of Appointment by Successor Trustee. Any successor trustee appointed as provided in Section 5.9 shall execute and deliver to the Issuer and to its predecessor trustee an instrument

accepting such appointment hereunder, and thereupon the resignation or removal of the predecessor trustee shall become effective and such successor trustee, without any further act, deed or conveyance, shall become vested with all rights, powers, duties and obligations of its predecessor hereunder, with like effect as if originally named as trustee herein; but, nevertheless, on the written request of the Issuer or of the successor trustee, upon payment of its charges then unpaid, the trustee ceasing to act shall, subject to Section 9.4, pay over to the successor trustee all moneys at the time held by it hereunder and shall execute and deliver an instrument transferring to such successor trustee all such rights, powers, duties and obligations. Upon request of any such successor trustee, the Issuer shall execute any and all instruments in writing for more fully and certainly vesting in and confirming to such successor trustee all such rights and powers. Any trustee ceasing to act shall, nevertheless, retain a prior claim upon all property or funds held or collected by such trustee to secure any amounts then due it pursuant to the provisions of Section 5.6.

Upon acceptance of appointment by a successor trustee as provided in this Section 5.10, the Issuer shall mail notice thereof by first-class mail to the holders of Securities at their last addresses as they shall appear in the Security register. If the acceptance of appointment is substantially contemporaneous with the resignation, then the notice called for by the preceding sentence may be combined with the notice called for by Section 5.9. If the Issuer fails to mail such notice within 10 days after acceptance of appointment by the successor trustee, the successor trustee shall cause such notice to be mailed at the expense of the Issuer.

SECTION 5.11 Merger, Conversion, Consolidation or Succession to Business of Trustee. Any corporation into which the Trustee may be merged or converted or with which it may be consolidated, or any corporation resulting from any merger, conversion or consolidation to which the Trustee shall be a party, or any corporation succeeding to the corporate trust business of the Trustee, shall be the successor of the Trustee hereunder, provided that such corporation shall be eligible under the provisions of Section 5.8, without the execution or filing of any paper or any further act on the part of any of the parties hereto, anything herein to the contrary notwithstanding.

In case at the time such successor to the Trustee shall succeed to the trusts created by this Indenture any of the Securities shall have been authenticated but not

delivered, any such successor to the Trustee may adopt the certificate of authentication of any predecessor Trustee and deliver such Securities so authenticated; and, in case at that time any of the Securities shall not have been authenticated, any successor to the Trustee may authenticate such Securities either in the name of any predecessor hereunder or in the name of the successor Trustee; and in all such cases such certificate shall have the full force which it is anywhere in the Securities or in this Indenture provided that the certificate of the Trustee shall have; provided, that the right to adopt the certificate of authentication of any predecessor Trustee or to authenticate Securities in the name of any predecessor Trustee shall apply only to its successor or successors by merger, conversion or consolidation.

SECTION 5.12 Indenture Not Creating Potential Conflicting Interests for Trustee. The following indenture is hereby specifically described for the purposes of Section 310(b) of the Trust Indenture Act of 1939: the indenture dated as of November 16, 1992 between the Issuer and NationsBank of Georgia, National Association, as trustee, relating to the 11.25% Debentures.

ARTICLE SIX

CONCERNING THE SECURITYHOLDERS.

SECTION 6.1 Evidence of Action Taken by Securityholders. Any request, demand, authorization, direction, notice, consent, waiver or other action provided by this Indenture to be given or taken by Securityholders may be embodied in and evidenced by one or more instruments of substantially similar tenor signed by such Securityholders in person or by agent duly appointed in writing; and, except as herein otherwise expressly provided, such action shall become effective when such instrument or instruments are delivered to the Trustee. Proof of execution of any instrument or of a writing appointing any such agent shall be sufficient for any purpose of this Indenture and (subject to Sections 5.1 and 5.2) conclusive in favor of the Trustee and the Issuer, if made in the manner provided in this Article.

SECTION 6.2 Proof of Execution of Instruments and of Holding of Securities; Record Date. Subject to Sections 5.1 and 5.2, the execution of any instrument by a Securityholder or his agent or proxy may be proved in

accordance with such reasonable rules and regulations as may be prescribed by the Trustee or in such manner as shall be satisfactory to the Trustee. The holding of Securities shall be proved by the Security register or by a certificate of the registrar thereof. The Issuer may set a record date for purposes of determining the identity of holders of Securities entitled to vote or consent to any action referred to in Section 6.1, which record date may be set at any time or from time to time by notice to the Trustee, for any date or dates (in the case of any adjournment or resolicitation) not more than 60 days nor less than five days prior to the proposed date of such vote or consent, and thereafter, notwithstanding any other provisions hereof, only holders of Securities of record on such record date shall be entitled to so vote or give such consent or to withdraw such vote or consent.

SECTION 6.3 Holders to Be Treated as Owners. The Issuer, the Trustee and any agent of the Issuer or the Trustee may deem and treat the person in whose name any Security shall be registered upon the Security register as the absolute owner of such Security (whether or not such Security shall be overdue and notwithstanding any notation of ownership or other writing thereon) for the purpose of receiving payment of or on account of the principal of and, subject to the provisions of this Indenture, interest on such Security and for all other purposes; and neither the Issuer nor the Trustee nor any agent of the Issuer or the Trustee shall be affected by any notice to the contrary. All such payments so made to any such person, or upon his order, shall be valid, and, to the extent of the sum or sums so paid, effectual to satisfy and discharge the liability for moneys payable upon any such Security.

SECTION 6.4 Securities Owned by Issuer Deemed Not Outstanding. In determining whether the holders of the requisite aggregate principal amount of Securities have concurred in any direction, consent or waiver under this Indenture, Securities which are owned by the Issuer or any other obligor on the Securities or by any person directly or indirectly controlling or controlled by or under direct or indirect common control with the Issuer or any other obligor on the Securities shall be disregarded and deemed not to be outstanding for the purpose of any such determination, except that for the purpose of determining whether the Trustee shall be protected in relying on any such direction, consent or waiver only Securities which the Trustee knows are so owned shall be so disregarded. Securities so owned which have been pledged in good faith may be regarded as outstanding if the pledgee establishes to the satisfaction of the Trustee the pledgee's right so to act with respect to

such Securities and that the pledgee is not the Issuer or any other obligor upon the Securities or any person directly or indirectly controlling or controlled by or under direct or indirect common control with the Issuer or any other obligor on the Securities. In case of a dispute as to such right, the advice of counsel shall be full protection in respect of any decision made by the Trustee in accordance with such advice. Upon request of the Trustee, the Issuer shall furnish to the Trustee promptly an Officers' Certificate listing and identifying all Securities, if any, known by the Issuer to be owned or held by or for the account of any of the above-described persons; and, subject to Sections 5.1 and 5.2, the Trustee shall be entitled to accept such Officers' Certificate as conclusive evidence of the facts therein set forth and of the fact that all Securities not listed therein are outstanding for the purpose of any such determination.

SECTION 6.5 Right of Revocation of Action Taken. At any time prior to (but not after) the evidencing to the Trustee, as provided in Section 6.1, of the taking of any action by the holders of the percentage in aggregate principal amount of the Securities specified in this Indenture in connection with such action, any holder of a Security the certificate number of which is shown by the evidence to be included among the certificate numbers of the Securities the holders of which have consented to such action may, by filing written notice at the Corporate Trust Office and upon proof of holding as provided in this Article, revoke such action so far as concerns such Security. Except as aforesaid any such action taken by the holder of any Security shall be conclusive and binding upon such holder and upon all future holders and owners of such Security and of any Securities issued in exchange or substitution therefor, irrespective of whether or not any notation in regard thereto is made upon any such Security. Any action taken by the holders of the percentage in aggregate principal amount of the Securities specified in this Indenture in connection with such action shall be conclusively binding upon the Issuer, the Trustee and the holders of all the Securities.

ARTICLE SEVEN

SUPPLEMENTAL INDENTURES.

SECTION 7.1 Supplemental Indentures Without Consent of Securityholders. The Issuer, when authorized by

a resolution of its Board of Directors, and the Trustee may from time to time and at any time enter into an indenture or indentures supplemental hereto for one or more of the following purposes:

(a) to evidence the succession of another corporation to the Issuer, or successive successions, and the assumption by the successor corporation of the covenants, agreements and obligations of the Issuer pursuant to Article Eight;

(b) to add to the covenants of the Issuer such further covenants, restrictions, conditions or provisions as its Board of Directors and the Trustee shall consider to be for the protection of the holders of Securities, and to make the occurrence, or the occurrence and continuance, of a default in any such additional covenants, restrictions, conditions or provisions an Event of Default permitting the enforcement of all or any of the several remedies provided in this Indenture as herein set forth; provided, that in respect of any such additional covenant, restriction, condition or provision such supplemental indenture may provide for a particular period of grace after default (which period may be shorter or longer than that allowed in the case of other defaults) or may provide for an immediate enforcement upon such an Event of Default or may limit the remedies available to the Trustee upon such an Event of Default or may limit the right of the holders of a majority in aggregate principal amount of the Securities to waive such an Event of Default;

(c) to cure any ambiguity or to correct or supplement any provision contained herein or in any supplemental indenture which may be defective or inconsistent with any other provision contained herein or in any supplemental indenture; or to make such other provisions in regard to matters or questions arising under this Indenture or under any supplemental indenture as the Board of Directors may deem necessary or desirable and which shall not materially and adversely affect the interests of the holders of the Securities; and

(d) to provide for the issuance under this Indenture of Securities in coupon form (including Securities registrable as to principal only) and to provide for exchangeability of such Securities with Securities issued hereunder in fully registered form, and to make all appropriate changes for such purpose.

The Trustee is hereby authorized to join in the execution of any such supplemental indenture, to make any further appropriate agreements and stipulations which may be therein contained and to accept the conveyance, transfer, assignment, mortgage or pledge of any property thereunder, but the Trustee shall not be obligated to enter into any such supplemental indenture which affects the Trustee's own rights, duties or immunities under this Indenture or otherwise.

Any supplemental indenture authorized by the provisions of this Section may be executed without the consent of the holders of any of the Securities at the time outstanding, notwithstanding any of the provisions of Section 7.2.

SECTION 7.2 Supplemental Indentures With Consent of Securityholders. With the consent (evidenced as provided in Article Six) of the holders of not less than a majority in aggregate principal amount of the Securities at the time outstanding, the Issuer, when authorized by a resolution of its Board of Directors, and the Trustee may, from time to time and at any time, enter into an indenture or indentures supplemental hereto for the purpose of adding any provisions to or changing in any manner or eliminating any of the provisions of this Indenture or of any supplemental indenture or of modifying in any manner the rights of the holders of the Securities; provided, that no such supplemental indenture shall (a) extend the final maturity of any Security, or reduce the principal amount thereof, or reduce the rate or extend the time of payment of interest thereon, or reduce the premium, if any, payable thereon, or reduce any amount payable on redemption thereof, or impair or affect the right of any Securityholder to institute suit for the payment thereof, or waive a default in the payment of principal of, premium, if any, or interest on any Security, change the currency of payment of principal of, premium, if any, or interest on any Security, or modify any provision of this Indenture with respect to the priority of the Securities in right of payment without the consent of the holder of each Security so affected, or (b) reduce the aforesaid percentage of Securities, the consent of the holders of which is required for any such supplemental indenture, without the consent of the holders of all Securities then outstanding.

Upon the request of the Issuer, accompanied by a copy of a resolution of the Board of Directors certified by the Secretary or an Assistant Secretary of the Issuer authorizing the execution of any such supplemental

indenture, and upon the filing with the Trustee of evidence of the consent of Securityholders and other documents, if any, required by Section 6.1, the Trustee shall join with the Issuer in the execution of such supplemental indenture unless such supplemental indenture affects the Trustee's own rights, duties or immunities under this Indenture or otherwise, in which case the Trustee may in its discretion, but shall not be obligated to, enter into such supplemental indenture.

It shall not be necessary for the consent of the Securityholders under this Section to approve the particular form of any proposed supplemental indenture, but it shall be sufficient if such consent shall approve the substance thereof.

Promptly after the execution by the Issuer and the Trustee of any supplemental indenture pursuant to the provisions of this Section, the Issuer shall mail a notice thereof by first-class mail to the holders of Securities at their addresses as they shall appear on the registry books of the Issuer, setting forth in general terms the substance of such supplemental indenture. Any failure of the Issuer to mail such notice, or any defect therein, shall not, however, in any way impair or affect the validity of any such supplemental indenture.

No supplemental indenture or waiver under this Section 7.2 or Section 7.1 hereof shall make any change that adversely affects the rights under Article 12 of any holder of an issue of Senior Indebtedness unless the holders of the issue, pursuant to the terms of such Senior Indebtedness, consent to the change. No amendment or waiver under this Section 7.2 or Section 7.1 hereof shall make any change that adversely affects the rights under this Indenture of the Credit Agent or the parties to the Credit Agreement unless the Credit Agent consents to the change.

SECTION 7.3 Effect of Supplemental Indenture. Upon the execution of any supplemental indenture pursuant to the provisions hereof, this Indenture shall be and be deemed to be modified and amended in accordance therewith and the respective rights, limitations of rights, obligations, duties and immunities under this Indenture of the Trustee, the Issuer and the holders of Securities shall thereafter be determined, exercised and enforced hereunder subject in all respects to such modifications and amendments, and all the terms and conditions of any such supplemental indenture shall be and be deemed to be part of the terms and conditions of this Indenture for any and all purposes.

SECTION 7.4 Documents to Be Given to Trustee.

The Trustee, subject to the provisions of Sections 5.1 and 5.2, may receive an Officers' Certificate and an Opinion of Counsel as conclusive evidence that any such supplemental indenture complies with the applicable provisions of this Indenture.

SECTION 7.5 Notation on Securities in Respect of Supplemental Indentures. Securities authenticated and delivered after the execution of any supplemental indenture pursuant to the provisions of this Article may bear a notation in form approved by the Trustee as to any matter provided for by such supplemental indenture or as to any action taken at any such meeting. If the Issuer or the Trustee shall so determine, new Securities so modified as to conform, in the opinion of the Trustee and the Board of Directors, to any modification of this Indenture contained in any such supplemental indenture may be prepared by the Issuer, authenticated by the Trustee and delivered in exchange for the Securities then outstanding.

ARTICLE EIGHT

CONSOLIDATION, MERGER, SALE OR CONVEYANCE.

SECTION 8.1 When Issuer May Merge, etc. The Issuer shall not consolidate or merge with or into, or sell, transfer, lease or convey all or substantially all of its assets to, any person unless:

(1) the person formed by or surviving any such consolidation or merger (if other than the Issuer), or to which such sale, transfer, lease or conveyance shall have been made, is a corporation organized and existing under the laws of the United States, any state thereof or the District of Columbia;

(2) the corporation formed by or surviving any such consolidation or merger (if other than the Issuer), or to which such sale, transfer, lease or conveyance shall have been made, assumes by supplemental indenture in a form reasonably satisfactory to the Trustee all the obligations of the Issuer under the Securities and this Indenture;

(3) immediately after the transaction no Default or Event of Default exists;

(4) the Issuer or any corporation formed by or surviving any such consolidation or merger, or to which such sale, transfer, lease or conveyance shall have been made, shall have an Adjusted Consolidated Net Worth (immediately after the transaction but prior to any purchase accounting adjustments resulting from the transaction) equal to or greater than the Adjusted Consolidated Net Worth of the Issuer immediately preceding the transaction; provided, however, that this clause (4) shall not apply to any transaction where the consideration consists solely of common stock or other Equity Interests of the Issuer or any surviving corporation and any liabilities of such other person are not assumed by and are specifically non-recourse to the Issuer or such surviving corporation; and

(5) after giving effect to such transaction and immediately thereafter, the Issuer or any corporation formed by or surviving any such consolidation or merger, or to which such sale, transfer, lease or conveyance shall have been made, shall be permitted to incur at least $1.00 of additional Indebtedness pursuant to Section 3.11(a), provided that, if the Fixed Charge Coverage Ratio of the Issuer immediately prior to such transaction is within the range set forth in Column A below, then the pro forma Fixed Charge Coverage Ratio of the Issuer or the surviving entity, as the case may be, immediately after such transaction, shall be at least equal to the lesser of (1) the ratio determined by multiplying the percentage set forth in column (B) below by the Fixed Charge Coverage Ratio of the Issuer prior to such transaction and (2) the ratio set forth in column (C) below:

(A)	(B)	(C)
1.11:1 to 1.99:1		90%1.5:1
2.00:1 to 2.99:1		80%2.1:1
3.00:1 to 3.99:1		70%2.4:1
4.00:1 or more		60%2.5:1

and provided, further, that if, immediately after giving effect to such transaction on a pro forma basis, the Fixed Charge Coverage Ratio of the Issuer or the surviving entity, as the case may be, is 2.5:1 or more, the calculation in the

preceding proviso shall be inapplicable and such transaction shall be deemed to have complied with the requirements of this clause (5).

The Issuer shall deliver to the Trustee prior to the consummation of the proposed transaction an Officers' Certificate to the foregoing effect and an Opinion of Counsel stating that the proposed transaction and such supplemental Indenture comply with this Section 8.1. The Trustee shall be entitled to rely conclusively upon such Officers' Certificate and Opinion of Counsel.

SECTION 8.2 Successor Corporation Substituted. Upon any consolidation or merger, or any sale, transfer, lease, conveyance or other disposition of all or substantially all of the assets of the Issuer in accordance with Section 8.1, the successor corporation formed by such consolidation or into or with which the Issuer is merged or to which such sale, lease, conveyance or other disposition is made shall succeed to, and be substituted for, and may exercise every right and power of, the Issuer under this Indenture with the same effect as if such successor person has been named as the Issuer herein and thereafter, except in the case of a lease, the predecessor corporation shall be relieved of all obligations and covenants under this Indenture and the Securities.

ARTICLE NINE

SATISFACTION AND DISCHARGE OF INDENTURE; UNCLAIMED MONEYS; DEFEASANCE.

SECTION 9.1 Satisfaction and Discharge of Indenture. If at any time (a) the Issuer shall have paid or caused to be paid the principal of and interest on all the Securities outstanding hereunder, as and when the same shall have become due and payable, or (b) the Issuer shall have delivered to the Trustee for cancellation all Securities theretofore authenticated (other than any Securities which shall have been destroyed, lost or stolen and which shall have been replaced or paid as provided in Section 2.6) or (c) all Securities not theretofore cancelled or delivered to the Trustee for cancellation shall have become due and payable, or are by their terms to become due and payable within 1 year or are to be called for redemption within 1 year under arrangements satisfactory to the Trustee for the giving of notice of redemption, and the Issuer shall deposit with the Trustee, in trust, funds sufficient to pay at

maturity or upon redemption of all the Securities (other than any Securities which shall have been destroyed, lost or stolen and which shall have been replaced or paid as provided in Section 2.6) not theretofore cancelled or delivered to the Trustee for cancellation, including principal and interest due or to become due to such date of maturity or redemption date, as the case may be, but excluding, however, the amount of any moneys for the payment of principal of or interest on the Securities theretofore repaid to the Issuer in accordance with the provisions of Section 9.4 or paid to any State or the District of Columbia pursuant to its unclaimed property or similar laws, and if the Issuer shall also pay or cause to be paid all other sums payable hereunder by the Issuer (and if the payment of such other sums and, in the case of a satisfaction and discharge pursuant to clause (c), the making of such deposit shall not at such time be prohibited by the Credit Agreement or the provisions of Article 12), then this Indenture shall cease to be of further effect (except as to (i) rights of registration of transfer and exchange, and the Issuer's right of optional redemption, (ii) substitution of apparently mutilated, defaced, destroyed, lost or stolen Securities, (iii) rights of holders to receive payments of principal thereof and interest thereon, (iv) the rights, obligations and immunities of the Trustee hereunder, (v) the rights of the Securityholders as beneficiaries hereof with respect to the property so deposited with the Trustee payable to all or any of them and (vi) the obligation of the Issuer to maintain an office or agency as provided in Section 3.2) and the Trustee, on demand of the Issuer accompanied by an Officers' Certificate and an Opinion of Counsel and at the cost and expense of the Issuer, shall execute proper instruments acknowledging such satisfaction of and discharging this Indenture. The Issuer agrees to reimburse the Trustee for any costs or expenses thereafter reasonably and properly incurred and to compensate the Trustee for any services thereafter reasonably and properly rendered by the Trustee in connection with this Indenture or the Securities.

SECTION 9.2 Application by Trustee of Funds Deposited for Payment of Securities. Subject to Section 9.4 and to the subordination provisions of this Indenture, all moneys deposited with the Trustee pursuant to Section 9.1 or 9.5 shall be held in trust and applied by it to the payment, either directly or through any paying agent (including the Issuer acting as its own paying agent), to the holders of the particular Securities for the payment or redemption of which such moneys have been deposited with the Trustee, of all sums due and to become due thereon for principal and interest; but such money need not be segregated from other

funds except to the extent required by law.

SECTION 9.3 Repayment of Moneys Held by Paying Agent. In connection with the satisfaction and discharge of this Indenture all moneys then held by any paying agent under the provisions of this Indenture shall, upon demand of the Issuer, be repaid to it or paid to the Trustee and thereupon such paying agent shall be released from all further liability with respect to such moneys.

SECTION 9.4 Return of Moneys Held by Trustee and Paying Agent Unclaimed for Three Years. Any moneys deposited with or paid to the Trustee or any paying agent for the payment of the principal of or interest on any Security and not applied but remaining unclaimed for three years after the date upon which such principal or interest shall have become due and payable, shall, upon the written request of the Issuer and unless otherwise required by mandatory provisions of applicable escheat or abandoned or unclaimed property law, be repaid to the Issuer by the Trustee or such paying agent, and the holder of such Security shall, unless otherwise required by mandatory provisions of applicable escheat or abandoned or unclaimed property laws, thereafter look only to the Issuer for any payment which such holder may be entitled to collect, and all liability of the Trustee or any paying agent with respect to such moneys shall thereupon cease.

SECTION 9.5 Defeasance. At the Issuer's option, either (a) the Issuer shall be deemed to have been Discharged (as defined below) from its respective obligations under the Securities on the 91st day after the applicable conditions set forth below have been satisfied or (b) the Issuer shall cease to be under any obligation to comply with any term, provision or condition set forth in Sections 3.9 through 3.18, 8.1 and 8.2 with respect to the Securities at any time after the applicable conditions set forth below have been satisfied:

(1) the Issuer shall have deposited or caused to be deposited irrevocably with the Trustee as funds in trust, specifically pledged as security for, and dedicated solely to, the benefit of the Holders of the Securities, (i) funds in an amount sufficient to pay the principal amount of the Securities in full on the date of maturity of the Securities or a selected date of redemption of the Securities as permitted under this Indenture (if such Securities are to be called for redemption and satisfactory arrangements have been made with the Trustee for the giving of notice of redemption) and the interest on such aggregate

principal amount to the date of maturity of the Securities or such date of redemption, taking into account all intervening interest payment dates, for the period from the date through which interest on the Securities has been paid to the date of maturity of the Securities or such date of redemption and all other sums payable hereunder by the Issuer; and provided that such funds, if invested, shall be invested only in U.S. Government Obligations maturing prior to the date of maturity of the Securities or, to the extent applicable, such date of redemption and such intervening interest payment dates; and, provided further, however, that the Trustee shall have no obligation to invest such funds; or (ii) U.S. Government Obligations in such aggregate principal amount and maturity on such dates as will, together with the income or increment to accrue thereon, but without consideration of any reinvestment of such income or increment, be sufficient to pay when due (including any intervening interest payment dates) the amounts set forth in the foregoing clauses (A) and (B); or (iii) a combination of (i) and (ii), sufficient (in the cases of deposits made pursuant to (ii) or (iii)), in the opinion of a nationally recognized firm of independent public accountants expressed in a written certification thereof delivered to the Trustee, to pay and discharge each installment of principal of, and interest on, the outstanding Securities on the dates such installments of principal or interest are due;

(2) no Event of Default or event which with notice or lapse of time would become an Event of Default with respect to the Securities shall have occurred and be continuing on the date of such deposit;

(3) the Issuer shall have delivered to the Trustee (A) an Opinion of Counsel to the effect that the deposit of such funds or investments or both to defease the Issuer's obligations in respect of the Securities is in accordance with the provisions of this Indenture and (B) either (i) an Opinion of Counsel to the effect that Holders of the Securities will not recognize income, gain or loss for United States federal income tax purposes as a result of the exercise of the option under this Section 9.5 and will be subject to United States Federal income tax on the same amount and in the same manner and at the same time as would have been the case if such option had not been exercised, or (ii) a private letter ruling to that effect directed to the Trustee received from the United States Internal Revenue Service; and

(4) the deposit of such funds or investments shall not at such time be prohibited by the Credit Agreement or the provisions of Article 12 and shall not contravene applicable law.

"Discharged" means that the Issuer shall be deemed to have paid and discharged the entire indebtedness represented by, and obligations under, the Securities and to have satisfied all the obligations under this Indenture and the Securities (and the Trustee, at the request and the expense of the Issuer, shall execute proper instruments acknowledging the same), except (i) the rights of Holders of Securities to receive, from the trust fund described in clause (1) above, payment of the Principal of and the interest on the Securities when such payments are due; (ii) the Issuer's obligations with respect to the Securities under Section 2.5, 2.6, and 9.4; (iii) the rights, powers, trusts, duties and immunities of the Trustee hereunder, and (iv) the obligation of the Issuer to maintain an office or agency as provided in Section 3.2.

ARTICLE TEN

MISCELLANEOUS PROVISIONS.

SECTION 10.1 Incorporators, Stockholders, Officers and Directors of Issuer Exempt from Individual Liability. No recourse under or upon any obligation, covenant or agreement contained in this Indenture, or in any Security, or because of any indebtedness evidenced thereby, shall be had against any incorporator, as such, or against any past, present or future stockholder, officer or director, as such, of the Issuer or of any successor, either directly or through the Issuer or any successor, under any rule of law, statute or constitutional provision or by the enforcement of any assessment or by any legal or equitable proceeding or otherwise, all such liability being expressly waived and released by the acceptance of the Securities by the holders thereof and as part of the consideration for the issue of the Securities.

SECTION 10.2 Provisions of Indenture for the Sole Benefit of Parties and Securityholders. Nothing in this Indenture or in the Securities, expressed or implied, shall give or be construed to give to any person, firm or corporation, other than the parties hereto and their successors and the holders of Senior Indebtedness and the holders of the Securities, any legal or equitable right,

remedy or claim under this Indenture or under any covenant or provision herein contained, all such covenants and provisions being for the sole benefit of the parties hereto and their successors and of the holders of Senior Indebtedness and the holders of the Securities.

SECTION 10.3 Successors and Assigns of Issuer Bound by Indenture. All the covenants, stipulations, promises and agreements in this Indenture contained by or in behalf of the Issuer shall bind its successors and assigns, whether so expressed or not.

SECTION 10.4 Notices and Demands on Issuer, Trustee and Securityholders. Any notice or demand which by any provision of this Indenture is required or permitted to be given or served by the Trustee or by the holders of Securities to or on the Issuer may be given or served by hand delivery, by overnight courier or by being deposited postage prepaid, first-class mail (except, in each case, as otherwise specifically provided herein), in each case addressed (until another address of the Issuer is filed by the Issuer with the Trustee) to Flagstar Corporation, 203 East Main Street, Spartanburg, South Carolina 29319, Attention: Chief Financial Officer. Any notice, direction, request or demand by the Issuer or any Securityholder to or upon the Trustee shall be deemed to have been sufficiently given or made, for all purposes, if given or made at the Corporate Trust Office.

Where this Indenture provides for notice to holders, such notice shall be sufficiently given (unless otherwise herein expressly provided) if in writing and delivered by hand, delivered by overnight courier or mailed, first-class postage prepaid, to each holder entitled thereto, at his last address as it appears in the Security register. In any case where notice to holders is given by any of the foregoing means, neither the failure to give such notice by such means, nor any defect in any notice so given, to any particular holder shall affect the sufficiency of such notice with respect to other holders. Where this Indenture provides for notice in any manner, such notice may be waived in writing by the person entitled to receive such notice, either before or after the event, and such waiver shall be the equivalent of such notice. Waivers of notice by holders shall be filed with the Trustee, but such filing shall not be a condition precedent to the validity of any action taken in reliance upon such waiver.

In case, by reason of the suspension of or irregularities in regular mail service, it shall be impracticable to mail notice to the Issuer and

Securityholders when such notice is required to be given pursuant to any provision of this Indenture, then any manner of giving such notice as shall be satisfactory to the Trustee shall be deemed to be a sufficient giving of such notice.

SECTION 10.5 Officers' Certificates and Opinions of Counsel; Statements to Be Contained Therein. Upon any application or demand by the Issuer to the Trustee to take any action under any of the provisions of this Indenture, the Issuer shall furnish to the Trustee an Officers' Certificate stating that all conditions precedent provided for in this Indenture relating to the proposed action have been complied with and an Opinion of Counsel stating that in the opinion of such counsel all such conditions precedent have been complied with, except that in the case of any such application or demand as to which the furnishing of such documents is specifically required by any provision of this Indenture relating to such particular application or demand, no additional certificate or opinion need be furnished.

Each certificate or opinion provided for in this Indenture and delivered to the Trustee with respect to compliance with a condition or covenant provided for in this Indenture shall include (a) a statement that the person making such certificate or opinion has read such covenant or condition, (b) a brief statement as to the nature and scope of the examination or investigation upon which the statements or opinions contained in such certificate or opinion are based, (c) a statement that, in the opinion of such person, he has made such examination or investigation as is necessary to enable him to express an informed opinion as to whether or not such covenant or condition has been complied with and (d) a statement as to whether or not, in the opinion of such person, such condition or covenant has been complied with.

Any certificate, statement or opinion of an officer of the Issuer may be based, insofar as it relates to legal matters, upon a certificate or opinion of or representations by counsel, unless such officer knows that the certificate or opinion or representations with respect to the matters upon which his certificate, statement or opinion may be based as aforesaid are erroneous, or in the exercise of reasonable care should know that the same are erroneous. Any certificate, statement or opinion of counsel may be based, insofar as it relates to factual matters information with respect to which is in the possession of the Issuer, upon the certificate, statement or opinion of or representations by an officer or officers of the Issuer, unless such counsel knows that the certificate, statement or

opinion or representations with respect to the matters upon which his certificate, statement or opinion may be based as aforesaid are erroneous, or in the exercise of reasonable care should know that the same are erroneous.

Any certificate, statement or opinion of an officer of the Issuer or of counsel may be based, insofar as it relates to accounting matters, upon a certificate or opinion of or representations by an accountant or firm of accountants in the employ of the Issuer, unless such officer or counsel, as the case may be, knows that the certificate or opinion or representations with respect to the accounting matters upon which his certificate, statement or opinion may be based as aforesaid are erroneous, or in the exercise of reasonable care should know that the same are erroneous.

Any certificate or opinion of any independent firm of public accountants filed with the Trustee shall contain a statement that such firm is independent.

SECTION 10.6 Payments Due on Saturdays, Sundays and Holidays. If the date of maturity of interest on or principal of the Securities or the date fixed for redemption of any Security shall not be a Business Day, then payment of interest or principal need not be made on such date, but may be made on the next succeeding Business Day with the same force and effect as if made on the date of maturity or the date fixed for redemption, and no interest shall accrue for the period after such date.

SECTION 10.7 Conflict of Any Provision of Indenture with Trust Indenture Act of 1939. If and to the extent that any provision of this Indenture limits, qualifies or conflicts with another provision included in this Indenture by operation of Sections 310 to 317, inclusive, of the Trust Indenture Act of 1939 (an "incorporated provision"), such incorporated provision shall control.

SECTION 10.8 New York Law to Govern. This Indenture and each Security shall be deemed to be a contract under the laws of the State of New York, and for all purposes shall be construed in accordance with the laws of said State, except as may otherwise be required by mandatory provisions of law.

SECTION 10.9 Counterparts. This Indenture may be executed in any number of counterparts, each of which shall be an original; but such counterparts shall together constitute but one and the same instrument.

SECTION 10.10 Effect of Headings. The Article and Section headings herein and the Table of Contents are for convenience only and shall not affect the construction hereof.

ARTICLE ELEVEN

REDEMPTION OF SECURITIES.

SECTION 11.1 Right of Optional Redemption. (a) Except as provided in Section 11.1(b), the Securities may not be redeemed at the option of the Issuer prior to September 15, 1998. On and after such date, the Issuer at its option may, at any time, redeem all, or from time to time any part of, the Securities upon payment of the optional redemption prices set forth in the form of Security hereinabove recited, together with accrued interest to the date fixed for redemption.

(b) The Securities may be redeemed in part at the option of the Issuer prior to September 15, 1996 upon the terms and subject to the conditions set forth in the form of Security hereinabove recited.

SECTION 11.2 Notice of Redemption; Partial Redemptions. Notice of redemption to the holders of Securities to be redeemed as a whole or in part shall be given by mailing notice of such redemption by first class mail, postage prepaid, at least 30 days and not more than 60 days prior to the date fixed for redemption to such holders of Securities at their last addresses as they shall appear upon the registry books. Any notice which is mailed in the manner herein provided shall be conclusively presumed to have been duly given, whether or not the holder receives the notice. Failure to give notice by mail, or any defect in the notice to the holder of any Security designated for redemption as a whole or in part shall not affect the validity of the proceedings for the redemption of any other Security.

The notice of redemption to each such holder shall specify the principal amount of each Security held by such holder to be redeemed, the date fixed for redemption, the redemption price, the place or places of payment, that payment will be made upon presentation and surrender of such Securities, that interest accrued to the date fixed for redemption will be paid as specified in said notice and that on and after said date interest thereon or on the portions

thereof to be redeemed will cease to accrue. In case any Security is to be redeemed in part only the notice of redemption shall state the portion of the principal amount thereof to be redeemed and shall state that on and after the date fixed for redemption, upon surrender of such Security, a new Security or Securities in principal amount equal to the unredeemed portion thereof will be issued.

The notice of redemption of Securities to be redeemed at the option of the Issuer shall be given by the Issuer or, at the Issuer's request, by the Trustee in the name and at the expense of the Issuer.

On or prior to the redemption date specified in the notice of redemption given as provided in this Section, the Issuer will deposit with the Trustee or with one or more paying agents (or, if the Issuer is acting as its own paying agent, set aside, segregate and hold in trust as provided in Section 3.4) an amount of money sufficient to redeem on the redemption date all the Securities so called for redemption at the appropriate redemption price, together with accrued interest to the date fixed for redemption. If less than all the outstanding Securities are to be redeemed the Issuer will deliver to the Trustee at least 70 days prior to the date fixed for redemption an Officers' Certificate stating the aggregate principal amount of Securities to be redeemed.

If less than all the Securities are to be redeemed, the Trustee shall select, in such manner as it shall deem appropriate and fair but generally pro rata or by lot, Securities to be redeemed in whole or in part. Securities may be redeemed in part in multiples of $1,000 only. The Trustee shall promptly notify the Issuer in writing of the Securities selected for redemption and, in the case of any Securities selected for partial redemption, the principal amount thereof to be redeemed. For all purposes of this Indenture, unless the context otherwise requires, all provisions relating to the redemption of Securities shall relate, in the case of any Security redeemed or to be redeemed only in part, to the portion of the principal amount of such Security which has been or is to be redeemed.

SECTION 11.3 Payment of Securities Called for Redemption. If notice of redemption has been given as above provided, the Securities or portions of Securities specified in such notice shall become due and payable on the date and at the place stated in such notice at the applicable redemption price, together with interest accrued to the date fixed for redemption, and on and after said date (unless the Issuer shall default in the payment of such Securities at

the redemption price, together with interest accrued to said date) interest on the Securities or portions of Securities so called for redemption shall cease to accrue and, except as provided in Sections 5.5 and 9.4, such Securities shall cease from and after the date fixed for redemption to be entitled to any benefit or security under this Indenture, and the holders thereof shall have no right in respect of such Securities except the right to receive the redemption price thereof and unpaid interest to the date fixed for redemption. On presentation and surrender of such Securities at a place of payment specified in said notice, said Securities or the specified portions thereof shall be paid and redeemed by the Issuer at the applicable redemption price, together with interest accrued thereon to the date fixed for redemption; provided that any semi-annual payment of interest becoming due on the date fixed for redemption shall be payable to the holders of such Securities registered as such on the relevant record date subject to the terms and provisions of Section 2.4 hereof.

If any Security called for redemption shall not be so paid upon surrender thereof for redemption, the principal shall, until paid or duly provided for, bear interest from the date fixed for redemption at the rate borne by the Security.

Upon presentation of any Security redeemed in part only, the Issuer shall execute and the Trustee shall authenticate and deliver to or on the order of the holder thereof, at the expense of the Issuer, a new Security or Securities, of authorized denominations, in principal amount equal to the unredeemed portion of the Security so presented.

SECTION 11.4 Exclusion of Certain Securities from Eligibility for Selection for Redemption. Securities shall be excluded from eligibility for selection for redemption if they are identified by registration and certificate number in a written statement signed by an authorized officer of the Issuer and delivered to the Trustee at least 40 days prior to the last date on which notice of redemption may be given as being owned of record and beneficially by, and not pledged or hypothecated by either (a) the Issuer or (b) an entity specifically identified in such written statement directly or indirectly controlling or controlled by or under direct or indirect common control with the Issuer.

SECTION 11.5 Offer to Redeem by Application of Net Proceeds. At such time as the Issuer determines to make a Net Proceeds Offer pursuant to the provisions of Section 3.13 hereof, the Issuer shall deliver to the Trustee a notice to such effect specifying the aggregate principal

amount of the Securities for which the Net Proceeds Offer will be made. Within 15 days thereafter, the Trustee shall select the Securities to be offered to be redeemed in accordance with Section 11.2 hereof. Within 10 days thereafter the Issuer shall mail or cause the Trustee to mail (in the Issuer's name and at its expense and pursuant to an Officer's Certificate as required by Section 3.13 hereof) a Net Proceeds Offer to redeem to each Holder of Securities whose Securities are to be offered to be redeemed. The Net Proceeds Offer shall identify the Securities to which it relates and shall contain the information required by the second paragraph of Section 11.2 hereof and shall provide for a redemption date no earlier than 65 days after the mailing of the Net Proceeds Offer.

A Holder receiving a Net Proceeds Offer may elect to have redeemed the Securities to which the Net Proceeds Offer relates by providing written notice thereof to the Trustee and the Issuer on or before 35 days preceding the redemption date and shall thereafter complete the form entitled "Option of Holder to Elect to Have Security Redeemed" on the reverse of the Security and surrender the Security to the Issuer, or depositary, if appointed by the Issuer, or a paying agent at least three days prior to the redemption date. A Holder may not elect to have redeemed less than all of the Securities to which the Net Proceeds Offer relates.

Other than as specifically provided in this Section 11.5, any redemption pursuant to this Section 11.5 shall be made pursuant to the provisions of Sections 11.2 through 11.4 hereof and shall, in any event, be subject to Article 12.

ARTICLE TWELVE

SUBORDINATION OF SECURITIES.

SECTION 12.1 Agreement to Subordinate. The Issuer agrees, and each Holder by accepting a Security consents and agrees, that the Indebtedness evidenced by the Security and all Obligations of the Issuer under this Indenture and the payment of any Claims are subordinated in right of payment, to the extent and in the manner provided in this Article 12, to the prior payment in full of all Senior Indebtedness, and that the subordination is for the benefit of the holders of Senior Indebtedness and they and/or each of them may enforce such subordination.

SECTION 12.2 Certain Definitions.

"Claim" means any claim arising for the rescission of the purchase of the Securities, for damages arising from the purchase of the Securities or for reimbursement or contribution on account of such a claim.

"Representative" means the indenture trustee or other trustee, agent or representative for any Senior Indebtedness and, in the case of Senior Indebtedness under the Credit Agreement, the Credit Agent.

A distribution may consist of cash, securities or other property, by set-off or otherwise, and a payment or distribution on account of any Obligations or any Claims with respect to the Securities shall include any redemption, purchase or other acquisition of the Securities, whether pursuant to a Net Proceeds Offer or otherwise.

For the purposes of this Article 12, all Senior Indebtedness now or hereafter existing under the Credit Agreement shall not be deemed to have been paid in full unless the holders or owners thereof shall have received payment in full in cash of such Senior Indebtedness and all obligations and claims relating thereto.

SECTION 12.3 Liquidation; Dissolution; Bankruptcy. Upon any distribution to creditors of the Issuer in a total or partial liquidation or dissolution of the Issuer or in bankruptcy, reorganization, insolvency, receivership or similar proceeding relating to the Issuer or its property or in an assignment for the benefit of creditors, or an arrangement, adjustment, composition or relief of the Issuer or its debts or any marshalling of the assets and liabilities of the Issuer:

(1) holders of Senior Indebtedness shall be entitled to receive payment in full of all obligations due or to become due with respect to the Senior Indebtedness (including interest after the commencement of any such proceeding at the rate specified in the applicable Senior Indebtedness whether or not such interest is an allowable claim under each such proceeding) and all claims relating thereto before Holders shall be entitled to receive any payment or distribution on account of any obligations with respect to the Securities or on account of any Claim; and

(2) until all obligations with respect to Senior Indebtedness (as provided in subsection (1) above) and

all claims relating thereto are paid in full, any payment or distribution, including, without limitation, any payment or distribution which may be payable or deliverable by reason of the payment of any other Indebtedness of the Issuer being subordinated to the payment of the Securities to which Holders would be entitled but for this Article shall be made to holders of Senior Indebtedness, as their interests may appear, for application (in the case of cash) to, or as collateral (in the case of non-cash property or securities) for the payment or prepayment of, the Senior Indebtedness to the extent necessary to pay in full all such Senior Indebtedness and all obligations and claims relating thereto in accordance with the terms thereof, after giving effect to any concurrent payment or distribution to or for the holders of such Senior Indebtedness, except that pursuant to a plan of reorganization under an applicable Bankruptcy Law and, if any Indebtedness is outstanding pursuant to the Credit Agreement, notice to the Issuer from the Credit Agent that such plan of reorganization is reasonably satisfactory to the Required Lenders (as defined in the Credit Agreement), Holders may receive securities that are subordinated to at least the same extent as the Securities to (a) Senior Indebtedness and (b) any securities issued in exchange for Senior Indebtedness; provided; however, that if any Indebtedness is outstanding pursuant to the Credit Agreement, the terms (including, without limitation, terms in respect of maturities, covenants, defaults, acceleration and remedies) of any securities issued to Holders pursuant to this Section 12.3 must be reasonably satisfactory to the Required Lenders as evidenced by a notice to such effect from the Credit Agent to the Issuer.

SECTION 12.4 Default on Senior Indebtedness.

(a) In the event that any default in the payment of any Senior Indebtedness or any obligation or claim relating thereto shall have occurred and be continuing, whether at maturity (by lapse of time, acceleration or otherwise), upon redemption or otherwise (a "Payment Default"), unless and until such Payment Default shall have been cured or waived in writing by the holders of such Senior Indebtedness, no direct or indirect payment or distribution (including, without limitation, any payment or distribution which may be payable or deliverable by reason of the payment of any other Indebtedness of the Issuer being subordinated to payment of the Securities) shall be made by or on behalf of the Issuer for or on account of any

Obligations with respect to the Securities or on account of any Claim, and neither the Trustee nor any Holders shall receive from the Issuer directly or indirectly, any payment or distribution, including, without limitation, from or by way of collateral, on account of any Obligations with respect to the Securities or on account of any Claim.

(b) Upon receipt by the Issuer and the Trustee of written notice from the Credit Agent of any default (including an unmatured event of default) under the Credit Agreement, other than a Payment Default, or that a payment or distribution by the Issuer with respect to any Security would, immediately after giving effect thereto, result in such a default, and unless such default shall have been cured or waived in writing in accordance with the terms of the Credit Agreement and written notice thereof is delivered to the Trustee, no direct or indirect payment or distribution (including, without limitation, any payment or distribution which may be payable or deliverable by reason of the payment of any other Indebtedness of the Issuer being subordinated to payment of the Securities) may be made by or on behalf of the Issuer for or on account of the Obligations with respect to the Securities or on account of any Claim and neither the Trustee nor any Holder shall receive from the Issuer, directly or indirectly, any payment or distribution, including, without limitation, from or by way of collateral, in respect of the Obligations with respect to the Securities or on account of any Claim during a period (the "Payment Blockage Period") commencing on the receipt by the Issuer and the Trustee of such notice and ending on the earliest of (i) 179 days thereafter, (ii) the date on which such default shall have been waived in writing or cured or (iii) the date on which the benefits of this clause (b) shall have been waived in writing by the Credit Agent.

(c) Upon receipt by the Issuer and the Trustee of written notice from the Representative of Specified Senior Indebtedness (other than the Credit Agent under the Credit Agreement) of any default thereunder (including an unmatured event of default) other than a Payment Default, or that a payment or distribution by the Issuer with respect to any Security would, immediately after giving effect thereto, result in such a default, and unless such default shall have been cured or waived in writing in accordance with the terms of the instrument governing such Specified Senior Indebtedness and written notice thereto is delivered to

the Trustee, no direct or indirect payment or distribution (including, without limitation, any payment or distribution which may be payable or deliverable by reason of the payment of any other Indebtedness of the Issuer being subordinated to payment of the Securities) may be made by or on behalf of the Issuer for or on account of the Obligations with respect to the Securities or on account of any Claim and neither the Trustee nor any Holder shall receive from the Issuer, directly or indirectly, any payment or distribution, including without limitation, from or by way of collateral, in respect of the Obligations with respect to the Securities or on account of any Claim during the Payment Blockage Period commencing on the receipt by the Issuer and the Trustee of such notice and ending on the earliest of (i) 179 days thereafter, (ii) the date on which such default shall have been waived in writing or cured or (iii) the date on which the benefits of this clause (c) shall have been waived in writing by such Representative of Specified Senior Indebtedness. Only one such Payment Blockage Period may commence within any 360 consecutive day period, whether pursuant to clause (b) above or this clause (c); provided that the commencement of a Payment Blockage Period pursuant to this clause (c) shall not bar the commencement of another Payment Blockage Period by the Credit Agent within such period of 360 consecutive days. Notwithstanding anything in clause (b) above or this clause (c) to the contrary, (x) in no event will a Payment Blockage Period extend beyond 179 days from the date the payment on the Securities was due and (y) there must be 180 days in any 360 day period in which no Payment Blockage Period is in effect.

(d) For all purposes of Section 12.4(b) and (c), no default which, to the knowledge of the Representative of Specified Senior Indebtedness existed or was continuing on the date of the commencement of any Payment Blockage Period by such Representative shall be, or be made, the basis for the commencement of a second Payment Blockage Period by such Representative, whether or not within a period of 360 consecutive days, unless such default shall have been waived in writing or cured, or the benefits of clause (b) or (c), as the case may be, shall have been waived in writing by such Representative for a period of not less than 90 consecutive days.

SECTION 12.5 Acceleration of Securities. If payment of the Securities is accelerated because of an Event

of Default, the Issuer shall promptly notify holders of Senior Indebtedness of the acceleration.

SECTION 12.6 When Distribution Must be Paid Over. If a distribution is made to the Trustee, any paying agent or any Holder that because of this Article 12 should not have been made to it, the Trustee, such paying agent or such Holder who receives the distribution shall segregate such distribution from its other funds and property and hold it in trust for the benefit of, and, upon written request, pay it over (in the same form as received, with any necessary endorsement) to, the holders of Senior Indebtedness as their interests may appear, or their agent or representative or the trustee under the indenture or other agreement (if any) pursuant to which Senior Indebtedness may have been issued, as their respective interests may appear, for application (in the case of cash) to, or as collateral (in the case of non-cash property or securities) for the payment or prepayment of, Senior Indebtedness remaining unpaid to the extent necessary to pay in full such Senior Indebtedness and all obligations and claims relating thereto in accordance with the terms thereof, after giving effect to any concurrent payment or distribution to or for the holders of Senior Indebtedness (it being understood, in the event such a distribution is made to the Trustee, that the Trustee's obligation so to segregate such distribution and hold it in trust shall be subject to the Trustee's knowledge determined in accordance with Section 12.12 hereof). In the event the Trustee is uncertain as to whom payment should be made pursuant to this paragraph, the Trustee shall be permitted to bring an interpleader action.

With respect to the holders of Senior Indebtedness, the Trustee undertakes to perform only such obligations on the part of the Trustee as are specifically set forth in this Article 12, and no implied covenants or obligations with respect to the holders of Senior Indebtedness shall be read into this Indenture against the Trustee. The Trustee shall not be deemed to owe any fiduciary duty to the holders of Senior Indebtedness, and shall not be liable to any such holders if the Trustee shall pay over or distribute to or on behalf of Holders or the Issuer or any other person money or assets to which any holders of Senior Indebtedness are entitled by virtue of this Article 12, except if such payment is made as a result of the negligence or willful misconduct of the Trustee.

SECTION 12.7 Notice by Issuer. The Issuer shall promptly notify the Trustee and any paying agent of any facts known to the Issuer that would cause a payment of any Obligations with respect to the Securities or of any Claim

to violate this Article, but failure to give such notice shall not affect the subordination of the Securities and all Claims to the Senior Indebtedness provided in this Article.

SECTION 12.8 Subrogation. After all Senior Indebtedness and all such obligations and claims relating thereto are paid in full and until the Securities are paid in full, Holders shall be subrogated (equally and ratably with all other Indebtedness pari passu with the Securities) to the rights of holders of Senior Indebtedness to receive distributions applicable to Senior Indebtedness to the extent that distributions otherwise payable to the Holders have been applied to the payment of Senior Indebtedness. A distribution made under this Article 12 to holders of Senior Indebtedness which otherwise would have been made to Holders is not, as between the Issuer and Holders, a payment by the Issuer on the Securities.

SECTION 12.9 Relative Rights. This Article defines the relative rights of Holders and holders of Senior Indebtedness. Nothing in this Indenture shall:

(1) impair, as between the Issuer and Holders, the obligation of the Issuer, which is absolute and unconditional, to pay principal of and interest on the Securities in accordance with their terms;

(2) affect the relative rights of Holders and creditors of the Issuer other than their rights in relation to holders of Senior Indebtedness; or

(3) prevent the Trustee or any Holder from exercising its available remedies upon a Default or Event of Default, subject to the rights of holders and owners of Senior Indebtedness to receive distributions and payments otherwise payable to Holders.

If the Issuer fails because of this Article 12, to pay principal of or interest on a Security on the due date, the failure may still become a Default or Event of Default.

SECTION 12.10 Subordination May Not Be Impaired. No right of any present or future holder of any Senior Indebtedness or any obligation or claims relating thereto to enforce subordination as herein provided shall at any time in any way be prejudiced or impaired by any act or failure to act in good faith by any such holder, or by any act, failure to act or noncompliance by the Issuer, the Trustee or any Agent with the terms and provisions and covenants herein, regardless of any knowledge thereof any such holder may have or otherwise be charged with.

Without in any way limiting the generality of the foregoing paragraph, the holders or owners of Senior Indebtedness or any obligation or claim relating thereto may at any time and from time to time, without the consent of or notice to the Trustee or any Holder, without incurring responsibility to any Holder and without impairing or releasing the subordination provided in this Article 12 or the obligations hereunder of the Holders to the holders of Senior Indebtedness, do any one or more of the following: (i) change the manner, place or terms of payment or extend the time of payment of, or renew or alter, all or any of the Senior Indebtedness (including any change in the rate of interest thereon), or otherwise amend or supplement in any manner, or grant any waiver or release with respect to, Senior Indebtedness or any obligation or claim relating thereto or any instrument evidencing the same or any agreement under which Senior Indebtedness or any obligation or claim relating thereto is outstanding; (ii) sell, exchange, release, not perfect or otherwise deal with any property at any time pledged, assigned or mortgaged to secure or otherwise securing, Senior Indebtedness or any obligation or claim relating thereto, or amend, or grant any waiver or release with respect to, or consent to any departure from any guarantee for all or any of the Senior Indebtedness or any obligation or claim relating thereto; (iii) release any person liable in any manner under or in respect of Senior Indebtedness or any obligation or claim relating thereto; (iv) exercise or refrain from exercising any rights against and release from obligations of any type, the Issuer and any other person; and (v) apply any sums from time to time received to the Senior Indebtedness or any obligation or claim relating thereto.

All rights and interests under this Indenture of the Credit Agent and the other holders of Senior Indebtedness or any obligation or claim relating thereto, and all agreements and obligations of the Trustee, the Holders, and the Issuer under Sections 4.2, 4.3 and 4.9 hereof and under this Article 12 shall remain in full force and effect irrespective of (i) any lack of validity or enforceability of the Credit Agreement, any promissory notes evidencing the Senior Indebtedness thereunder, or any other agreement or instrument relating thereto or to any other Senior Indebtedness or any obligation or claim relating thereto, including, without limitation, any agreement referred to in the definition of Credit Agreement, or (ii) any other circumstance that might otherwise constitute a defense available to, or a discharge of, the Trustee, any Holder or the Issuer.

The provisions set forth in Sections 4.2, 4.3 and 4.9 hereof and in this Article 12 constitute a continuing agreement and shall (i) be and remain in full force and effect until payment in full of all Senior Indebtedness and all obligations and claims relating thereto at such time as no lender shall have any commitment to make any advances in respect of Senior Indebtedness, (ii) be binding upon the Trustee, the Holders and the Issuer and their respective successors, transferees and assigns, and (iii) inure to the benefit of, and be enforceable directly by, each of the Holders and their respective successors, transferees and assigns.

The Credit Agent is hereby authorized to demand specific performance of the provisions of this Article 12, whether or not the Issuer shall have complied with any of the provisions of Article 12 applicable to it, at any time when the Trustee or any Holder shall have failed to comply with any of these provisions. The Trustee and the Holders hereby irrevocably waive any defense based on the adequacy of a remedy at law that might be asserted as a bar to such remedy of specific performance.

SECTION 12.11 Distribution or Notice to Representative. Whenever a distribution is to be made or a notice given to holders of Senior Indebtedness, the distribution may be made and the notice given to their Representative, if any.

Upon any payment or distribution of assets of the Issuer referred to in this Article 12, the Trustee and the Holders shall be entitled to rely in good faith upon any order or decree made by any court of competent jurisdiction or upon any certificate of such Representative or of the liquidating trustee or agent or other person making any distribution to the Trustee or to the Holders for the purpose of ascertaining the persons entitled to participate in such distribution, the holders of the Senior Indebtedness and other Indebtedness of the Issuer, the amount thereof or payable thereon, the amount or amounts paid or distributed thereon and all other facts pertinent thereto or to this Article 12.

SECTION 12.12 Rights of Trustee and Paying Agent. Notwithstanding the provisions of this Article 12 or any other provision of this Indenture, the Trustee shall not be charged with knowledge of the existence of any facts which would prohibit the making of any payment or distribution by the Trustee, or the taking of any action by the Trustee pursuant to this Article 12, and the Trustee or paying agent may continue to make payments on the Securities unless it

shall have received at its Corporate Trust Office at least two Business Days prior to the date of such payment written notice of facts that would cause the payment of any obligations with respect to the Securities to violate this Article. Only the Issuer, a Representative or a holder of an issue of Senior Indebtedness that has no Representative may give the notice. Nothing in this Article 12 shall apply to amounts due to, or impair the claims of, or payments to, the Trustee under or pursuant to Section 5.6 hereof.

The Trustee in its individual or any other capacity may hold Senior Indebtedness with the same rights it would have if it were not Trustee. Any Agent may do the same with like rights.

SECTION 12.13 Authorization to Effect Subordination. Each Holder of a Security by his acceptance thereof authorizes and directs the Trustee on his behalf to take such action as may be necessary or appropriate to effectuate as between the Holders of the Securities and the holders of Senior Indebtedness the subordination as provided in this Article 12, and appoints the Trustee his attorney-in-fact for any and all such purposes.

SECTION 12.14 Miscellaneous.

(a) Each Holder and the Issuer hereby waives promptness, diligence, notice of acceptance and any other notice with respect to any of the Senior Indebtedness and any obligation or claim relating thereto, and any requirement that the Credit Agent or any other holder of Senior Indebtedness and any obligation or claim relating thereto protect, secure, perfect or insure any security interest or Lien or any property subject thereto or exhaust any right or take any action against the Issuer or any other person or entity or any collateral.

(b) The agreement contained in this Article 12 shall continue to be effective or be reinstated, as the case may be, if at any time any payment of any of the Senior Indebtedness or any obligation or claim relating thereto is rescinded or must otherwise be returned by any holder of Senior Indebtedness or any obligation or claim relating thereto upon the insolvency, bankruptcy or reorganization of the Issuer or otherwise, all as though such payment had not been made.

(c)Unless and until written notice shall be given by the Issuer and the Credit Agent to the Trustee at its Corporate Trust Office notifying the Trustee

that Senior Indebtedness is no longer outstanding under the Credit Agreement, the Trustee shall assume that such Senior Indebtedness is outstanding. The Issuer agrees to give, and to cause the Credit Agent to give, such notice to the Trustee promptly after the first date on which no Senior Indebtedness shall be outstanding under the Credit Agreement. For the purposes of this Indenture, Senior Indebtedness shall be outstanding under the Credit Agreement whenever either (i) such Senior Indebtedness and all obligations and claims relating thereto shall not have been paid in full or (ii) commitments to lend or to issue letters of credit under the Credit Agreement shall not have expired or been cancelled or terminated.

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

FLAGSTAR CORPORATION

By /s/ Karl H. Sedlarz
Title: Vice President
and Treasurer

Attest:

By /s/ George E. Moseley
Title: Secretary

NATIONSBANK OF GEORGIA,
NATIONAL ASSOCIATION, as
Trustee

By /s/ Harry G. Evans
Title: Vice President

Attest:

By /s/

Title: Trust Officer

STATE OF NEW YORK)
: ss.:
COUNTY OF NEW YORK)

On this 23rd day of September, 1993, before me personally came Karl H. Sedlarz, to me known, who being by me personally sworn, did depose and say that he is the Vice President and Treasurer of Flagstar Corporation, the corporation described in and on behalf of which he has executed the above instrument, and that he is authorized by said corporation to execute the same.

/s/ Kate Kamish
Notary Public

STATE OF GEORGIA)
: ss.:
COUNTY OF FULTON)

On this 23rd day of September, 1993, before me personally came Harry G. Evans, to me known, who being by me personally sworn, did depose and say that he is the Vice President of NationsBank of Georgia, National Association, the corporation described in and on behalf of which he has executed the above instrument, and that he is authorized by said corporation to execute the same.

/s/ Jeanette S. Belt
Notary Public

EXHIBIT 10.6
CONFORMED COPY

EMPLOYMENT AGREEMENT
TW SERVICES, INC
-AND-
A. RAY BIGGS

AGREEMENT, dated as of February 10, 1992, by and between TW SERVICES, INC., a Delaware corporation (the "Company") and A. RAY BIGGS, (the "Executive"), presently residing at 205 Barrington Park Drive, Greer, South Carolina 29650;

WITNESSETH:

WHEREAS, the Company desires to employ the Executive and the Executive desires to be employed to provide his services to the Company, all on the terms and subject to the conditions, as hereinafter set forth;

NOW, THEREFORE, in consideration of the premises and the mutual covenants and obligations hereinafter set forth, the parties agree as follows:

1. EMPLOYMENT. The Company agrees to employ the Executive during the Employment Term (as defined in Section 3) and the Executive hereby accepts such employment and agrees to serve the Company subject to the general supervision, advice and direction of the Chief Executive Officer o the Company (the "CEO") and upon the terms and conditions set forth in this Agreement.

2. DUTIES. During the Employment Term, the Executive shall perform such services and duties as the CEO may from time to time designate.

The Executive shall devote the Executive's full time and best efforts to the business affair of the Company; however, the Executive may devote reasonable time and attention to:

(i) serving as a director or member of a committee of any not-for-profit organization or engaging in other charitable or community activities;

(ii) upon approval of the CEO, serving as a director of a corporation or as a member of a committee of any organization;

(iii) managing his personal investments;

provided, that the Executive agrees to be bound by the conflict of interests policy of the Company and may not accept employment or any engagement with any other individual or other entity, or engage in any other venture which is in conflict with the business of the Company.

3. EMPLOYMENT TERM. The Executive shall be employed under this Agreement commencing on the date hereof for a term of three (3) years (the "Employment Term"); such term shall be automatically extended for an additional year on each anniversary date of the Agreement unless terminated as provided in Section 6 hereof.

4. COMPENSATION.

4.(a) BASE COMPENSATION. During the Employment Term, the Company will pay the Executive an annual base salary as compensation for his services hereunder of $190,000.00 (the "Base Salary"), payable in equal installments not less often than once in each calendar month. The Base Salary shall be reviewed from time to time, but no less frequently than annually, and may be increased in the Company's discretion. In additional, the Base Salary shall be increased on January 1 in each calendar year during the Employment Term commencing on or after January 1, 1993, by an amount determined by multiplying the Base Salary by

the Adjustment Percentage. The "Adjustment Percentage" shall mean the percentage equal to a fraction, the numerator of which shall be the excess of the Index (as herein defined) published during the immediately preceding month of December over the Base Index (as herein defined), and the denominator of which shall be the Base Index. "Index" shall mean the consumer Price Index or Urban wage Earners and Clerical Workers (1967=100 specified for "All Items") relating to the area where the Executive is employed and published by the Bureau of Labor

Statistics of the United States Department of Labor, or if no such index shall be published, the most comparable index, and "Base Index" shall be the Index published during January 1992.

4.(b) BONUS. The Board of Directors of the Company shall from time to time develop an incentive compensation plan that will provide for the establishment of a cash bonus pool from which cash bonuses shall be paid to senior management provided certain performance targets are met. The Executive shall be entitled to participate in the management incentive compensation plan and, assuming the prescribed performance targets are achieved, to receive an annual cash bonus from the bonus pool in an amount as determined under the terms of the bonus plan.

4.(c) VACATION. During each calendar year of the Employment Term, the Executive shall be entitled to take a paid vacation for such length of time as determined by the Company.

4.(d) BENEFITS. During the Employment Term, the Executive shall be entitled to participate in all pension, profit sharing, and other retirement plans, all incentive compensation plans, and all group health, hospitalization, and disability insurance plans, and other employee welfare benefit plans in which other senior executives of the Company may participate on terms and conditions no less favorable than those which apply to such other senior executives of the Company.

5. REIMBURSEMENT OF EXPENSES INCURRED IN PERFORMANCE OF EMPLOYMENT. In addition to the compensation provided for under Section 4 hereof, upon submission of proper vouchers, the Company shall pay or reimburse the Executive for all normal and reasonable expenses, including travel expenses, incurred by the Executive prior to the termination of the Employment Term in connection with the Executive's responsibilities to the Company.

6. TERMINATION.

6.(a) Notwithstanding Section 3 hereof, the Employment Term shall terminate upon the occurrence of any of the following events:

(i) Immediately upon the death of the Executive; provided, however, that in such event and in addition to any other death benefits, the Executive's surviving spouse shall be paid the Base Salary in monthly installments for a period of one (1) year commencing immediately upon the death of Executive, together with such accrued, but unpaid, bonus as shall then be owed to the Executive;

(ii) Upon the close of business on the 180th day following the date on which the Company gives the Executive written notice of the termination of his employment hereunder as a result of a Permanent Disability; provided, however, that the Executive shall be paid one-half of the Base Salary for a period of two (2) years after the termination of the Executive's

employment, together with such accrued, but unpaid, bonus as shall be owed to Executive at the time of termination of employment;

(iii) Upon the close of business on the effective date of a "Voluntary Termination" (as defined hereafter) by the Executive of his employment with the Company; provided that the Executive shall have given the Company at least 120 days' prior written notice of such effective date; or

(iv) Upon the close of business on the date on which the Company gives the Executive written notice of "Termination for Cause" (as defined hereafter) of his employment.

6.(b) In the event of the termination of the Employment Term pursuant to Section 6.(a) hereof, the Company will pay the Executive (or, in the case of the death of the Executive, his estate or other legal representative), not later than 90 days after such termination, in a lump sum [except for additional payments due under clause (i)and (ii) above], the balance due under this Agreement together with all accrued but unpaid Base Salary and Bonus pursuant to Section 4 through the date of the Executive's termination.

6.(c) For purposes of this Agreement:

(1) "Permanent Disability" shall mean the Executive is unable to perform the duties contemplated by this Agreement by reason of a physical or mental disability or infirmity which has continued for more than 90 consecutive days. The Executive agrees to submit such medical evidence regarding such disability or infirmity as is reasonably requested by the Company.

(2) "Termination for Cause" shall mean any termination of the employment of the Executive for "cause." For purposes of this Agreement, the termination of the Executive's employment shall be deemed to have been for cause only if termination of his employment shall have been the result of (i) an act or acts by him, or any omission by him, constituting a felony, and the Executive has entered a guilty plea or confession to, or has been convicted of, such

felony, or as a result of any proven act of fraud or dishonesty by the Executive which results or is intended to result in any material financial or economic harm to the Company, or (ii) failure to comply with the directives and policies of this Company, or (iii) breach of a material provision of this Agreement by the Executive, or (iv) failure to discharge duties in a manner deemed appropriate by the CEO and Senior Executives. If the Executive is discharged for cause under (iv), the Executive will be paid within ninety (90) days after such discharge the Base Salary for one (1) year, together with such accrued but unpaid bonus as shall then be owed to the Executive.

(3) "Voluntary Termination" shall mean any voluntary termination by the Executive of his employment by the Company.

7. ACCELERATION OF BENEFITS; NO MITIGATION. In the event that the Executive's employment is terminated for any reason other than as set forth in Section 6, then all remaining Base Salary, Bonus and other benefits for the remaining Employment Term of this Agreement shall be immediately due, owing, and payable in a lump sum to the Executive without mitigation.

8. PROTECTED INFORMATION; PROHIBITED SOLICITATION.

8. (a) The Executive hereby recognizes and acknowledges that during the course of his employment by the Company, the Company has disclosed and will furnish, disclose, or make available to the Executive confidential or proprietary information related to the Company's business including, without limitation, customer lists, ideas, processes, inventions, and devices, that such confidential or proprietary information has been developed and will be developed through the expenditure by the Company of substantial time and money and that all such confidential information could be used by the Executive and others to compete with the Company. The Executive hereby agrees that all such confidential or proprietary information shall constitute trade secrets, and further agrees to use such confidential or proprietary information only for the purpose of carrying out his duties with the Company and not otherwise to disclose such information. No information otherwise in the public domain shall be considered confidential.

8.(b) The Executive hereby agrees, in consideration of his employment hereunder and in view of the confidential position to be held by the Executive hereunder, that during the Employment Term and for the period ending on the date which is one (1) year after the later of (A) the termination of the Employment Term and (B) the date on which the Company is no longer required to provide the payments and benefits described in Section 4, the Executive shall not, without the written consent of the Company, knowingly solicit, entice, or persuade any other employees of the Company or any affiliate of the Company to leave the services of the Company or such affiliate for any reason.

8.(c) The Executive further agrees that, in the event of Termination For Cause or Voluntary Termination of his employment hereunder with the Company, he will not (except as to the activities described in Section 2) or a period of one (1) year following such termination enter into any relationship whatsoever, either directly or indirectly, alone or in a partnership, or as an officer, director, employer or stockholder (beneficially owning the stock or options to acquire stock totalling more than five percent of the outstanding shares) of any corporation (other than the Company), or otherwise acquire or agree to acquire a significant present or future equity or other proprietorship interest, whether as a stockholder, partner, proprietor, or otherwise, with any enterprise, business, or division thereof (other than the Company), which is engaged in the restaurant or food service business in those states within the United States in which the Company is at the time of such termination of employment conducting its business.

8.(d) So long as the Executive is employed by the Company and so long as the restrictions of this Section 8 apply, prior to accepting any engagement to act as an employee, officer, director, trustee, principal, agent or representative of any type of business or service (other than as an employee of the Company), the Executive shall (A) disclose such engagement in writing to the Company, and (B) disclose to the other entity to which he has agreed to act as an employee, officer, director, trustee, agent or representative, or to other principals together with whom he proposes to act as a principal in such business or service, the existence of the covenants set forth in this Section 8 and the provisions of Section 9 hereof.

8.(e) The restrictions of this Section 8 shall survive the termination of this Agreement and shall be in addition to any restrictions imposed upon the Executive by statute or at common law.

9. INJUNCTIVE RELIEF. The Executive hereby expressly acknowledges that any

breach or threatened breach by the Executive of any of the terms set forth in Sections 2 and 8 of this Agreement may result in significant and continuing injury to the Company, the monetary value of which would be impossible to establish. Therefore, the Executive agrees that the Company shall be entitled to apply for injunctive relief in a court of appropriate jurisdiction. The provisions of this Section 9 shall survive the Employment Term.

10. PARTIES BENEFITTED; ASSIGNMENTS. This Agreement shall be binding upon the Executive, the heirs and personal representative or representatives of the Executive and upon the Company and its successors and assigns. Neither this Agreement nor any rights or obligations hereunder may be assigned by the Executive.

11. NOTICES. Any notice required or permitted by this Agreement shall be in writing, sent by personal delivery, or by registered or certified mail, return receipt requested, addressed to the CEO and the Company at its then principal office, or to the Executive at the address set forth in the preamble, as the case may be, or to such other address or addresses as any party hereto may from time to time specify in writing or the purpose of a notice given to the other parties in compliance with this Section 11. Notices shall be deemed given when received.

12. GOVERNING LAW. This Agreement shall be governed by and construed and enforced in accordance with the laws of the State of New York without regard to conflict of law principles.

13. INDEMNIFICATION AND INSURANCE; LEGAL EXPENSES. The Company will indemnify the Executive to the fullest extent permitted by the laws of the State of Delaware, as in effect at the time of the subject act or omission, and the Executive shall be entitled to the protection of any insurance policies the Company may elect to maintain generally for the benefit of it directors and officers insuring against all costs, charges, and expenses whatsoever incurred or sustained by the Executive in connection with any action, suit, or proceedings to which the Executive may be made a part by reason of being or having been an officer or employee of the Company or any of its subsidiaries or serving or having served any other enterprises at the request of the Company (other than any dispute, claim, or controversy described in Section 9 of this Agreement except that the Executive shall be entitled to reimbursement of reasonable attorneys' fees and expenses if the Executive is the prevailing party).

14. MISCELLANEOUS. This Agreement contains the entire agreement of the parties relating to the subject matter hereof. This Agreement supersedes any prior written or oral agreements or understandings between the parties relating to the subject matter hereto. No modification or amendment of this Agreement shall be valid unless in writing and signed by or on behalf of the parties hereto. A waiver of the breach of any term or condition of this Agreement shall not be deemed to constitute a waiver of any subsequent breach of the same or any other term or condition. This Agreement is intended to be performed in accordance with, and only to the extent permitted by, all applicable laws, ordinances, rules and regulations. If any provision of this Agreement, or the application thereof to any person or circumstance, shall, for any reason and to any extent, be held invalid or unenforceable, such invalidity and

unenforceability shall not affect the remaining provisions hereof and the application of such provisions to other persons or circumstances, all of which shall be enforced to the greatest extent permitted by law. The compensation provided to the Executive pursuant to this Agreement shall be subject to any withholdings and deductions required by any applicable tax laws. Any amounts payable to the Executive hereunder after the death of the Executive shall be paid to the Executive's estate or legal representative.

The headings in this Agreement are inserted for convenience of reference only and shall not be part of or control or affect the meaning of any provision hereof.

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

TW SERVICES, INC.
By: /s/ Jerome J. Richardson
PRESIDENT AND CEO
/s/ A. RAY BIGGS
A. RAY BIGGS

Exhibit 10.41

Conformed Copy

EMPLOYMENT AGREEMENT

TW SERVICES, INC.

-and-

DAVID F. HURWITT

AGREEMENT, dated as of March 16, 1992, by and between TW Services, Inc., a Delaware corporation (the "Company") and David F. Hurwitt, (the "Executive") presently residing at 71 Arrowhead Way, Darien, Connecticut 06820;

WITNESSETH:

WHEREAS, the Company desires to employ the Executive and the Executive desires to be employed to provide his services to the Company, all on the terms and subject to the conditions, as hereinafter set forth;

NOW, THEREFORE, in consideration of the premises and the mutual convenants and obligations hereinafter set forth, the parties agree as follows:

1. Employment. The Company agrees to employ the Executive during the Employment Term (as defined in Section 3) and the Executive hereby accepts such employment and agrees to serve the Company subject to the general supervision, advice and direction of the Chief Executive Officer of the Company (the "CEO") and upon the terms and conditions set forth in this Agreement.

2. Duties. During the Employment Term, the Executive shall perform such services and duties as the CEO may from time to time designate.

The Executive shall devote the Executive's full time and best

efforts to the business affairs
of the Company; however, the Executive may devote reasonable time and attention to:

(i) serving as a director or member of a committee of any not for profit organization
or engaging in other charitable or community activities;

(ii) upon approval of the CEO, serving as a director of a corporation or as a member
of a committee of any organization;

(iii) managing his personal investments;

provided, that the Executive agrees to be bound by the conflict of interests policy of the Company
and may not accept employment or any engagement with any other individual or other entity, or
engage in any other venture which is in conflict with the business of the Company.

3. Employment Term. The Executive shall be employed under this Agreement for a term
(the "Employment Term") commencing on the date hereof and terminating on the close of
business on March 15, 1995, unless sooner terminated as provided in Section 6.

4. Compensation.

4.(a) Base Compensation. During the Employment Term, the Company will pay
the Executive an annual base salary as compensation for his services hereunder of $ 225,000.00
(the "Base Salary"), payable in equal installments not less often than once in each calendar month.
The Base Salary shall be reviewed from time to time, but no less frequently than annually, and
may be increased in the Company's discretion. In addition, the Base Salary shall be increased on

January 1 in each calendar year during the Employment Term commencing on or after January 1, 1993, by an amount determined by multiplying the Base Salary by the Adjustment Percentage. The "Adjustment Percentage" shall mean the percentage equal to a fraction, the numerator of which shall be the excess of the Index (as herein defined) published during the immediately preceding month of December over the Base Index (as herein defined), and the denominator of which shall be the Base Index. "Index" shall mean the Consumer Price Index for Urban Wage Earners and Clerical Workers (1967=100 specified for "All Items") relating to the area where the Executive is employed and published by the Bureau of Labor Statistics of the United States Department of Labor, or if no such index shall be published, the most comparable index, and "Base Index" shall be the Index published during March, 1992.

4. (b) Bonus. The Board of Directors of the Company shall from time to time develop an incentive compensation plan that will provide for the establishment of a cash bonus pool from which cash bonuses shall be paid to senior management provided certain performance targets are met. The Executive shall be entitled to participate in the management incentive compensation plan and, assuming the prescribed performance targets are achieved, to receive an annual cash bonus from the bonus pool in an amount as determined under the terms of the bonus plan.

4. (c) Vacation. During each calendar year of the Employment Term, the Executive shall be entitled to take a paid vacation for such length of time as determined by the Company.

4. (d) Benefits. During the Employment Term, the Executive

shall be entitled to participate in all pension, profit sharing, and other retirement plans, all incentive compensation plans, and all group health, hospitalization, and disability insurance plans, and other employee welfare benefit plans in which other senior executives of the Company may participate on terms and conditions no less favorable than those which apply to such other senior executives of the Company.

5. Reimbursement of Expenses Incurred in Performance of Employment. In addition to the compensation provided for under Section 4 hereof, upon submission of proper vouchers, the Company shall pay or reimburse the Executive for all normal and reasonable expenses, including travel expenses, incurred by the Executive prior to the termination of the Employment Term in connection with the Executive's responsibilities to the Company.

6. Termination.

6. (a) Notwithstanding Section 3 hereof, the Employment Term shall terminate upon the occurrence of any of the following events:

(i) Immediately upon the death of the Executive; provided, however, that in such event and in addition to any other death benefits, the Executive's surviving spouse shall be paid the Base Salary in monthly installments for a period of one (1) year commencing immediately upon the death of Executive, together with such accrued, but unpaid, bonus as shall then be owed to the Executive;

(ii) Upon the close of business on the 180th day following the date on

which the Company gives the Executive written notice of termination of his employment hereunder as a result of a Permanent Disability; provided, however, that the Executive shall be paid one-half of the Base Salary for a period of two (2) years after the termination of the Executive's employment, together with such accrued, but unpaid, bonus as shall be owed to Executive at the time of termination of employment;

(iii) Upon the close of business on the effective date of a "Voluntary Termination" (as defined hereafter) by the Executive of his employment with the Company; provided that the Executive shall have given the Company at least 120 days' prior written notice of such effective date; or

(iv) Upon the close of business on the date on which the Company gives the Executive written notice of "Termination for Cause" (as defined hereafter) of his employment.

6. (b) In the event of the termination of the Employment Term pursuant to Section 6.(a) hereof, the Company will pay the Executive (or, in the case of the death of the Executive, his estate or other legal representative), not later than 90 days after such termination, in a lump sum [except for additional payments due under clauses (i) and (ii) above], the balance due under this Agreement together will all accrued but unpaid Base Salary and Bonus pursuant to Section 4 through the date of the Executive's termination.

6. (c) For purposes of this Agreement:

(1) "Permanent Disability" shall mean the Executive is unable to perform the duties contemplated by this Agreement by reason of a physical or mental disability or infirmity which has continued for more than 90 consecutive days. The Executive agrees to submit such medical evidence regarding such disability or infirmity as is reasonably requested by the Company.

(2) "Termination for Cause" shall mean any termination of the

employment of the
Executive for "cause." For purposes of this Agreement, the termination of the Executive's
employment shall be deemed to have been for cause only if termination of his employment
shall have been the result of (i) an act or acts by him, or any omission by him, constituting
a felony, and the Executive has entered a guilty plea or confession to, or has been
convicted of, such felony, or as a result of any proven act of fraud or dishonesty by the
Executive which results or is intended to result in any material financial or economic harm
to the Company, or (ii) failure to comply with the directives and policies of the Company,
or (iii) breach of a material provision of this Agreement by the Executive.

(3) "Voluntary Termination" shall mean any voluntary termination by the
Executive of his employment by the Company.

7. Acceleration of Benefits; No Mitigation. In the event that the Executive's
employment is terminated for any reason other than as set forth in Section 6, then all remaining
Base Salary, Bonus and other benefits for the remaining Employment Term of this Agreement
shall be immediately due, owing, and payable in a lump sum to the Executive without mitigation.

8. Protected Information; Prohibited Solicitation.

8. (a) The Executive hereby recognizes and acknowledges that during the course of
his employment by the Company, the Company has disclosed and will furnish, disclose, or make
available to the Executive confidential or proprietary information related to the Company's
business including, without limitation, customer lists, ideas, processes, inventions, and devices,
that such confidential or proprietary information has been developed

and will be developed
through the expenditure by the Company of substantial time and money and that all such
confidential information could be used by the Executive an others to compete with the Company.
The Executive hereby agrees that all such confidential proprietary information shall constitute
trade secrets, and further agrees to use such confidential or proprietary information only for the
purpose of carrying out his duties with the Company and not otherwise to disclose such
information. No information otherwise in the public domain shall be considered confidential.

8. (b) The Executive hereby agrees, in consideration of his employment hereunder
and in view of the confidential position to be held by the Executive hereunder, that during the
Employment Term and for the period ending on the date which is one (1) year after the later of
(A) the termination to the Employment Term and (B) the date on which the Company is no longer
required to provide the payments and benefits described in Section 4, the Executive shall not,
without the written consent of the Company, knowingly solicit, entice, or persuade any other
empliyees of the Company or any affiliate of the Company to leave the services of the Company
or such affiliate for any reason.

8. (c) The Executive further agrees that, in the event of Termination For Cause or
Voluntary Termination of his employment hereunder with the Company, he will not (except as
to the activities described in Section 2) for a period of one (1) year following such termination
enter into any relationship whatsoever, either directly or indirectly, alone or in a partnership, or
as an officer, director, employee or stockholder (beneficially owing the stock or options to acquire

stock totalling more than five percent of the outstanding shares) of any corporation (other than the Company), or otherwise acquire or agree to acquire a significant present or future equity or other proprietorship interest, whether as a stockholder, partner, proprietor, or otherwise, with any enterprise, business, or division thereof (other than the Company), which is engaged in the restaurant or food services business in those states within the United States in which the Company is at the time of such termination of employment conducting its business.

8. (d) So long as the Executive is employed by the Company and so long as the restrictions of this Section 8 apply, prior to accepting any engagement to act as an employee, officer, director, trustee, principal, agent or representative of any type of business or service (other than as an employee of the Company), the Executive shall (A) disclose such engagement in writing to the Company, and (B) disclose to the other entity to which he has agreed to act as an employee, officer, director, trustee, agent or representative, or to other principals together with whom he proposes to act as a principal in such business or service, the existence of the convenants set forth in this Section 8 and the provisions of Section 9 hereof.

8. (e) The restrictions of this Section 8 shall survive the termination of this Agreement and shall be in addition to any restrictions imposed upon the Executive by statute or at common law.

9. Injunctive Relief. The Executive hereby expressly acknowledges that any breach or threatened breach of the Executive of any of the terms set forth in Sections 2 and 8 of this Agreement may result in significant and continuing injury to the

Company, the monetary value of which would be impossible to establish. Therefore, the Executive agrees that the Company shall be entitled to apply for injunctive relief in a court of appropriate jurisdiction. The provisions of this Section 9 shall survive the Employment Term.

10. Parties Benefitted; Assignments. This Agreement shall be binding upon the Executive, the heirs and personal representative or representatives of the Executive and upon the Company and its successors and assigns. Neither this Agreement nor any rights or obligations hereunder may be assigned by the Executive.

11. Notices. Any notice required or permitted by this Agreement shall be in writing, sent by personal delivery, or by registered or certified mail, return receipt requested, addressed to the CEO and the Company at is then principal office, or to the Executive at the address set forth in the preamble, as the case may be, or to such other address or addresses as any party hereto may from time to time specify in writing for the purpose of a notice given to the other parties in compliance with this Section 11. Notice shall be deemed given when received.

12. Governing Law. This Agreement shall be governed by and construed and enforced in accordance with the laws of the State of New York without regard to conflict of law principles.

13. Indemnification and Insurance; Legal Expenses. The Company will indemnify the Executive to the fullest extent permitted by the laws of the State of Delaware, as in effect at the time of the subject act or omission, and the Executive shall be entitled to the protection of any insurance policies the Company may elect to maintain generally for the benefit of its directors and officers insuring against all costs, charges, and expenses whatsoever

incurred or sustained by the Executive in connection with any action, suit, or proceedings to which the Executive may be made a part by reason of being or having been an officer or employee of the Company or any of its subsidiaries or serving or having served any other enterprises at the request of the Company (other than any dispute, claim, or controversy described in Section 9 of this Agreement except that the Executive shall be entitled to reimbursement of reasonable attorneys' fees and expenses if the Executive is the prevailing party).

14. Miscellaneous. This Agreement contains the entire agreement of the parties relating to the subject matter hereof. This Agreement supersedes any prior written or oral agreements or understanding between the parties relating the subject matter hereto. No modification or amendment of this Agreement shall be valid unless in writing and signed by or on behalf of the parties hereto. A waiver of the breach of any term or condition of this Agreement shall not be deemed to constitute a waiver of any subsequent breach of the same or any other term or condition. This Agreement is intended to be performed in accordance with, and only to the extent permitted by, all applicable laws, ordinances, rules and regulations. If any provision of this Agreement, or the application thereof to any person or circumstance, shall, for any reason and to any extent, be held invalid or unenforceable, such invalidity and uneforceability shall not affect the remaining provisions hereof and the application of such provisions to other persons or circumstances, all of which shall be enforced to the greatest extent permitted by law. The compensation provided to the Executive pursuant to this Agreement shall be subject to any withholdings and deductions required by any applicable tax laws. Any amounts payable to the Executive hereunder after the death of the Executive shall be paid to the Executive's estate or legal representative.

The headings in this Agreement are inserted for convenience of reference only and shall not be part of or control or affect the meaning of any provision

hereof.

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

TW SERVICES, INC.

By: /s/ Jerome J. Richardson
President and CEO

/s/ David F. Hurwitt
David F. Hurwitt

EXHIBIT 11

FLAGSTAR COMPANIES, INC.
COMPUTATION OF EARNINGS (LOSS) PER SHARE
(IN THOUSANDS EXCEPT RATIOS)

<TABLE>
<CAPTION>

	PREDECESSOR		SUCCESSOR			
	JANUARY 1 TO JULY 20, 1989	JULY 21 TO DECEMBER 31, 1989	1990	1991	YEAR ENDED DECEMBER 31, 1992	1993
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Adjustment of common and equivalent shares:						
Average number of common shares outstanding before adjustments	48,861	22,000	22,000	22,212	24,883	42,370
Assumed exercise of stock warrant options	--	--	--	--	--	--
Total average outstanding and equivalent common shares	48,861	22,000	22,000	22,212	24,883	42,370
Adjustment of net income (loss):						
Income (loss) from continuing operations	$20,777	$(77,150)	$(67,813)	$(67,575)	$ (51,775)	$(1,648,235)
Income (loss) from discontinued operations	(918)	--	--	--	--	--
Adjusted income (loss) before extraordinary item and cumulative effect of change in accounting principle	19,859	(77,150)	(67,813)	(67,575)	(51,775)	(1,648,235)
Extraordinary items, net of income tax benefits: 1992 -- $85,053; 1993 -- $196	--	--	--	--	(155,401)	(26,405)
Adjusted income (loss) before cumulative effect of change in accounting principle	19,859	(77,150)	(67,813)	(67,575)	(207,176)	(1,674,640)
Cumulative effect of change in accounting principle, net of income tax benefits: 1992 -- $8,785; 1993 -- $90	--	--	--	--	(17,834)	(12,010)
Adjusted net income (loss)	19,859	(77,150)	(67,813)	(67,575)	(225,010)	(1,686,650)
Dividends on preferred stock	--	--	--	--	(6,064)	(14,175)
Adjusted net income (loss) applicable to common shareholders	$19,859	$(77,150)	$(67,813)	$(67,575)	$(231,074)	$(1,700,825)
Earnings (loss) per share applicable to common shareholders:						
On continuing operations	$ 0.43	$ (3.51)	$ (3.08)	$ (3.04)	$ (2.32)	$ (39.23)
On discontinued operations	(0.02)	--	--	--	--	--
On income (loss) before extraordinary items and cumulative effect of change in accounting principle	0.41	(3.51)	(3.08)	(3.04)	(2.32)	(39.23)
On extraordinary items,net	--	--	--	--	(6.25)	(0.62)
On income (loss) before cumulative effect of change in accounting principle	0.41	(3.51)	(3.08)	(3.04)	(8.57)	(39.85)
On cumulative effect of change in accounting principle, net	--	--	--	--	(0.72)	(0.29)
On net income (loss)	$ 0.41	$ (3.51)	$ (3.08)	$ (3.04)	$ (9.29)	$ (40.14)

</TABLE>

EXHIBIT 12

FLAGSTAR COMPANIES, INC.
COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES
(IN THOUSANDS EXCEPT RATIOS)

<TABLE>
<CAPTION>

	PREDECESSOR		SUCCESSOR			
	JANUARY 1 TO JULY 20, 1989	JULY 21 TO DECEMBER 31, 1989	YEAR ENDED DECEMBER 31, 1990	1991	1992	1993
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Pretax earnings (losses).....	$ 38,421	$(85,333)	$(77,808)	$(85,674)	$(58,358)	$(1,729,384)
Add:						
Net interest expense after capitalized interest.....	62,031	113,851	290,507	294,927	291,910	254,352
Amortization of debt expense.....	499	3,692	23,807	13,910	11,998	11,815
Interest factor in rents.....	8,635	6,539	16,424	16,371	17,124	18,900
Total earnings (losses).....	$ 109,586	$ 38,749	$252,930	$239,534	$262,674	$(1,444,317)
Fixed charges:						
Gross interest expense before capitalized interest.....	$ 62,340	$114,232	$290,993	$295,157	$292,200	$ 254,630
Amortization of debt expense.....	499	3,692	23,807	13,910	11,998	11,815
Interest factor in rents.....	8,635	6,539	16,424	16,371	17,124	18,900
Total fixed charges.....	$ 71,474	$124,463	$331,224	$325,438	$321,322	$ 285,345
Ratio of earnings to fixed charges.....	1.53	--	--	--	--	--
Deficiency in the coverage of fixed charges by earnings before fixed charges.....		$ 85,714	$ 78,294	$ 85,904	$ 58,648	$ 1,729,662

</TABLE>

For purposes of these computations, the ratio of earnings to fixed charges has been calculated by dividing pretax earnings by fixed charges. Earnings, as used to compute the ratio, equals the sum of income before income taxes and fixed charges excluding capitalized interest. Fixed charges are the total interest expenses including capitalized interest, amortization of debt expenses and a rental factor that is representative of an interest factor (estimated to be one third) on operating leases.

EXHIBIT 23

INDEPENDENT AUDITORS' CONSENT

We consent to the incorporation by reference in Registration Statement Nos. 33-35098 and 33-35099 of Flagstar Companies, Inc. on Form S-8 of our report dated March 25, 1994 appearing in this Annual Report on Form 10-K of Flagstar Companies, Inc. for the year ended December 31, 1993.

DELOITTE & TOUCHE
Greenville, South Carolina
April 12, 1994