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**ST. PETERSBURG, FLORIDA U.S.A.**

**PONDEROSA, INC.**

**ENTRANCE ROAD, JAMES M. COX DAYTON INTERNATIONAL AIRPORT  
DAYTON, OHIO 45401**

**NOTICE OF ANNUAL MEETING OF STOCKHOLDERS  
TO BE HELD JUNE 25, 1986**



**To the Holders of the Common Stock:**

**NOTICE IS HEREBY GIVEN** that the Annual Meeting of Stockholders of PONDEROSA, INC., a Delaware corporation, will be held on the 25th day of June, 1986 at 9:00 AM in the 747 Room at the Dayton Airport Hotel located immediately east of the Company's corporate office building on Entrance Road, James M. Cox Dayton International Airport, Dayton, Ohio, for the following purposes:

1. To elect two Directors for terms of three years each.
2. To approve amendments to the Company's 1982 Stock Option Plan to permit the grants of "restricted stock" and to clarify certain other provisions.
3. To appoint Independent Accountants for the Company.
4. To transact such other business as may properly come before the meeting, or any adjournment thereof.

Stockholders of record as of the close of business on Wednesday, May 7, 1986, are entitled to receive notice of, and to vote at, the meeting notwithstanding any subsequent transfer of stock.

Your attention is directed to the accompanying proxy and proxy statement.

By Order of the Board of Directors

John R. Mohr, Secretary

Dayton, Ohio

May 16, 1986

**ALL STOCKHOLDERS ARE INVITED TO ATTEND THE MEETING IN PERSON. EVEN IF YOU DO EXPECT TO BE PRESENT AT THE MEETING, PLEASE COMPLETE, DATE, SIGN AND PROMPTLY RETURN THE PROXY IN THE ENCLOSED ENVELOPE. STOCKHOLDERS ARE URGED TO SEND THEIR PROXIES WITHOUT DELAY.**

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**PONDEROSA, INC.**  
**PROXY STATEMENT**  
**ANNUAL MEETING OF STOCKHOLDERS**  
**June 25, 1986**

All shares represented by valid proxies received pursuant to this solicitation, and not revoked, will be voted at the Annual Meeting. Where a specification is made on the ballot provided in the proxy, such shares will be voted in accordance with that specification. In the absence of any specification to the contrary, the shares will be voted in favor of the proposals set forth in the accompanying Notice of Meeting and for the nominees for Directors set forth below. A proxy may be revoked at any time before it is exercised by notice to the Company in writing or in open meeting.

The Board of Directors has fixed the close of business on May 7, 1986, as the record date for the determination of the stockholders entitled to receive notice of, and to vote at, the Annual Meeting or any adjournment thereof, notwithstanding any subsequent transfer of stock. The stock transfer books of the Company will not be closed. The list of all stockholders entitled to vote at the Annual Meeting is kept by the Company's transfer agent, Bank One, Dayton, NA, Kettering Tower, Dayton, Ohio. This proxy statement and accompanying proxy shall be mailed to the stockholders on or about May 16, 1986.

**VOTING SECURITIES AND PRINCIPAL HOLDERS**

The authorized capital stock of the Company consists of 25,000,000 shares of Common Stock, \$.10 par value ("Common Stock") and 25,000,000 shares of Preferred Stock, no par value ("Preferred Stock"). On April 18, 1986, there were 9,746,499 shares of Common Stock outstanding (excluding 650,712 shares held in the Company's treasury), and holders thereof are entitled to one vote for each share held upon the record date. The presence of stockholders, in person or by proxy, owning at least 4,873,250 shares of Common Stock shall constitute a quorum for the meeting. None of the Preferred Stock has been issued.

No change in control of the Company has taken place since the last Annual Meeting of the Company on June 26, 1985.

Set forth in the table below as of April 18, 1986, is information with respect to the only stockholders who to the knowledge of the Company beneficially owned more than 5% of the Company's Common Stock and information as to the Common Stock of the Company owned by all Officers and Directors as a group:

| <u>Name and Address of Beneficial Owner</u>   | <u>Title of Class</u>           | <u>Amount and Nature of Beneficial Ownership</u> | <u>Percent of Class</u> |
|---|---------------------------------|--|-------------------------|
| BEA Associates, Inc.<br>153 East 53 Street<br>One Citicorp Center<br>New York, New York 10022 | Common Stock<br>\$.10 par value | 945,700(1)                                       | 9.5%                    |
| First Manhattan Co.<br>437 Madison Avenue<br>New York, New York 10022                         | Common Stock<br>\$.10 par value | 900,400(2)                                       | 9.1%                    |
| All Officers and Directors<br>as a Group (27 in number)                                       | Common Stock<br>\$.10 par value | 194,912(3)                                       | 2.0%                    |

- (1) Based on information contained in a Schedule 13G filed with the Securities and Exchange Commission. All shares are held with shared voting power and sole investment power.
- (2) Based on information contained in a Schedule 13G filed with the Securities and Exchange Commission. All shares are held with sole investment power and 22,800 are held with sole voting power and 714,100 with shared voting power.
- (3) This amount includes 160,966 shares covered by stock options which are currently exercisable. All other shares are held by such persons with sole voting and sole investment power, except 3,045 shares held with sole voting power only in the Employee Stock Ownership Plan and 6,896



shares held with sole voting power and sole investment power (except those shares attributable to the Company matching contribution held with sole voting power only) in the Ponderosa, Inc. Employee Thrift and Savings Plan.

## ELECTION OF DIRECTORS

The Company's Restated Certificate of Incorporation provides for a classified Board of Directors divided into three classes of Directors, each class holding office for a three year term. Pursuant to the Consolidated By-Laws of the Company, the number of Directors has been fixed by the Board of Directors at seven. There are two Directors whose terms expire in 1986, three Directors whose terms expire in 1987, and two Directors whose terms expire in 1988. Each of the nominees is presently a member of the Board of Directors and was elected to his present term of office at the Annual Meeting of Stockholders in 1983.

The Board of Directors proposes that John L. Schaefer and Fred G. Wall be elected as Directors at the Annual Meeting for three year terms expiring at the Annual Meeting in 1989. Unless a specification is made to withhold a vote for any candidate, the enclosed proxy will be voted for the election of the two nominees listed below for terms of three years each and until their respective successors shall have been duly elected and qualified. If any nominee shall cease to be a candidate for election for any reason, the proxy will be voted for a substitute nominee designated by the Board of Directors and for the remaining nominee(s) so listed. The Board of Directors currently has no reason to believe that any nominee will not remain a candidate for election as a Director or be unwilling to serve as a Director, if elected.

The names of, and certain information with respect to, the persons nominated for election as Directors and the persons whose terms of office as Directors shall continue beyond the Annual Meeting are set forth below. Except as otherwise indicated, no Director or nominee owns more than one percent of the Company's Common Stock.

| <u>Nominees for<br/>Terms Expiring<br/>in 1989</u>   | <u>Principal Occupation<br/>and Five-Year<br/>Employment History</u>   | <u>Age</u> | <u>Year First<br/>Became a<br/>Director</u> | <u>Shares Which May<br/>Be Considered<br/>Beneficially Owned<br/>Directly or Indirectly<br/>(As of April 18, 1986)</u> |
|--|--|------------|---|--|
| <br>John L. Schaefer | Chairman of the Board of Directors<br>and President, The Specialty<br>Papers Company (Manufacturer<br>of flexible packaging materials),<br>Dayton, Ohio (1)    | 51         | 1971  | 2,060  |
| <br>Fred G. Wall    | President and Chief Executive<br>Officer, Robbins & Myers, Inc.<br>(Fluids handling equipment and<br>electric motors and control<br>systems), Dayton, Ohio (2) | 51         | 1975  | 150  |

Directors whose  
Terms Expire  
in 1987



Gerald S. Office, Jr.

Principal Occupation  
and Five-Year  
Employment History

Age

Year First  
Became a  
Director

Shares Which May  
Be Considered  
Beneficially Owned  
Directly or Indirectly  
(As of April 18, 1986)

Chairman of the Board of Directors  
and Chief Executive Officer,  
Ponderosa, Inc. (3)

44

1968

113,589(4)



W. H. (Bill) Williams

Retired, Former Vice President  
— Materials Management, Eaton  
Corporation (Manufacturer of  
engineered products for capital  
goods, automotive, truck and con-  
sumer markets), Cleveland, Ohio

70

1975

1,200



Howard P. James

Chairman, Global Hospitality  
Corporation; Former Chairman and  
Chief Executive Officer, The  
Sheraton Corporation, 1970-1985  
(Hotels, inns and resorts world-  
wide), Boston, Massachusetts

62

1983

None

Director whose  
Term Expires  
in 1986



John F. Torley

President, Miami Valley  
Research Foundation; Former  
Chairman of the Executive  
Committee, 1980 to 1984; prior  
thereto Chairman of the Board and  
Chief Executive Officer, Amcast  
Industrial Corp. (Manufacturer of  
cast metal products), Dayton, Ohio (5)

74

1971

4,100

Director whose  
Term Expires  
In 1988

Principal Occupation  
and Five-Year  
Employment History

Age

Year First  
Became a  
Director

Shares Which May  
Be Considered  
Beneficially Owned  
Directly or Indirectly  
(As of April 18, 1986)



Richard G. Brierley

Business consultant, Brierley Associates; Former Chairman of the Board of Directors, Sheldahl, Inc. (Manufacturer of flexible circuits), Northfield, Minnesota, 1990 to 1965; Former Chairman of the Board of Directors, The Stearns and Foster Company (Manufacturer of home furnishings and non-woven textiles), Cincinnati, Ohio (6)

70

1976

9,000

- (1) Mr. Schaefer is a Director of The Specialty Papers Company, Shopsmith, Inc. and Gem Savings Association.
- (2) Mr. Wall is a Director of Huffy Corporation, Bank One, Dayton, NA and Robbins & Myers, Inc.
- (3) Mr. Office is a Director of Bank One, Dayton, NA, a subsidiary of Banc One Corporation, Columbus, Ohio. Bank One participates to the extent of \$8 million in the Company's \$60 million Revolving Credit Agreement with a group of banks. The agreement contains terms and conditions competitive with and no less favorable than those available from the banking industry generally at the time of execution of the agreement. Mr. Office is also a Director of ChemLawn Corporation, Columbus, Ohio.
- (4) Mr. Office's beneficial ownership of the Company's shares, which includes 105,857 shares subject to stock options currently exercisable, constitutes 1.1% of the issued and outstanding shares of the Company.
- (5) Mr. Torley, a registered Professional Engineer, is a Director of Standard Register Company, Monarch Machine Tool Company, Morris Bean & Company and Van Dyne-Crotty, Inc.
- (6) Mr. Brierley is a Director of Transcapital Financial Corp.

The Board of Directors does not have a standing nominating committee. Nominations for Directors are considered by the full Board. Messrs. Schaefer, James and Wall comprise the Audit Committee of the Board of Directors. The Audit Committee regularly meets with the Company's independent accountants and the internal auditors and financial management executives of the Company. The Audit Committee reviews the scope and results of audits, as well as recommendations made by the Company's aforementioned auditors, accountants and executives with respect to internal and external accounting controls. During the last fiscal year, the Audit Committee met three times.

Messrs. Torley, Brierley, and Williams comprise the Executive Compensation Committee of the Board of Directors. The Executive Compensation Committee reviews the compensation philosophy and policy of the Company and administers the Company's stock option plans. The Committee determines the compensation of the Chief Executive Officer and determines compensation and benefit levels for all elected officers so that the Company can retain and recruit highly qualified employees. During the last fiscal year, the Executive Compensation Committee met twice, including one two-day meeting.

During the past fiscal year, the Board of Directors established a Special Compensation Committee consisting of the Chairman of the Executive Compensation Committee, who is Mr. Torley, any other member of the Executive Compensation Committee, and the Chairman of the Board, Mr. Office. Mr. Williams served as a member of the Committee. The Special Compensation Committee has full authority to authorize modifications of the Company's employee arrangements (including, but not limited to, compensation agreements with the officers and directors of the Company, the Company's Pension Plan, the Company's Stock Option Plan, and the Company's Employee Thrift and Savings Plan). The Chairman of the Executive Compensation Committee also serves as Chairman of the Special Compensation Committee. The Committee met once during the year.

During the fiscal year ended February 27, 1986, the Board of Directors met seven times, including a three-day planning meeting at the fiscal year-end, with participation by the principal officers of the Company, and two special meetings in October, 1985. Each director attended no fewer than 75% of the aggregate number of meetings of the Board of Directors and meetings of the committees thereof.

### EXECUTIVE COMPENSATION

The following table sets forth the cash compensation paid during the fiscal year ended February 27, 1986 to the five most highly compensated Executive Officers of the Company whose total cash compensation exceeded \$60,000, naming each such person, and all Executive Officers as a group (9 in number):

#### CASH COMPENSATION TABLE

| <u>Name of Individual<br/>or Number in Group</u>   | <u>Capacities in<br/>Which Served</u>   | <u>Cash<br/>Compensation</u> |
|--|---|------------------------------|
| Gerald S. Office, Jr.                              | Chairman of the Board<br>of Directors and Chief<br>Executive Officer                      | \$ 575,000                   |
| Thomas J. Russo                                    | Executive Vice President,<br>Ponderosa, inc., President,<br>Ponderosa Steakhouse Division | \$ 325,000                   |
| Carl R. Falletta                                   | President, Ponderosa International<br>Development, Inc. (a wholly-<br>owned subsidiary)   | \$ 252,865                   |
| Gordon F. Teter                                    | President, Casa Lupita Restaurants,<br>Inc. (a wholly-owned subsidiary)                   | \$ 125,000                   |
| James E. Thompson                                  | Senior Vice President<br>and Chief Financial Officer                                      | \$ 82,885                    |
| All Executive Officers as<br>a Group (9 in Number) |   | \$1,604,781                  |

Mr. Office, who has been Chairman of the Board and Chief Executive Officer since 1969, initially entered into an employment agreement with the Company dated July 1, 1973, as amended July 1, 1980, and June 21, 1982, and most recently amended and clarified by agreement dated October 13, 1983, pursuant to which he shall continue as the Chief Executive Officer of the Company until July 1, 2001, at a salary in such amount as may be mutually agreed upon by Mr. Office and the Company from time to time, provided that his salary may not be reduced without his consent below the rate then paid to him in the Company's immediately preceding fiscal year. Upon his retirement

on July 1, 2001, Mr. Office or his beneficiaries are entitled to receive an annual pension (or a lesser actuarial equivalent if he elects) equal to 75% of his average total reportable income ("Ponderosa Compensation") for the five highest compensated years of the last ten years preceding his retirement. Mr. Office will receive such annual pension for life or for a guaranteed period of years equal to the number of years he was employed by the Company at his retirement (presently sixteen years). In lieu of taking periodic payments, Mr. Office may elect to receive a lump sum payment that is the actuarial equivalent to the payments he would have received under the guaranteed payment option described in the preceding sentence. In the event Mr. Office takes an early retirement, but no sooner than January 1, 1990, he shall be entitled to receive a pension equal to 50% of his Ponderosa Compensation for the five highest compensated years of the last ten years preceding retirement which will be increased by 5% per year for each year or part of year that he defers early retirement after 1990 until he receives his full pension. The agreement also provides disability and death benefits generally based upon the retirement formula but reduced, subject to certain limitations, if death or disability occurs prior to July 1, 2001.

The employment agreement also contains provisions which may require the Company immediately to fund an escrow account under certain circumstances. Funding is required if a "change in control" (as defined in the agreement) of the Company is threatened. In such event the Company must pay into escrow a then actuarially determined amount sufficient to fund Mr. Office's salary to normal retirement, based on his then current compensation, as well as his retirement, disability and death benefits under the agreement. If after a change in control of the Company is threatened, Mr. Office involuntarily terminates employment with the Company after such date but before a change in control occurs, he or his beneficiaries shall be entitled to benefit payments from the escrow. Otherwise his right to payment from the escrow will arise if employment terminates for any reason after a change in control of the Company occurs, or other conditions exist which trigger payment of the escrow.

In addition, under the employment agreement, Mr. Office is subject to non-competition restrictions for a period of ten years following termination of employment or following his last disability or retirement benefit payment under the agreement. However, the non-competition restrictions shall not apply if Mr. Office leaves the Company's employ involuntarily after a change in control (as defined in the agreement) of the Company is threatened or if his employment with the Company is terminated voluntarily or involuntarily after a change in control occurs.

Mr. Russo entered into an employment agreement with the Company dated February 18, 1985, as amended, pursuant to which he shall serve as an executive vice president of the Company for a term of five (5) years beginning February 18, 1985 and ending February 17, 1990 at a salary of \$325,000 per annum subject to annual review by the Executive Compensation Committee for possible adjustment, provided that his salary may not be reduced without his consent below \$325,000 per annum. The agreement also provides for supplemental retirement benefits, disability and death benefits and non-competition restrictions. The employment agreement also contains provisions which may require the Company to immediately fund an escrow account, under certain circumstances. Funding is required if a "change in control" (as defined in the agreement) of the Company is threatened. In such event the Company must pay into escrow an amount approximately three (3) times such executive's annualized base salary for the five (5) most recent taxable years. If after the date a change in control of the Company is threatened, but before a change in control

occurs, such executive terminates employment with the Company involuntarily, he or his beneficiaries shall be entitled to benefit payments from the escrow. Otherwise his right to payment from the escrow will arise if his employment terminates for any reason after a change in control of the Company occurs, or other conditions exist which trigger payment of escrow.

Messrs. Falletta, Teter, Thompson and two other executive officers of the Company have entered into agreements which may require the Company to fund escrow accounts upon certain events. Each agreement contains provisions that may require the Company to fund an escrow account for the benefit of such executive under certain circumstances. Funding is required if, prior to October 11, 1988, a "change in control" (as defined in such agreements) of the Company is threatened. In such event, the Company is required, for each of them, immediately to pay into escrow an amount approximately three (3) times each executive's annualized base salary for the three (3) most recent years. If after a change in control of the Company is threatened, employment of any one of these executives terminates involuntarily for any reason other than disability, retirement on or after the date they reach normal retirement age or death, they shall be entitled to benefit payments from the escrow. Otherwise, their right to payment from the escrow will arise if their employment is terminated for any reason after a change in control of the Company occurs.

Another officer has entered into an employment agreement with the Company dated January 6, 1986, pursuant to which he shall serve as a senior vice president of the Company for a term of three (3) years ending January 5, 1989 at a salary of \$150,000 per annum, subject to annual review by the Executive Compensation Committee for possible adjustment, provided that his salary may not be reduced without his consent below \$150,000 per annum. In addition, the officer received additional compensation of \$30,000 upon execution of the employment agreement and is to receive a guaranteed bonus of \$30,000 at the end of fiscal year 1987. The agreement also provides for supplemental disability benefits and non-competition restrictions. The employment agreement also contains provisions which may require the Company immediately to fund an escrow account. Funding is required if a "change in control" (as defined in the agreement) of the Company is threatened during the term of the agreement or at any time thereafter during the officer's employment with the Company. In such event the Company must pay into escrow an amount approximately three (3) times this officer's annualized base salary for the three (3) most recent years. If a change in control of the Company is threatened, and this officer terminates employment with the Company involuntarily after such date but before a change in control occurs, he or his beneficiaries shall be entitled to benefit payments from the escrow. Otherwise his right to payment from the escrow will arise if employment terminates for any reason after a change in control of the Company occurs, or other conditions exist which trigger payment of the escrow.

The Company has a policy of providing additional compensation to its employees who are U.S. citizens living overseas. The policy allows such employees to maintain a standard of living overseas equivalent to the Company's employees in the United States. The policy is available to all U.S. citizens employed by the International Division overseas.

During the last fiscal year, other compensation was paid to all Executive Officers, as a group, in aggregate amount of \$214,964. Included in the aforementioned, Mr. Russo received other compensation of \$116,707 relating to relocation expenses and a Company-provided automobile. The aggregate cash compensation paid to all Executive Officers as a group includes compensation for any portion of the period during which such individual was an Executive Officer or Officer of the Company.



## DIRECTORS FEES

The Company paid its six non-employee Directors a base fee of \$27,500 per year in fiscal 1986. All non-employee Directors also receive an additional \$500 each quarter to cover expenses and \$1,000 for each committee meeting (other than the Special Compensation Committee) attended. Messrs. Schaefer and Torley receive an additional \$2,500 annually for serving as Chairman of the Audit and of the Executive Compensation Committees, respectively. The current base annual fee is \$30,000 per year. Mr. Office does not receive additional compensation for serving as a Director or as Chairman of the Board of Directors. Directors may elect to defer payment of Directors' fees. No additional compensation is paid for serving as the Chairman or as a member of the Special Compensation Committee.

The Company has entered into consulting agreements with all six of its non-employee Directors that provide for consulting services to the Company after they no longer serve on the Board of Directors except upon termination for cause, if they have served at least seven full years as a Director. The agreements provide for payment of an amount equivalent to the amount of base Director fees for the last year of service as a Director if they have served ten years as a Director. A pro rata reduced amount is payable in the event the Director has served seven years, with prior service credit, but less than ten years. In no event is the ongoing compensation greater than 100% of the Director's fees paid during the last year of service. Payments commence upon retirement from active service on the Board of Directors and the Director reaching 60 years of age. The payments, once commenced, continue for the life of the Director. Each Director agrees to continue to provide counsel and advice to the Company after active participation on the Board at all reasonable times without further payment of fees other than expenses and must not engage in employment or other activities which compete with the Company.

On October 10, 1985, USACafes, Inc. filed a complaint in the Court of Chancery of the State of Delaware against the Company and the members of its Board of Directors seeking to prevent the Company and its Directors from enforcing certain recent amendments to the Company's by-laws; the court denied the injunctive relief requested by USACafes (but did not reach the issue of the validity of the challenged by-laws) and the proceeding is not presently being actively pursued.

## STOCK OPTIONS

The following tabulation shows as to the Executive Officers named in the Cash Compensation Table, as to all Executive Officers as a group, as to all other Officers as a group and as to other current employees who are not officers as a group (i) the amount of options granted under the Company's stock option plans (Qualified Stock Option Plan and 1982 Stock Option Plan, as amended) during the period from February 27, 1981 to February 27, 1986, (ii) the average per share exercise price thereof, (iii) the amount of options exercised during such period and (iv) the net value of shares (market value less exercise price) realized upon the exercise of options during such period. The tabulation also shows the number of shares sold during such period by such named Executive Officers, all Executive Officers as a group and all other Officers as a group.

|                                       | Gerald S.<br>Office, Jr. | Thomas J.<br>Ruess | Carl A.<br>Faietta | Gordon F.<br>Tate | James E.<br>Thompson | All<br>Executive<br>Officers<br>as a Group | All<br>Other<br>Officers<br>as a Group | Other<br>Employees<br>who are<br>not officers<br>as a Group |
|---------------------------------------|--------------------------|--------------------|--------------------|-------------------|----------------------|--|--|---|
| <b>Options Granted</b>                |                          |                    |                    |                   |                      |  |  |   |
| 2/27/81 - 2/27/86                     |                          |                    |                    |                   |                      |  |  |   |
| <b>Number of Shares:</b>              |                          |                    |                    |                   |                      |  |  |   |
| <b>Non-Qualified Options</b>          |                          |                    |                    |                   |                      |  |  |   |
| With SAR                              | 25,071                   | 42,524             | —0—                | 2,524             | —0—                  | 72,667                                     | 12,727                                 | —0—   |
| ISO With SAR                          | 7,475                    | 7,478              | 16,476             | 7,476             | 4,700                | 86,056                                     | 55,997                                 | 75,400  |
| ISO Without SAR                       | 12,453                   | —0—                | —0—                | 5,000             | 2,000                | 46,453                                     | 59,026                                 | 44,500  |
| <b>TOTAL</b>                          | <u>45,000</u>            | <u>50,000</u>      | <u>16,476</u>      | <u>15,000</u>     | <u>6,700</u>         | <u>185,176</u>                             | <u>127,750</u>                         | <u>119,900</u>  |
| <b>Average Per Share</b>              |                          |                    |                    |                   |                      |  |  |   |
| Option Price                          | \$17.6125                | \$13.3750          | \$16.1964          | \$15.8563         | \$15.3619            | \$15.2524                                  | \$15.8233                              | \$15.8273   |
| <b>Options Exercised</b>              |                          |                    |                    |                   |                      |  |  |   |
| Number of Shares                      | —0—                      | —0—                | —0—                | —0—               | —0—                  | 15,800                                     | 5,925                                  | 4,500   |
| <b>Net Value Realized</b>             |                          |                    |                    |                   |                      |  |  |   |
| (Market Value Less<br>Exercise Price) | —0—                      | —0—                | —0—                | —0—               | —0—                  | \$ 78,677                                  | \$ 55,232                              | \$ 26,056   |
| <b>Number of Shares Sold</b>          |                          |                    |                    |                   |                      |  |  |   |
| 2/27/81 - 2/27/86                     | 25,000                   | —0—                | —0—                | —0—               | —0—                  | 26,500                                     | 2,500                                  | N.R.  |

SAR = Stock Appreciation Rights  
 ISO = Incentive Stock Options  
 NR = Not Required

On February 27, 1986, the closing price of the Company's Common Stock on The New York Stock Exchange was \$13.75 per share.

## PENSION PLANS

Under the Company's Pension Plans, which were effective March 1, 1977, annual benefits are payable upon retirement to employees of the Company and its subsidiaries, including officers. Eligibility requirements include that an employee shall have attained the age of 21 but shall be less than 60 years of age at the time of hire; shall have completed one year of service and shall not be a member of a collective bargaining unit. The estimated amount of the Company's contribution to its Pension Plans for or on behalf of the persons named above and all Executive Officers as a group, cannot readily be separately or individually calculated by the regular actuaries for the Pension Plans. At age 65 with 30 years of service, an employee shall receive a benefit of 70% of the first \$600 of average monthly compensation plus 40% of average monthly compensation in excess of \$600 minus 100% of the participant's primary social security benefit. Average monthly compensation is defined as the average of the participant's monthly compensation as determined for those five consecutive plan years of the last ten plan years immediately preceding his retirement which yields the largest sum. A participant with less than thirty years of service shall have his benefits reduced proportionately. Early retirement with reduced benefits is available at age 55 with at least ten years of service.

The Executive Officers named in the Cash Compensation Table on page 5 have the following years of credited service under the Pension Plans:

|            |    |              |   |              |   |
|------------|----|--------------|---|--------------|---|
| Mr. Office | 16 | Mr. Falletta | 2 | Mr. Thompson | 6 |
| Mr. Russo  | 1  | Mr. Teter    | 3 |              |   |

The following tabulation shows estimated annual retirement benefits payable to employees under the Pension Plans:

| Annual Compensation | Years of Service |          |          |
|---------------------|------------------|----------|----------|
|                     | 10               | 20       | 30       |
| \$100,000           | \$11,013         | \$22,027 | \$33,040 |
| 200,000             | 24,347           | 48,693   | 73,040   |
| 300,000             | 37,680           | 75,360   | 90,000   |
| 400,000             | 51,013           | 90,000   | 90,000   |
| 500,000             | 64,347           | 90,000   | 90,000   |
| 600,000             | 77,680           | 90,000   | 90,000   |
| 700,000             | 90,000           | 90,000   | 90,000   |

All benefits are computed under the Social Security law for employees retiring in the first half of 1988, assuming an employee of age 65, and assuming that annual compensation represents the average of the five highest annual compensation figures in the last ten years. The amounts in the above table give effect to the \$90,000 limitation on annual benefits under qualified defined benefit plans required by the Internal Revenue Code of 1954, as amended (the "Code"). This limit is subject to a cost of living adjustment beginning in 1988.

The plans are defined benefit pension plans and intended to qualify under Section 401(a) of the Code. The pension plans have been amended a number of times, including amendments to comply with the requirements of the Tax Equity and Fiscal Responsibility Act of 1982 ("TEFRA"), the Tax Reform Act of 1984 ("TRA") and the Retirement Equity Act of 1984 ("REA").

#### EMPLOYEE STOCK OWNERSHIP PLAN

Effective for the fiscal year ended February 23, 1978, and thereafter, the Company and its subsidiaries adopted the Employee Stock Ownership Plan for eligible employees who have attained the age of 21, have completed three years of service, and who are not members of a collective bargaining unit. To take advantage of changes in federal tax laws created by the Economic Recovery Tax Act of 1981, the Company amended the Employee Stock Ownership Plan, effective January 1, 1983, to provide for a new contribution formula based upon a percentage of compensation of participants in the plan. Further amendments to the Employee Stock Ownership Plan were approved in 1984 and 1985, in light of the requirements of TEFRA, TRA and REA. Subject to certain limitations, the Company and its subsidiaries make an annual contribution for each fiscal year of the Company equal to 0.5% of participants' aggregate compensation during such fiscal year of the Company. Allocation of this contribution, less any expenses paid by the Employee Stock Ownership Plan, is made to participants in accordance with the ratio that their respective annual compensation (up to a maximum of \$100,000) bears to the aggregate annual participating compensation of all employees included in such plan during that calendar year. Contributions by the Company may, at its option, be in cash or shares of Common Stock of the Company, or a combination thereof. Cash contributions by the Company are to be invested in the Company's Common Stock purchased on

the open market, in private transactions or directly from the Company at the then-current market price. Each dollar contributed to the Employee Stock Ownership Plan by the Company, in the form of cash or common stock, reduces federal income taxes payable by the Company in the same amount, subject to certain limitations under the Code.

All contributions to this Plan by the Company immediately and fully vest with each participant. In certain limited circumstances, which involve the recapture or redemption of investment tax credits taken in prior years, contributions in current years may be adjusted. A participant may not withdraw any of the funds or Common Stock of the Company held for him pursuant to the Employee Stock Ownership Plan until such participant ceases to be employed by the Company by reason of retirement, death, disability or other termination of employment, or until such shares have been held by such Plan for more than 84 months. The Executive Officers named in the Cash Compensation table on page 5 received the following number of shares of Common Stock during fiscal year 1986 under this Plan which shares were attributable to the 1985 fiscal year:

|            |    |              |   |              |    |
|------------|----|--------------|---|--------------|----|
| Mr. Office | 45 | Mr. Falletta | 0 | Mr. Thompson | 32 |
| Mr. Russo  | 0  | Mr. Teter    | 0 |              |    |

All Executive Officers, as a group, received 229 shares of Common Stock during the same period.

The Employee Stock Ownership Plan and Trust provide that each participant in this Plan is entitled to direct the Trustee of the Trust as to the manner in which shares of Company Common Stock allocated to such participant's account shall be voted and, in the event of a tender offer for shares of Company Common Stock, whether such allocated shares shall be tendered into the offer.

#### **PONDEROSA, INC. EMPLOYEE THRIFT AND SAVINGS PLAN**

The Ponderosa, Inc. Employee Thrift and Savings Plan (the "Thrift Plan") was approved by the Board of Directors on September 13, 1982, and became effective as of January 1, 1983, along with the Ponderosa, Inc. Employee Thrift and Savings Trust (the "Trust"). The Thrift Plan was approved by the Company's stockholders at the 1983 Annual Meeting. An amendment and restatement of the Thrift Plan was approved by the Board of Directors on December 9, 1983, which amendment and restatement became effective April 1, 1984. Further amendments to the Ponderosa, Inc. Thrift Plan were approved in 1984 and 1985, in light of the requirements of TEFRA, TRA and REA. The purpose of the Thrift Plan is to encourage employees to save for retirement on a regular basis and to provide them with an enhanced opportunity to become stockholders of the Company and thereby to secure for the Company the incentive inherent in employee stock ownership.

The Thrift Plan is a profit sharing plan intended to be qualified under Section 401(a) of the Code and contains cash or deferred salary reduction arrangements intended to be qualified under Section 401(k) of the Code.

Participation in the Thrift Plan is available to all employees of the Company meeting certain eligibility requirements based on age (21 years of age) and length of service (one year) and is subject to all terms, conditions and restrictions set forth in the Thrift Plan. As of March 31, 1986, approximately 4,700 employees were eligible to participate in the Thrift Plan.

The Thrift Plan is funded by allocations from participating employees, by contributions from the Company and by such net earnings as are obtained from the investment of the assets in the Thrift

Plan. Subject to certain limitations on maximum allocations, a participating employee may designate from 1% to 10% of his annual compensation before taxes to be allocated to the Thrift Plan. Under certain conditions, a participating employee may contribute, on an after tax basis, an additional amount of 1% to 6% of his annual compensation.

The Code requires savings plans which permit employees to obtain tax advantages (such as the Thrift Plan) to meet a complex test assuring a fair mix of contributions with respect to participating employees at all earnings levels. In certain instances, it may be necessary to limit the allocations made with respect to higher compensated employees under the Thrift Plan.

Employee allocations may be invested in a guaranteed income fund, Common Stock of the Company, the W. L. Morgan Growth Fund (an equity mutual fund), the Windsor Fund (an equity mutual fund), a money market fund or life insurance, at the option of the participating employee.

The Company, subject to the limitations of the Thrift Plan and to the extent of net income during the fiscal year next ending after each calendar year, pays into the Thrift Plan on an annual basis on behalf of each eligible participating employee a contribution equal to 50% of the employee's allocation up to a maximum of 2% of the employee's annual compensation. The Company in its sole discretion may make additional matching contributions outlined in the Thrift Plan. Company contributions may, at the option of the Company, be made in cash or in shares of Common Stock, or a combination thereof. The Company's contributions will in no event exceed the amount deductible for federal income tax purposes.

Employee allocations are fully vested at all times and never subject to forfeiture. The Company's contributions to a participating employee's account vest as follows: less than 3 years of service — 0%; at least 3 years but less than 5 years — 50%; five or more years — 100%. AmeriTrust Company National Association (the "Trustee") serves as trustee of the Trust. All investments are held in the name of the Trustee or its nominees, as provided in the trust agreement, and the Trustee has the sole responsibility to perform custodial duties of the funds invested in the Trust.

The Company has responsibility for the administration of the Thrift Plan. The Company reserves the right to make any amendment to the Thrift Plan which does not cause the funds invested in the Trust to be used for, or divested to, any purpose other than the exclusive benefit of participating employees or their beneficiaries.

In March 1986, the Company made the following allocations of shares of Common Stock to the accounts of the Executive Officers named in the Cash Compensation Table on page 5 for contributions made during the 1985 plan year:

|            |     |              |     |              |     |
|------------|-----|--------------|-----|--------------|-----|
| Mr. Office | 695 | Mr. Falletta | 252 | Mr. Thompson | 110 |
| Mr. Russo  | 0   | Mr. Teter    | 167 |              |     |

All Executive Officers, as a group, received 1,437 shares of Common Stock.

The Thrift Plan and the Trust provide that each participant in the Thrift Plan is entitled to direct the Trustee as to the manner in which shares of Company Common Stock allocated to such participant's account shall be voted and, in the event of a tender offer for shares of Company Common Stock, whether such allocated shares shall be tendered into the offer.

Withdrawals from the Thrift Plan are made upon termination of employment, upon attaining age fifty-nine and one-half (59½) or upon demonstrating financial hardship.

## AMENDMENTS TO 1982 STOCK OPTION PLAN

### 1. General.

The Company's 1982 Stock Option Plan was adopted by the Board of Directors and stockholders on June 21, 1982, and amendments thereto were approved by the Board of Directors and stockholders on April 17, 1984 and June 28, 1984, respectively ("1982 Plan"). The 1982 Plan has a ten-year duration and is administered by the Executive Compensation Committee of the Board of Directors composed entirely of Directors who are not eligible to participate in the 1982 Plan ("Committee"). Key executive employees of the Company are eligible to participate in the 1982 Plan upon selection by the Board of Directors.

A total of 800,000 shares of Common Stock (which includes 123,867 shares which were subject to options outstanding under the Company's Qualified Stock Option Plan) were reserved for issuance upon the exercise of options granted under the 1982 Plan. All options may have a maximum duration of ten years. Payment by the optionee upon exercise of an option may be made using Common Stock, as well as cash. Proceeds of the exercise of options under the 1982 Plan will constitute general corporate funds.

Certain options granted under the 1982 Plan constitute "incentive stock options" ("ISOs") under Section 422A of the Internal Revenue Code of 1954, as amended. ISOs, which must be granted with an exercise price not less than 100% of the fair market value of the Company's Common Stock subject thereto on the date of grant, are limited to \$100,000 (fair market value on the date(s) of grant) per year per optionee, with limited carryover to subsequent years. Non-incentive stock options, which may be granted at exercise prices determined in the discretion of the Committee, may also be granted under the 1982 Plan.

Under the 1982 Plan, no ISO is exercisable in whole or in part prior to twelve months after it is granted and the optionee must have been employed by the Company for at least two years. After the initial twelve-month period, and subject to the period of employment requirements, ISOs will become cumulatively exercisable in three successive annual installments, each installment comprising 33 1/3% of the total number of shares subject to the option. No ISO may be exercised until all ISOs with a prior granting date have been exercised.

In the event of a "change in control" of the Company, the right to exercise options granted under the 1982 Plan will be accelerated, except for the requirement of sequential exercise of ISOs described above. A "change in control" occurs when (i) any person acquires in excess of forty-nine percent (49%) of the outstanding voting stock of the Company, (ii) the stockholders approve a merger, consolidation, or other combination involving the Company whereby more than forty-nine percent (49%) of the voting stock of the surviving corporation is held by former stockholders of the constituent corporations other than the Company, or (iii) two or more persons not nominated in proxy statements forwarded by the Board of Directors to stockholders during any period of 24 months, and nominated by other than the Board of Directors, are elected by the stockholders. Also, limited stock appreciation rights ("SARs") have been granted with each non-incentive option granted under the 1982 Plan and each ISO granted under the 1982 Plan after June 28, 1984. These limited stock appreciation rights become exercisable only upon a "change in control," at which time each holder of such an option will be entitled to elect to exercise the SAR or the respective option. If the holder elects to exercise the option, then the holder's rights under the respective SAR are terminated. If the holder elects to exercise the SAR, then the holder's rights under the respective option

are terminated. The election to exercise a SAR entitles the holder to receive from the Company a cash payment per share equal to (i) the fair market value of the Common Stock on the date of exercise less (ii) the related option exercise price. A holder may elect to exercise a portion of an option or the respective SAR in which case the proportionate rights of the holder under the SAR or option, respectively, are terminated. An exercise of a portion of a SAR entitles the holder thereof to the proportionate amount of the appreciation in the Common Stock as described above.

## **2. Restricted Stock.**

The Board of Directors recommends that the 1982 Plan be amended to allow the Board to grant to certain key executive employees shares of Common Stock subject to certain restrictions ("Restricted Stock"), to increase the proprietary interest of such persons in the Company and to encourage them to remain in the employ of the Company or its subsidiaries. The amount of Restricted Stock to be granted to any eligible employee and the respective terms and conditions of such grant (which terms and conditions need not be the same in each case) shall be determined by the Board of Directors, in its sole discretion, based upon recommendations of the Committee. The Committee's recommendations shall be based upon various performance criteria and such other factors as are deemed relevant by the Committee. As a condition to any award and the corresponding delivery of Restricted Stock under the 1982 Plan, the Board of Directors shall require an employee to pay an amount equal to the par value of the shares of Restricted Stock awarded. Restricted Stock which has not vested may not be sold, exchanged, assigned, transferred, pledged, hypothecated or otherwise disposed of or encumbered. Upon each grant of Restricted Stock, the Board of Directors shall define a schedule for the vesting of such Restricted Stock and the parameters for forfeiture prior to vesting. Any Restricted Stock which becomes vested will no longer be deemed to be Restricted Stock. The Board of Directors may accelerate the vesting schedule with respect to any outstanding shares of Restricted Stock at any time. Except for the limitations on transfer described above, and possible forfeiture prior to vesting, a holder of Restricted Stock shall have all other rights of a stockholder including, but not limited to, the right to vote such Restricted Stock and to receive dividends thereon as and when paid. The grant of Restricted Stock would not have any effect on stock options granted or to be granted under the 1982 Plan; however, the total number of shares available under the 1982 Plan for all such purposes would remain at 800,000, and the Board would have the discretion to utilize the balance of the shares reserved under the 1982 Plan, including shares attributable to stock options that lapse or are surrendered to the Company, for grants of stock options or grants of Restricted Stock.

## **3. Other Revisions.**

The Board of Directors also recommends that the 1982 Plan be amended, to more accurately reflect the purpose and use of such plan in view of the proposed Restricted Stock amendments. The new name of the 1982 Plan would be the 1982 Stock Incentive Plan. In addition, the Board of Directors recommends that the terms of the 1982 Plan be clarified to provide that, with respect to the payment of an option exercise price by delivery of Common Stock already owned by an optionee, the Committee will exercise its discretion as to whether this will be permitted at the time of each option grant and then the optionee may select whether or not to use this payment method at the time of exercise.

The Board of Directors also recommends that the 1982 Plan be amended to provide that in the event shares of Stock of the Company should, as a result of a stock split or stock dividend or combination of shares or any other change, or exchange for other securities, by reclassification, reorganization, redesignation, merger, consolidation, recapitalization or otherwise, be increased or decreased or changed into or exchanged for a different number or kind of shares of stock or other securities of the Company or of another corporation, the number of shares then remaining which may be issued under options or as Restricted Stock hereunder shall be appropriately adjusted by the Committee, whose determination shall be final, binding and conclusive, to reflect such action; and that if any such adjustment shall result in a fractional share, such fraction shall be disregarded.

Approval of these amendments to the 1982 Stock Option Plan requires the affirmative vote of a majority of shares represented at a meeting at which a quorum is present.

**THE BOARD OF DIRECTORS RECOMMENDS A VOTE "FOR" THESE PROPOSED AMENDMENTS TO THE 1982 STOCK OPTION PLAN. IF A CHOICE IS SPECIFIED BY THE STOCKHOLDER IN THE PROXY, THE SHARES WILL BE VOTED AS SPECIFIED. IF NO SPECIFICATION IS MADE, THE SHARES WILL BE VOTED "FOR" THE PROPOSED AMENDMENTS TO THE 1982 STOCK OPTION PLAN.**

#### **APPOINTMENT OF INDEPENDENT ACCOUNTANTS**

The Board of Directors and the Audit Committee have approved and recommended that the firm of Deloitte Haskins & Sells be appointed as Independent Accountants of the Company for fiscal year 1987. The firm of Deloitte Haskins & Sells has served as the Company's Independent Accountants since fiscal year 1983. The Company has been advised by Deloitte Haskins & Sells that the firm does not have any direct financial interest, or any material indirect financial interest, in the Company or in any of its subsidiaries. The firm has not had any connection during the past five years with the Company or any of its subsidiaries in the capacity of promoter, underwriter, voting trustee, director, officer or employee.

Representatives of Deloitte Haskins & Sells are expected to be present at the Annual Meeting with the opportunity to make a statement if they so desire. Such representatives are also expected to be available to respond to questions at the Annual Meeting.

#### **STOCKHOLDER PROPOSALS**

Proposals of stockholders intended to be presented at the 1987 Annual Meeting must be received by the Company by January 16, 1987, for inclusion in the Company's proxy statement and form of proxy relating to the 1987 Annual Meeting.

#### **MISCELLANEOUS**

As of the date of this proxy statement, the Company has no knowledge of any business which will be presented for consideration at the Annual Meeting other than the issues described above. Should any other matter properly come before the meeting, it is the intention of the persons named in the accompanying proxy to vote such proxy in accordance with their best judgment.



## **SOLICITATION OF PROXIES**

The entire expense of preparing, assembling and mailing the proxy and other material used in the solicitation of proxies will be paid by the Company. In addition to the solicitation of proxies by mail, arrangements may be made with brokerage houses and other custodians, nominees and fiduciaries to send proxy materials to their principals, and the Company will reimburse them for their reasonable out-of-pocket expenses in so doing. To the extent deemed desirable in order to ensure sufficient representation, officers and regular employees of the Company may request the return of proxies personally, by telephone or telegram. The Company has also engaged Hill and Knowlton, Inc. to conduct the solicitation of proxies. The cost of such services will be approximately \$5,000, and the Company will reimburse Hill and Knowlton, Inc. for its out-of-pocket expenses incurred in connection therewith. The extent to which this will be necessary depends entirely on how promptly proxies are received. Stockholders are urged to send their proxies without delay.

By Order of the Board of Directors  
John R. Mohr, Secretary  
Dayton, Ohio  
May 16, 1986

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