SHOPKO® RETAIL

PROVANTAGE™

1997 ANNUAL REPORT FISCAL YEAR ENDED JANUARY 31, 1998

making a DIFFERENCE

creating

value

through

innovation

SHOPKO STORES, INC.

DESCRIPTION OF BUSINESS

ShopKo Stores, Inc. has a long history of innovation and creativity in responding to the dynamic needs of its customers. Founded in 1961, ShopKo began as a full-service discount retailer. Pharmaceutical services were added in 1971 and optical services were added in 1978. The repositioning of ShopKo from traditional discounting to specialty discount retailing began in 1991 with its Vision 2000 reengineering efforts. A few years later, ShopKo parlayed its pharmacy competencies into pharmacy mail services. ProVantage prescription benefit management was created in 1994 and services were later expanded to include vision benefit management. In 1997, ProVantage transitioned into a highly sophisticated health care knowledge business with one of the largest repositories of integrated pharmaceutical and health claims information.

Financial Highlights

ShopKo Stores, Inc. and Subsidiaries

IN THOUSANDS, EXCEPT PER SHARE DATA	Jan. 31, 1998 (52 Weeks)	Feb. 1, 1997 (52 Weeks)
Consolidated Net Sales	$2,576,922	$2,310,369
Net Earnings	$ 49,382	$ 45,669
Basic Net Earnings per Common Share Before Nonrecurring Charge	$ 1.80	$ 1.42
Basic Net Earnings per Common Share	$ 1.74	$ 1.42
Diluted Net Earnings per Common Share	$ 1.72	$ 1.40
Weighted Average Number of Common Shares Outstanding	28,398	32,090
Adjusted Weighted Average Number of Common Shares Outstanding	28,775	32,563

IN THOUSANDS, EXCEPT PER SHARE DATA	Jan. 31, 1998 (49 Weeks)	Feb. 22, 1997 (52 Weeks)
Consolidated Net Sales	$2,447,847	$2,333,407
Net Earnings	$ 48,845	$ 44,946
Basic Net Earnings per Common Share Before Nonrecurring Charge	$ 1.79	$ 1.40
Basic Net Earnings per Common Share	$ 1.73	$ 1.40
Diluted Net Earnings per Common Share	$ 1.71	$ 1.39
Weighted Average Number of Common Shares Outstanding	28,161	32,092
Adjusted Weighted Average Number of Common Shares Outstanding	28,569	32,370

See accompanying financial statements.

ShopKo is a customer lifestyle driven specialty discount retailer focused on dominating targeted categories through assortment, marketing and store presentation. ShopKo is continuously focusing on progressive techniques to optimize performance in its 147 stores operating in 16 states located primarily in the Midwest, Pacific Northwest and Western Mountain regions of the country. Four Vision Advantage stores are located in Ohio.

Through its wholly owned ProVantage, Inc. subsidiary, the Company serves the rapidly growing managed health care industry. ProVantage provides clinical programs, enterprise-wide data warehouse querying capabilities, advanced research tools using one of the largest repositories of integrated pharmaceutical and health claims information, as well as comprehensive health benefit management services independent from drug manufacturers.

Table of Contents

TO OUR SHAREHOLDERS:

"In the era of technology and progressive business practices, people still make the difference. The achievements we speak about this year, including record sales and earnings per share, are a tribute to the human spirit and capability."

Our achievements for the year are significant. We increased earnings for the fourth straight year in a row. We set new records for sales and basic earnings per share for the 52 weeks ended January 31, 1998 by earning $1.80 per share, excluding a nonrecurring charge, on sales of $2.6 billion. If we had not changed our fiscal year, basic earnings were $1.82 per share, excluding the nonrecurring charge. In addition to our strong financial results, we accomplished our two strategic goals for the year. The first was to become independent of SUPERVALU Inc. The second was to add size and scale to our retail operations. We are proud of our accomplishments in 1997 and confident about our future.

We have changed our fiscal year to the National Retail Federation calendar. As a part of the transition, we ended the year three weeks earlier than usual on January 31, 1998. In addition to reporting results for the shortened 49-week year, comparable 52-week periods are provided for more meaningful comparisons.

Sales increased 12 percent to $2.6 billion on a 52-week year basis compared with $2.3 billion for the same time period a year earlier. Earnings increased to $49 million, after a $2.8 million pre-tax charge in the first quarter, which compares with $46 million for the same time period last year. Diluted earnings per share increased 23 percent to $1.72 per share compared with $1.40 earnings per share for the same time period last year. We set another new record for Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA) for the third straight year in a row by achieving $175 million.

During the 49-week fiscal year ended January 31, 1998, sales increased to $2.4 billion. Earnings for the 49 weeks increased to $49 million after the pre-tax charge in the first quarter.

DALE P. KRAMER
CHAIRMAN, PRESIDENT AND CHIEF EXECUTIVE OFFICER
SHOPKO STORES, INC.

Making a Difference for Shareholders

The results we delivered are the direct result of a comprehensive, integrated strategy that has aligned the entire ShopKo organization toward increased shareholder value through improved customer satisfaction. In addition to the financial performance, 1997 was a turning point relative to the long-term growth goals we have established for ShopKo. We successfully completed a secondary public offering and stock buyback transaction with SUPERVALU which had held approximately 46 percent of our outstanding shares since our initial public offering in 1991. We also accelerated our growth through acquisitions. We achieved greater size and scale for our retail operations through the acquisition of Penn-Daniels, Incorporated, a family owned general merchandise retailer operating 19 stores. We also enhanced the clinical services and health care information technology capabilities of ProVantage through the acquisition of PharMark Corporation, a privately owned health care information technology company.

The table below quickly communicates our performance relative to our previously stated goals:

Goals	52 Weeks
Earnings growth of 10–15 percent	12%*
Consolidated sales growth of 10–15 percent	12%
Retail comp store sales growth of 3 percent	4%
Increase number of stores	17 Stores
Grow ProVantage sales and profitability	52% and 42%
Debt-to-capital ratio of 45–55 percent	51%

*EXCLUDING ONE-TIME CHARGE IN FIRST QUARTER OF 1997.

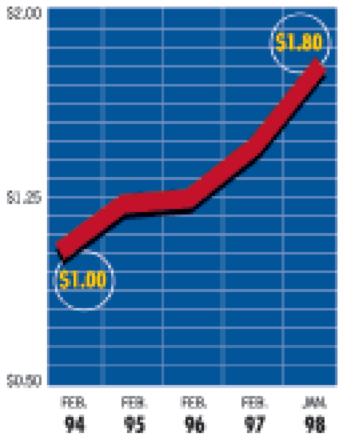
Clearly, ShopKo continues to maintain its consistent financial performance. We have maintained the integrity and stability of our balance sheet while growing the Company. We negotiated a $200 million unsecured revolving credit facility last July which is available for working capital and general corporate purposes.

Our results confirm the foresight of the original Vision 2000 initiatives instituted in 1991. We now have a radically differentiated, lifestyle-based merchandising and marketing philosophy called Beyond 2000. Our stores are remodeled to focus on speed, simplicity and friendliness of the shopping experience. We have made significant investments in our distribution/logistics infrastructure to support growth. We have grown the monumentally successful ProVantage health management business. We have invested in world class technology for enhanced speed and advanced knowledge management.

Underlying each of our achievements is a reinvented operating model and a corporate culture that values speed, embraces change and welcomes continuous challenge. We know we can never rest on yesterday's results. Our performance is a clear testament to our commitment to continuous transformation that permeates the entire organization.

Basic Earnings Per Share

BEFORE NONRECURRING CHARGE FOR 52 WEEKS



Perhaps the single most significant event of the year was the highly successful secondary public offering and stock repurchase of shares held by SUPERVALU. We repurchased 8.2 million shares of the 14.7 million shares of ShopKo common stock owned by SUPERVALU for $18.35 per share. SUPERVALU's remaining 6.5 million shares were sold in a secondary public offering which was priced at $25.00 per share. The accretion of this transaction as well as its impact on the long-term strategic outlook for ShopKo has added value to the appreciation of ShopKo stock.

This transaction also ends our 26-year successful relationship with SUPERVALU. We thank Mike Wright, Chairman, President and Chief Executive Officer of SUPERVALU and former Chairman of the ShopKo Board, for his years of commitment and dedication to the success of ShopKo and its shareholders.

Making a Leadership Difference

We have realigned our senior management team to meet the significant demands of the strategic growth goals we have established for ShopKo Retail Stores and ProVantage. Bill Podany was promoted to President and Chief Operating Officer of ShopKo Retail Stores, including retail pharmacy and optical, and Jeff Jones was promoted to Executive Vice President and Chief Operating Officer of ProVantage. This management realignment creates a more effective organizational structure of principal leadership to strengthen our strategic focus on growth.

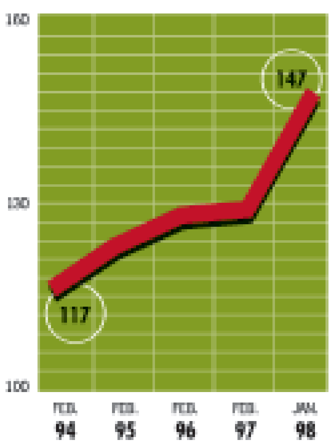
In August, we announced the addition of Dr. James Reinertsen, M.D., Chief Executive Officer of HealthSystem Minnesota, to our Board of Directors. Jim brings outstanding expertise in the health information management arena — a critical competency as we grow the ProVantage health knowledge business.

Making a Difference in Retail Stores

ShopKo's unique specialty discount strategy continues to win customer loyalty as evidenced by the number of lifestyle merchandise categories achieving or exceeding performance goals for the year. Retail sales for the 52 weeks ended January 31, 1998 increased to $2.1 billion. We have made significant strides in execution — more effectively managing payroll expenses while improving in-store presentation and continuing to deliver increasing Customer Satisfaction and Loyalty Monitor scores which are independently monitored.

We are halfway to our stated goal of adding 30-35 stores by the end of the year 2000. In December, ShopKo completed the acquisition of Penn-Daniels which operated 18 Jacks stores and one Lots-A-Deals store in Illinois, Iowa and Missouri. We will convert 17 acquired stores to the successful Vision 2000 format, including the addition of pharmacy and optical centers, by late July and will close the other two stores by September. We believe the conversions will produce a significant increase in sales productivity per store with nominal overhead costs. The customer demographics in these new markets are very similar to our existing markets, increasing our confidence in achieving sales targets similar to our existing stores under the Vision 2000 format. We believe there are significant synergies to be achieved in this acquisition. The transition is on schedule and within budget. We believe we are developing an excellent template for the execution of future acquisitions.

Number of Stores



Making a Difference in ProVantage

ProVantage topped the one half billion dollar sales mark with a 52 percent increase in sales for the 52-week period ended January 31, 1998. In three short years, we have grown ProVantage from a $14 million mail order pharmacy to a health benefit management and highly sophisticated health care knowledge business. It is one of the world's largest repositories for integrated pharmaceutical and health claims information. ProVantage now integrates health care information, clinical support and comprehensive benefit management to provide solutions to reduce health care costs while improving the quality of care through the sharing of information.

ProVantage has gained a strategic advantage in the dynamic and highly competitive health care knowledge industry through the acquisition of PharMark. The world class technological expertise and premier health care information technology products acquired enable ProVantage to offer superior clinical drug utilization review as well as sound outcomes based monitoring and research. ProVantage has become an international virtual organization with offices in six locations in the U.S. and Europe, serving clients in all 50 states as well as England and Germany.

Making a Difference in Our Communities

We have a responsibility and a privilege to give back to the communities in which we do business. I am extremely proud to announce that ShopKo was selected to receive this year's prestigious Discounter in Service to the Community award by *Discount Store News*, a leading publication in the retail industry. ShopKo was singled out for this honor from other retailers across the country, including much larger national chains.

We raised more than $1.1 million for Special Olympics this year through ShopKo's Charity Golf Classic. The money was distributed to the states in which we operate specialty discount stores. In 1997, ShopKo also raised funds for more than 200 non-profit organizations that meet the needs of children and families throughout our markets.

People Make the Greatest Difference

One cannot speak of our outstanding performance without acknowledging the people involved. Each year, I am more amazed at the continued spirit, intelligence and heart I see among our 20,000 associates. We appreciate our vendor partners for their continued commitment to mutual success. It is people who turn technology, business practices and strategies into performance. In the end, it is all about people serving the most important people of all — our customers. In doing that, we deliver value to the customers and to you, our valued shareholders.

Dale P. Kramer

DALE P. KRAMER
Chairman, President and Chief Executive Officer
ShopKo Stores, Inc.

SHOPKO RETAIL

"We are committed to unique merchandising and marketing ideas that focus on how to improve the shopping experiences in response to the new value preferences of time compressed American families. We are dedicated to continued revenue and earnings growth by delivering increased customer satisfaction and enhancing shareholder value."

ShopKo Retail: A Model of Success

Improving customer satisfaction by being students of consumer trends, innovators of integration and champions of detail is a characteristic that has fueled ShopKo's growth to become a leading specialty discount retailer. A customer lifestyle driven company focused on dominating targeted categories through assortment, marketing and store presentation, ShopKo is continuously focusing on progressive techniques to optimize performance in stores that average approximately 89,000 square feet.

Over the last several years, ShopKo has remodeled the majority of its stores as well as expanded and upgraded its logistic capabilities and distribution centers. The Company has also developed and implemented technology, integrated core functions, and created an operating model focused on changing customer lifestyle trends. The Company is committed to offering quality merchandise, service and value to meet customers' requirements for health, home, family basics, casual apparel and seasonal needs in its stores with speed, friendliness and simplicity.

ShopKo's success is attributable to broad internal sponsorship and enthusiastic support for its vision, operating principles and effective change leadership. In a highly competitive industry, ShopKo has been frequently labeled a maverick to conventional discount retailing. Senior management leads the organization to be nimble and inventive. The Company has developed business planning processes which foster creative, well-planned, speedy and innovative risk taking.

WILLIAM J. PODANY

PRESIDENT AND CHIEF OPERATING OFFICER OF SHOPKO RETAIL STORES, EXECUTIVE VICE PRESIDENT OF SHOPKO STORES, INC.

The repositioning of ShopKo from traditional discounting to specialty discount retailing occurred from 1991 to 1995 with its Vision 2000 reengineering efforts. Building upon Vision 2000, ShopKo has developed and implemented a radically different operating model that makes it adept at meeting the needs of value-oriented customers who demand a friendly and speedy shopping experience in addition to convenience, quality and fair pricing. This new long-term strategic offensive, **Beyond 2000**, is based upon creating market opportunities by serving time-strapped consumers' changing shopping habits. The new **Beyond 2000** operating model is based on four interdependent strategic initiatives.

Differentiating Strategy

The essence of ShopKo's strategy for differentiation focuses on selected and targeted merchandise category dominance tied to changing lifestyle needs. One of the most dramatic departures from traditional discount retailing is ShopKo's focused apparel merchandising strategy. Meaningful assortments of trend correct men's, women's and children's casual apparel are offered in more sizes and more colors at the planned exclusion of career, dress-up and coordinate apparel. Men's, women's and children's activewear are other selected apparel categories of dominance and concentrate on the credibility of such national brands as Nike®, Adidas® and Reebok® in addition to ShopKo's private brand equity. The impact of the merchandise offering for each selected area of product dominance is emphasized through weekly advertised sales events. The Company also uses image building television campaigns focusing on differentiating **ShopKo...the store for you.**

Integrated Business Planning Process

The integration of ShopKo's core disciplines — merchandising, marketing, logistics and store operations — has made a striking contribution to ShopKo's strong overall performance. The executive management team is comprised of seasoned senior executives with extensive experience in department, discount and specialty retailing. The integration of their core competencies and a collaborative team culture has transformed ShopKo into a specialty discounter. To be better and different in selected lifestyle areas of merchandising is a management-directed process that attracts and develops self-motivated professionals who are expected to think smart, ask the right questions, and take well-planned risks on as grand a scale as possible. Focused on innovation and integrated planning, ShopKo allocates inventory and capital resources along with floor and advertising space according to performance and company-wide strategic growth targets.

Integrated Lateral Organization for Execution

The integrated lateral organization is designed to capitalize on the interdependence of senior management competencies and core disciplines. In addition to directing the stores in superior execution of merchandising, marketing and logistical plans, corporate headquarters channel the appropriate resources to mobilize the activities around ShopKo's differentiation strategy. Intense disciplines for distribution and inventory control have substantially improved both in-stock positioning and inventory turnover.

Comprehensive Value

ShopKo delivers added lifestyle value preferences in the shopping experience beyond just a value price. The equity value of ShopKo's differentiated, proprietary branded product demands superior quality for a compelling price. Clarity of the merchandise offering, simplicity, speed and friendliness of the shopping experience all contribute to ShopKo's comprehensive value. Radically improved inventory replenishment and speed to the sales floor ensures greater trend correctness, targeted product dominance and differentiation. As students of middle America's fast-paced, changing family and personal needs, ShopKo is continually improving customers' shopping experiences with ongoing quality enhancements, quick adaptations to new consumer trends, and increasingly simple and clear presentations of merchandise.

While myriad successes have resulted from ShopKo's transformation, the most lasting one is the creation of a dynamic, entrepreneurial environment that fosters continuous improvement through inventive, proactive change. The culture is focused on inspiring talented people to achieve ever higher levels of performance through improved customer satisfaction.

D I F F E R E

Impact presentation of style and color designed to attract time constrained shoppers

Dramatic example of creating national branded dominance for hair color products

Timely and complete seasonal sets achieved with wide assortments of trend correct merchandise

N T I A T E D

merchandising strategy

Superior value at a compelling price presented in uncluttered aisles for speed and convenience

High performance national branded activewear and footwear for today's active lifestyle needs

Color coordinated presentation designed for simplicity, speed and ease of shopping experience

personalized, professional services

ShopKo's innovative evolution in retail pharmacy and optical services exemplifies the Company's success in identifying and meeting consumer lifestyle demands. The integration of pharmacy and optical services is a major element of differentiation. More than 10 million pharmacy prescriptions were filled last year and approximately 667,000 prescriptions for eyeglasses and contact lenses were filled. Retail health services have consistently scored high marks in customer appeal, traffic volume and profit margin. The value added services are provided by a cadre of qualified professionals who provide personal, knowledgeable service in an environment that is informative and friendly as well as clinical. Future opportunities for continued growth will focus on increasingly popular trends in family and personal health and wellness.

pioneering pays off

Reengineering the casual furniture department to offer a wide assortment of quality merchandise in attractive presentations has generated a significant new source of store traffic for ShopKo. A meaningful selection of quality products representing the latest trends in office, home entertainment, casual seating, kitchen and bedroom furniture are displayed in an attractive and inviting area to better support customers' purchasing decisions. To increase the ease of the purchase, ShopKo has devised a ticket pull system which enables the customer to simply present a ticket for selected furniture at checkout, with purchases directly delivered from the store to the car. The reengineering of casual furniture reflects the ShopKo philosophy to think, plan and execute creatively on selected merchandise ideas, which are appealing to modern family needs.

more sizes more colors

Shattering the retail paradigm that focusing on size and color is risky, ShopKo has differentiated its casual apparel offering through striking presentations of wide assortments of colors and sizes in trend correct women's, men's and children's clothing. By offering selected national brands along with its own proprietary branded labels, the Company can concentrate on quality and a convenient shopping environment from design to delivery on the selling floor. Fully committed to providing customers with what they want, ShopKo's apparel is trend correct, lifestyle driven and value oriented. The depth of inventory, in-stock positioning, consistent sizing and labeling as well as effective signage have facilitated the speed of the shopping experience. This superior execution of comprehensive value contributes significantly to the popularity of the apparel areas at ShopKo.

strategically positioned, appealingly presented

Greeting cards, wrapping paper and party goods — popular impulse buys among shoppers — are musts for any discount retailer. ShopKo has applied its differentiation strategies and comprehensive value positioning by presenting a store within a store to increase the visual impact of the product and simplify the shopping experience. Often bucking the industry norms, ShopKo has devoted prime real estate to the Social Occasion Shop, which is conveniently located in the front of the store adjacent to seasonal merchandise and the checkout lanes. Through spacious aisles, interesting graphics and color coordinated signage, the Company has created an appealing environment within a friendly, easy-to-use shop for time constrained customers.

PROVANTAGE, INC.

"The landscape for health care is constantly changing. Advanced technology, medical and pharmaceutical breakthroughs, changing demographics, business combinations and new government regulations ensure that rapid change will continue and cost pressures will remain. Our ultimate goal never changes — reduce costs while improving the quality of care."

Health Care Knowledge is Available Now!

In three short years, ProVantage has grown from $14 million to more than $500 million in annualized revenue. ProVantage originally started as a mail order pharmacy and has transitioned into a sophisticated health care knowledge business with one of the largest repositories of integrated pharmaceutical and health claims information. The ProVantage management team has grown in sophistication and capabilities and can now provide superior clinical and health care knowledge services that reduce health care costs while improving the quality of health care.

ShopKo has leveraged its core competencies in retail health and customer service to develop ProVantage in the form of a comprehensive benefit management enterprise. Today, ProVantage provides products and services to clients that serve more than 25 million people. Clients fall into five broad categories: payors, providers, drug manufacturers, state and federal governments and regulatory agencies. ProVantage products and related services are well positioned and focused on industry trends and competitive advantages to drive future growth.

JEFFREY A. JONES
EXECUTIVE VICE PRESIDENT AND
CHIEF OPERATING OFFICER, PROVANTAGE, INC.
CHIEF FINANCIAL OFFICER, SHOPKO STORES, INC.

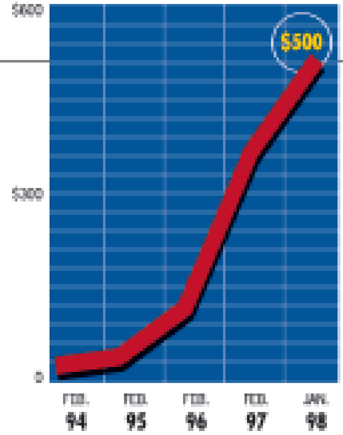
The Need for Knowledge is Great

Health care costs have caused employers and government agencies to place a greater priority on managing costs and improving medical outcomes. The demand for sophisticated health care knowledge services is being driven by the need for comprehensive, positive and measurable information on medical outcomes. The use of drugs to treat medical conditions continues to rise as the number of newly approved drugs continues to accelerate. As new uses for drugs entering the market increase, the percent of total health care dollars dedicated to drug deployment continues to increase.

ProVantage is better positioned than any other similar health care management organization to assist its clients with both pharmacy benefit management programs and the effectiveness of drug deployment through its clinical drug utilization technologies that incorporate both pharmaceutical and health claims data. ProVantage is among the leaders in clinical drug utilization review with its product, RationalMed® — winner of the 1995 Smithsonian Award for Information Technology in Medicine. ProVantage has the ability to predict adverse outcomes and measure actual savings after interventions.

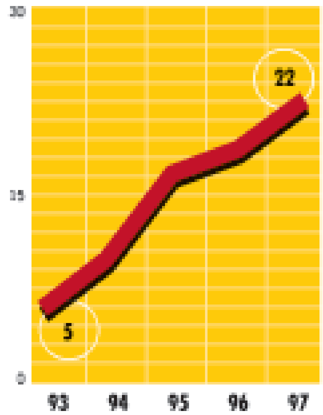
Sales

$ IN MILLIONS
FOR 52 WEEKS



Outcomes Research Growth

PATIENT HISTORIES IN MILLIONS



ACQUIRED IN AUGUST, 1997
AS A PURCHASED
BUSINESS TRANSACTION

Reducing Drug-Related Hospital Stays

Based upon a robust set of 8,000 clinical rules, ProVantage offers value added clinical services through a patient directed, highly sophisticated clinical product called RationalMed.® Approximately 25,000 alerts are sent to physicians on average each month which demonstrate significant savings by identifying drug treatment related conflicts that could result in increased drug and hospitalization costs. ProVantage has found that approximately 5 to 20 percent of hospitalizations potentially result from the problematic use of pharmaceuticals. ProVantage believes clients could reduce their total health expenditures up to 10 percent by using RationalMed® to lower the number of pharmaceutical induced disorders.

Pharmaceuticals Represent 10% of Total Health Care Costs

ProVantage has a full suite of competitive health benefit management products and services. With approximately 50,000 network pharmacies, the ProVantage Prescription Benefit Management operation offers a means of providing quality prescription benefits at lower costs. The mail order facility offers even greater cost effectiveness for maintenance medications. The Vision Benefit Management operation has a growing network of retail optical chains and private ophthalmologists and optometrists.

Demonstrated Savings Through Outcomes Research

EpiMed® is a powerful drug and disease outcomes research tool which gives customers access to confidentialized health encounter information for approximately 22 million U.S. and international patients yielding over 75 million patient years of history. Significant findings have been made regarding the efficacy of drugs and the impact of drugs and various diseases on patients. EpiMed® is targeted toward large drug companies, providers, universities and governmental research agencies.

Better Management Improves the Quality of Care

ProVmed® is an administrative, financial and clinical decision support tool used to manage profitability through direct and easy access to enterprise-wide data critical to managing total health care costs. This robust data warehouse allows clients to turn enterprise-wide data into actionable information using decision support. Future development efforts are focused on more advanced, state-of-the-art medical logic which can be broadly marketed.

Into The Next Millennium

Demographic and industry trends will continue to support the growth of ProVantage. Initially marketed to small to mid-size self-insured employers, insurance companies and third party administrators, ProVantage has developed and acquired advanced clinical and technological capabilities which enable it to increase the size and sophistication of its client group.

With the combination of clinical programs, enterprise-wide data warehouse querying capabilities, advanced research tools using one of the largest repositories of integrated pharmaceutical and health claims information as well as comprehensive health benefit management services independent from drug manufacturers, ProVantage has differentiated itself in a competitive marketplace. These competitive advantages, a genuine focus on customer service and a continued mission to increase the quality of care while reducing costs will drive continued growth for ProVantage.

HEALTH CARE

timeline

- **1971** — First pharmacy opened in a ShopKo store in Michigan
- **1978** — First optical centers opened in three ShopKo stores in Wisconsin
- **1993** — Launched ProVantage with the opening of a mail order pharmacy
- **1994** — Prescription Benefit Management (PBM) added to ProVantage

business profile

	HEALTH BENEFIT ADMINISTRATION	CLINICAL SERVICES
products	**Prescription and Vision Management** **National Pharmacy and Optical Retail Networks** **Mail Order Pharmacy** **Formulary Administration**	**Appropriate Therapeutic Intervention** **Formulary Design based on efficacy first then economics** **Drug Utilization Review** - Prospective - Concurrent - Retrospective - Advanced Retrospective **Disease Management Programs** - Clinically Based - Quantitatively Measured
markets	**Small to Mid-Size:** - Self-Insured Corporations - Insurance Companies - HMOs - Third Party Administrators **State and Federal Governments**	**Mid-Size to Large:** - Self-Insured Corporations - Insurance Companies - HMOs - Third Party Administrators **State and Federal Governments** **Long-Term Care Providers**
trends	**New medications and increased prudent use of older medications are reducing hospitalizations and increasing the percent of total health care dollars spent on pharmaceuticals** **5–20% of hospitalizations potentially result from problematic use of pharmaceuticals** **Increasing patients' access to providers**	**Clinical programs are being used more frequently to combat rising health care costs** **Increased government intervention concerning:** - Formulary Design - Therapeutic Switching **Disease management programs still do not deliver as promised**

KNOWLEDGE is available now

1995 — Acquisition of a PBM, Bravell Inc.

1996 — Acquisition of a PBM, CareStream Scrip Card; Started Vision Benefit Management (VBM)

1996

1997 — Developed clinical programs — ProVRx and ProVmed

1997 — Acquired Pharmark Corporation; Established strategic alliance with ThinkMed LLC

+ DECISION SUPPORT	+ OUTCOMES RESEARCH
Enterprise-wide Data Warehousing - Decision Support - Electronic Reporting - Data Mining **Pharmaceutical Claims Data Warehouse** - Electronic Reporting - Decision Support - Data Mining	Outcomes research software product supporting global access to health care database with medical and drug data for 22 million lives
Mid-Size to Large: - Self-Insured Corporations - Insurance Companies - HMOs	Health Care Providers State and Federal Governments Regulatory Agencies Pharmaceutical Manufacturers Long-Term Care Providers
To compete effectively, need for administration and clinical decision support increases Solutions that allow integration through sharing of information will be critical Real outcomes measures to monitor and report performance and quality will be highly valued	Integration of prescription and medical data Patient confidentiality has become increasingly important Outcomes studies support increased use of medications as preferred treatment for many medical conditions

=

INCREASE THE QUALITY OF CARE WHILE REDUCING COSTS

Management's Discussion and Analysis

ShopKo Stores, Inc. and Subsidiaries

In August 1997, the Company approved a change in its fiscal year end to the Saturday closest to the end of January, commencing January 31, 1998. This change in the Company's fiscal year conforms to the National Retail Federation calendar. The Company's audited consolidated financial statements were issued for the 49 weeks ended January 31, 1998 (fiscal 1997), the 52 weeks ended February 22, 1997 (fiscal 1996), and the 52 weeks ended February 24, 1996 (fiscal 1995). For comparative purposes, the Company is also providing supplemental unaudited financial information concerning the Company's results of operations for the 52 weeks ended January 31, 1998 and February 1, 1997 which information is included immediately preceding the Company's audited consolidated financial statements and notes thereto. In the opinion of management, this unaudited financial information includes all adjustments for a fair presentation of the results of operations for the periods presented.

RESULTS OF OPERATIONS

The following table sets forth items from the Company's Consolidated Statements of Earnings as percentages of consolidated net sales:

	FISCAL YEARS ENDED		
	Jan. 31, 1998 (49 Weeks)	Feb. 22, 1997 (52 Weeks)	Feb. 24, 1996 (52 Weeks)
Revenues:			
Net sales	**100.0%**	100.0%	100.0%
Licensed department rentals and other income	**0.5**	0.6	0.7
	100.5	100.6	100.7
Costs and Expenses:			
Cost of sales	**77.0**	76.4	74.5
Selling, general and administrative expenses	**16.5**	17.0	18.4
Nonrecurring charge	**0.1**		
Depreciation and amortization expenses	**2.4**	2.6	2.9
	96.0	96.0	95.8
Income from operations	**4.5**	4.6	4.9
Interest expense	**1.2**	1.4	1.7
Earnings before income taxes	**3.3**	3.2	3.2
Provision for income taxes	**1.3**	1.3	1.2
Net earnings	**2.0%**	1.9%	2.0%

The Company has two business segments: a Retail Store segment (which includes general merchandise, retail pharmacy and retail optical operations) and a ProVantage segment (which includes prescription benefit management, mail service pharmacy, vision benefit management and health information technology). Intercompany sales, which consist of prescriptions that were both sold at a ShopKo pharmacy and processed by ProVantage, have been eliminated.

The following tables set forth items from the Company's business segments as percentages of net sales:

Retail Store Segment

	FISCAL YEARS ENDED		
	Jan. 31, 1998 (49 Weeks)	Feb. 22, 1997 (52 Weeks)	Feb. 24, 1996 (52 Weeks)
Revenues:			
Net sales	**100.0%**	100.0%	100.0%
Licensed department rentals and other income	**0.6**	0.6	0.7
	100.6	100.6	100.7
Costs and Expenses:			
Cost of sales	**73.6**	73.8	73.8
Selling, general and administrative expenses	**18.0**	18.3	18.3
Depreciation and amortization expenses	**2.6**	2.8	2.9
	94.2	94.9	95.0
Income from operations	**6.4%**	5.7%	5.7%

ProVantage Segment

	FISCAL YEARS ENDED		
	Jan. 31, 1998 (49 Weeks)	Feb. 22, 1997 (52 Weeks)	Feb. 24, 1996 (52 Weeks)
Revenues:			
Net sales	**100.0%**	100.0%	100.0%
Licensed department rentals and other income	**0.1**	0.2	0.5
	100.1	100.2	100.5
Costs and Expenses:			
Cost of sales	**92.5**	93.1	91.0
Selling, general and administrative expenses	**3.9**	3.8	5.5
Depreciation and amortization expenses	**1.0**	0.6	1.1
	97.4	97.5	97.6
Income from operations	**2.7%**	2.7%	2.9%

Fiscal 1997 Compared to Fiscal 1996

Consolidated net sales for fiscal 1997 (49 weeks) increased $114.4 million or 4.9%, over fiscal 1996 (52 weeks) to $2,447.8 million. When compared to the corresponding 49-week period of the previous fiscal year, consolidated net sales increased 11.0%.

Retail Store sales for fiscal 1997 (49 weeks) decreased 0.2% or $4.2 million from fiscal 1996 (52 weeks) to $2,001.6 million. When compared to the corresponding 49-week period of the previous fiscal year, Retail Store sales increased 5.1% and comparable Retail Store sales increased 3.7%. The comparable Retail Store increases for that period by category were as follows: Retail Health – 10.3%, Apparel – 2.8%, and Hardline/Home – 1.6%. The Company attributes these comparable Retail Store increases in large part to the success of its merchandising operations and marketing initiatives. Changes in retail comparable store sales for a year are based upon those stores which were open for the entire preceding year.

ProVantage sales for fiscal 1997 (49 weeks) increased 35.4% or $123.4 million over fiscal 1996 (52 weeks) to $472.2 million. When compared to the corresponding 49-week period of the previous fiscal year, ProVantage sales increased 47.1%. This increase is primarily attributable to growth in claims processing activities, most of which was internally generated and a portion of which was due to the acquisition of CareStream Scrip Card. Included in ProVantage sales are amounts billed to insurance companies, third party administrators and self-funded medical plan sponsors for medical claims and claims processing fees; the amount of prescription sales through the mail service pharmacy; the amounts billed to pharmaceutical manufacturers and third party formulary administrators for formulary fees; and contract and license fees for health information technology services. The formulary fees included in ProVantage sales were $13.6 million and $16.7 million for fiscal years 1997 and 1996, respectively. On a per claim basis, net formulary fees were $0.48 and $0.51 for fiscal years 1997 and 1996, respectively. Management expects the net formulary fees per claim to continue to decline in fiscal 1998.

Consolidated gross margins as percentages of sales were 23.0% and 23.6% for fiscal 1997 and 1996, respectively. Retail Store gross margins as percentages of sales were 26.4% and 26.2% for fiscal 1997 and 1996, respectively. The Retail Store gross margins include a LIFO credit of $3.7 million for fiscal 1997 and a LIFO charge of $2.6 million for fiscal 1996. Retail Store gross margins, before LIFO expense, were 26.2% and 26.3% for fiscal 1997 and 1996, respectively. ProVantage gross margins as percentages of sales were 7.5% and 6.9% for fiscal 1997 and 1996, respectively. This increase is primarily due to improved gross margin rates in ProVantage's formulary business.

Consolidated selling, general and administrative expenses as a percentage of net sales decreased to 16.5% in fiscal 1997, compared with 17.0% in fiscal 1996. Retail Store selling, general and administrative expenses were 18.0% and 18.3% of net sales for fiscal 1997 and 1996, respectively. This improvement is primarily due to more effectively managing store payroll costs. ProVantage selling, general and administrative expenses increased 0.1% of net sales to 3.9% compared with 3.8% in fiscal 1996. This increase is primarily due to additional investments in information technology and infrastructure support related to continued growth. Selling, general and administrative expenses will be impacted in fiscal 1998 by the Penn-Daniels acquisition. See "Capital Expenditures and Acquisitions."

The Company's operating earnings (earnings before interest and income taxes) increased 4.9% to $111.0 million in fiscal 1997 from $105.8 million in fiscal 1996. Retail Store operating earnings (earnings before corporate expenses, interest and income taxes) increased 12.0% to $127.3 million in fiscal 1997 compared to $113.7 million in fiscal 1996. This increase is primarily due to increased sales and expense control initiatives. ProVantage operating earnings increased 32.8% in fiscal 1997 to $12.7 million compared to $9.5 million in fiscal 1996. This increase is primarily due to growth in prescription benefit management services and business acquisitions.

Net interest expense as a percentage of net sales decreased to 1.2% in fiscal 1997 compared with 1.4% in fiscal 1996. This decrease is primarily due to increased sales.

Supplemental Comparison of Fiscal 1997 to Fiscal 1996

The supplemental comparison should be read in conjunction with the Company's unaudited financial information for the 52 weeks ended January 31, 1998 and February 1, 1997 included on page 22.

Annual Consolidated Sales Summary

	52 WEEKS			
DOLLARS IN MILLIONS	2/2/97– 1/31/98	2/4/96 – 2/1/97	% Change	% Comparable Store Sales Increase
Business Segments				
Retail Store	$2,103.4	$2,000.8	5.1%	3.8%
ProVantage	500.9	330.1	51.8%	N/A
Intercompany	(27.4)	(20.5)	N/A	N/A
Consolidated	$2,576.9	$2,310.4	11.5%	N/A

Consolidated gross margin as a percent of sales for the 52 weeks ended January 31, 1998 was 23.0% compared with 23.7% for the 52 weeks ended February 1, 1997. The Retail Store gross margin as a percent of sales for the same period was 26.4% compared with 26.3% for the preceding period. The FIFO Retail Store gross margin as a percent of sales for the 52 weeks was 26.3% compared with 26.4%. ProVantage's gross margin as a percent of sales for the same period increased to 7.4% from 6.8% primarily due to improved gross margin rates in its formulary business.

Consolidated selling, general and administrative expenses as a percent of sales for the 52 weeks ended January 31, 1998 decreased to 16.6% from 17.0%. Retail Store selling, general and administrative expense as a percent of sales for the same period was 18.1% compared with 18.3% for the preceding period. This decrease is primarily due to more effectively managing store payroll costs. ProVantage's selling, general and administrative expenses increased to 4.0% of sales for the 52 weeks ended January 31, 1998 compared with 3.6% of sales for the preceding period. This increase is primarily due to additional investments in information technology and infrastructure support related to continued growth.

Fiscal 1996 Compared to Fiscal 1995

Consolidated net sales for fiscal 1996 (52 weeks) increased 18.6% or $365.4 million over fiscal 1995 (52 weeks) to $2,333.4 million.

Retail Store sales increased 6.6% or $124.7 million over fiscal 1995 to $2,005.7 million. Comparable Retail Store sales increased 6.0%. The comparable Retail Store increases by category were as follows: Apparel – 12%, Retail Health – 8% and Hardline/Home – 3%. Changes in retail comparable store sales for a fiscal year are based upon those stores which were open for the entire preceding fiscal year.

ProVantage sales increased 271.7% or $254.9 million over fiscal 1995 to $348.8 million. Management attributes this increase primarily to internally generated growth and supplementally to the acquisition of CareStream Scrip Card in August 1996. Included in ProVantage sales are amounts billed to insurance companies, third party administrators and self-funded medical plan sponsors and the amounts billed to pharmaceutical manufacturers and third party formulary administrators for formulary fees. The formulary fees included in ProVantage sales were $16.7 million and $5.7 million for fiscal years 1996 and 1995, respectively. On a per claim basis, net formulary fees were $0.51 and $0.79 for fiscal years 1996 and 1995, respectively.

Consolidated gross margins as percentages of sales were 23.6% and 25.5% for fiscal 1996 and 1995, respectively. Retail Store gross margins as percentages of sales were 26.2% for both fiscal years and include LIFO charges of $2.6 million and $2.2 million for fiscal 1996 and 1995, respectively. Retail Store gross margins, before LIFO expense, were 26.3% in fiscal 1996 and fiscal 1995. ProVantage gross margins as percentages of sales were 6.9% and 9.0% for fiscal 1996 and 1995, respectively. This decrease is attributable to a larger percentage of the sales coming from the lower gross margin claims processing activities and to an increase in the percentage of formulary fees shared with clients.

Consolidated selling, general and administrative expenses decreased 1.4% of net sales to 17.0% compared with 18.4% in fiscal 1995. The decrease is due to increased sales related to ProVantage. Retail Store selling, general and administrative expenses were 18.3% of net sales for both fiscal years. ProVantage selling, general and administrative expenses decreased 1.7% of net sales to 3.8% compared with 5.5% in fiscal 1995. This decrease is primarily due to leveraging costs against increasing sales volumes.

The Company's operating earnings (earnings before interest and income taxes) increased 8.6% to $105.8 million in fiscal 1996 from $97.4 million in fiscal 1995. Retail Store operating earnings (earnings before corporate expenses, interest and income taxes) increased 6.0% to $113.7 million in fiscal 1996 compared to $107.2 million in fiscal 1995. This increase is primarily due to increased sales. ProVantage operating earnings increased in fiscal 1996 to $9.5 million compared to $2.7 million in fiscal 1995. This increase is primarily due to growth in prescription benefit management services and business acquisitions.

Net interest expense in fiscal 1996 decreased from the prior year by 0.3% of net sales to 1.4% of net sales. This decrease is primarily due to increased sales and increased interest income. Interest income increased to $4.3 million in fiscal 1996 compared with $1.8 million in fiscal 1995.

LIQUIDITY AND CAPITAL RESOURCES

The Company relies on cash generated from its operations, with the remaining needs being met by short-term and long-term borrowings. Cash provided from operating activities was $142.6 million, $111.7 million and $155.6 million in fiscal years 1997, 1996 and 1995, respectively.

The Company entered into a new $200.0 million revolving credit facility on July 8, 1997. The new facility, effective through January 31, 2002, has terms and conditions similar to those of the prior credit agreement. Funds generated from operations, and if necessary, the revolving credit facility are expected to fund the projected working capital needs and total capital expenditures through fiscal 1998.

Capital Expenditures and Acquisitions

The Company spent $32.0 million on capital expenditures (excluding acquisitions) in fiscal 1997, compared to $38.9 million in fiscal 1996 and $53.0 million in fiscal 1995. The following table sets forth the components of the Company's capital expenditures and acquisitions (in millions):

	FISCAL YEARS ENDED		
	Jan. 31, 1998 (49 Weeks)	Feb. 22, 1997 (52 Weeks)	Feb. 24, 1996 (52 Weeks)
Capital Expenditures			
New stores	**$ 0.0**	$ 2.5	$14.9
Remodeling and refixturing	**12.6**	14.6	24.7
Distribution centers	**0.7**	1.3	0.7
Management information and point-of-sale equipment and systems	**18.0**	18.8	11.7
Other	**0.7**	1.7	1.0
Total	**$32.0**	$38.9	$53.0
Acquisitions	**$40.5**	$30.5	

While the Company did not complete any major remodels in existing ShopKo stores or construct any new stores in fiscal 1997, the Company did spend $12.6 million for merchandise initiatives and store equipment and fixturing replacements. On December 19, 1997, ShopKo acquired the retail chain Penn-Daniels, Incorporated ("Penn-Daniels"), which operated 18 Jacks discount stores and one Lots-A-Deals close-out store in Iowa, Illinois and Missouri. The Company is converting 17 of the Jacks retail locations to ShopKo stores, including the addition of in-store pharmacies and optical centers. The stores will remain open during remodeling, which is targeted for completion in July 1998. The capital expenditures related to the remodeling are anticipated to be approximately $35.0 million.

The Company's total capital expenditures for the fiscal year ending January 30, 1999 are anticipated to approximate $80.0 to $90.0 million, the majority of which would relate to remodeling the recently acquired Penn-Daniels stores, supporting the existing retail business for merchandise initiatives and ongoing store equipment and fixturing replacements and continuing investments in systems technology. This amount excludes any capital that may be required for acquisitions of businesses or real estate. Such plans may be reviewed and revised from time to time in light of changing conditions.

The Company expects to pursue growth of its Retail Store business through new store construction or acquisition of existing retail stores or businesses. The Company may also consider the acquisition of health services businesses. Such plans may be reviewed and revised from time to time in light of changing conditions. Depending upon the size and structure of any such acquisitions, the Company may require additional capital resources. The Company believes that adequate sources of capital will be available.

On August 2, 1996, the Company completed the acquisition of CareStream Scrip Card from Avatex Corporation, formerly known as Foxmeyer Health Corporation. CareStream Scrip Card is a prescription benefit management company which has been integrated with the Company's ProVantage subsidiary. The purchase price was $30.5 million in cash, with a supplemental cash payment of between $2.5 million and $5.0 million due between six months and five years after August 2, 1996. The purchase price was funded from the Company's available cash.

On October 4, 1996, the Company and the founders of Bravell entered into an agreement whereby the Company (i) acquired the remaining 3% of the common stock of Bravell which the Company did not acquire in January 1995, (ii) extinguished all remaining contingent payment obligations to the founders, and (iii) terminated the founders' employment agreements. On April 10, 1997, the Company satisfied its obligations under this agreement by making a payment of approximately $8.9 million to the founders.

On August 20, 1997, the Company acquired The Mikalix Group, Inc. and its subsidiaries ("Mikalix"), an international privately held group of companies based in Alexandria, Virginia. Mikalix's primary subsidiary is PharMark Corporation ("PharMark"), a software and database development company providing information driven strategies for optimizing medical and pharmaceutical outcomes. The purchase price for Mikalix was approximately $15.3 million, of which $13.3 million was paid in cash and $2.0 million is due over the next two years. The sellers of Mikalix may also be entitled to contingent payments of up to $8.0 million in the aggregate based on future increases in the market value of ProVantage's outstanding common stock (the "Contingent Payments"). The Contingent Payments, if any, will be due on the first to occur of August 20, 2002 and certain liquidity events related to ProVantage. The Contingent Payments may be made, at the Company's election, in either cash, Company common stock, or ProVantage common stock; provided, however, that any stock used for such payments must be traded in a public market.

On December 19, 1997, ShopKo bought the outstanding stock of Penn-Daniels, a retail chain headquartered in Quincy, Illinois for approximately $16.4 million in cash and $42.5 million of assumed debt, of which approximately $21.0 million was retired at the time of the closing. The Company utilized cash and borrowings under its revolving credit facility to fund the acquisition and the retirement of a portion of Penn-Daniels outstanding debt. The acquisition was accounted for under the purchase method of accounting. Penn-Daniels operated 18 Jacks discount stores in Iowa, Illinois and Missouri and one Lots-A-Deals close-out store in Moline, Illinois. The results of Penn-Daniels operations since the date of acquisition have been included in the fiscal 1997 consolidated statement of earnings.

In connection with the Penn-Daniels acquisition, ShopKo expects to incur nonrecurring pre-tax costs of approximately $10.0 million for duplicate operations at the Penn-Daniels administrative office and warehouse until they are consolidated with ShopKo's operations and for other transaction related items. These estimated costs are expected to be incurred primarily in the first half of fiscal 1998. The Company expects to fund these costs from available cash and, if necessary, borrowing under the Company's revolving credit facility. The Penn-Daniels acquisition is expected to be slightly accretive to fiscal 1998 earnings per share excluding the nonrecurring pre-tax costs described above, and to be slightly dilutive to fiscal 1998 earnings when such costs are factored into fiscal 1998 results.

Termination of Plan Reorganization

On September 7, 1996, the Company entered into a Plan of Reorganization with Phar-Mor, Inc. ("Phar-Mor") and Cabot Noble, Inc. ("Cabot Noble"). Pursuant to the Plan of Reorganization, the Company and Phar-Mor would have become subsidiaries of Cabot Noble. On April 2, 1997, the Company, Cabot Noble and Phar-Mor mutually agreed to terminate this planned business combination. The Company recorded a nonrecurring pre-tax charge of $2.8 million ($0.06 per share), during the first quarter of fiscal 1997 for costs incurred in connection with the terminated business combination.

Stock Buyback Agreement

On April 24, 1997, the Company and Supervalu Inc. ("Supervalu") entered into an agreement pursuant to which Supervalu exited its 46% investment in the Company. Under the terms of the agreement, the companies completed two simultaneous transactions. The first transaction was a $150.0 million stock buyback, whereby the Company repurchased 8,174,387 shares of its common stock held by Supervalu for $18.35 per share. The second transaction was a secondary public offering of Supervalu's remaining 6,557,280 shares of the Company's common stock and 983,592 additional shares which were issued by the Company to cover over-allotments. The secondary offering was priced at $25.00 per share on June 26, 1997. The stock buyback and secondary offering were completed on July 2, 1997. The Company received $23.4 million proceeds from the sale of the over-allotment shares. Supervalu paid the underwriting discount for the shares it sold and certain other expenses related to the secondary offering.

Year 2000

The Company is in the process of addressing Year 2000 compliance. Management has initiated a comprehensive project designed to eliminate or minimize any business disruption associated with date processing problems in computer and other electronic systems. The Company will utilize both internal and external resources to complete the Year 2000 assessment, modification (where necessary) and testing process.

As a result of the significant investment made by the Company in both hardware and software over the past several years, management does not anticipate that Year 2000 compliance initiatives will be disruptive to its operations. The overall cost of these initiatives is not expected to have a material impact on the Company's financial statements.

As part of the process, the Company is also communicating with others with whom it does significant business to determine their Year 2000 compliance readiness. There can be no guarantee that the systems of other companies on which the Company's systems rely will be compliant, or that a failure by another company to bring its systems into compliance would not have a material adverse effect on the Company.

Treasury Stock Retirement

In the first quarter of fiscal 1998, the Company will retire all 8,174,387 shares of common stock held as treasury stock for accounting purposes, and such shares will be returned to the status of authorized but unissued shares. As a result, the $152.2 million assigned to treasury stock will be eliminated with a corresponding decrease in par value, additional paid-in capital and retained earnings.

Inflation

Inflation has not had a significant effect on the results of operations of the Company or its internal and external sources of liquidity.

Recent Pronouncements

In 1997, Statement of Financial Accounting Standards ("SFAS") No. 130, "Reporting Comprehensive Income," and SFAS No. 131 "Disclosures about Segments of an Enterprise and Related Information," were issued. Both statements must be adopted by the Company beginning February 1, 1998. The Company is currently evaluating the impact of these statements on the consolidated financial statements.

Forward-Looking Statements

Certain statements contained in Management's Discussion and Analysis and elsewhere in this annual report are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements discuss, among other things, expected growth, future revenues, product development and deployment plans and future performance. The forward-looking statements are subject to risks and uncertainties which could cause actual results to differ materially from those discussed in such forward-looking statements. These risks and uncertainties include, but are not limited to, those identified in the Company's June 1997 Registration Statement on Form S-3 (Reg. No. 333-26615) and other risks and uncertainties as may be indicated in the Company's subsequent filings with the Securities and Exchange Commission.

Ten Year Financial Summary

ShopKo Stores, Inc. and Subsidiaries

	FISCAL YEARS ENDED									
	Jan. 31, 1998 (49 Weeks)	Feb. 22, 1997 (52 Weeks)	Feb. 24, 1996 (52 Weeks)	Feb. 25, 1995 (52 Weeks)	Feb. 26, 1994[1] (52 Weeks)	Feb. 27, 1993 (52 Weeks)	Feb. 29, 1992 (53 Weeks)	Feb. 23, 1991 (52 Weeks)	Feb. 24, 1990[2] (52 Weeks)	Feb. 25, 1989 (52 Weeks)
Summary of Operations (millions)										
Net sales	**$2,448**	$2,333	$1,968	$1,853	$1,739	$1,683	$1,648	$1,521	$1,420	$1,248
Licensed department rentals and other income	**12**	13	14	12	12	11	11	12	11	10
Gross margin	**564**	550	501	488	453	457	452	417	396	360
Selling, general and administrative expenses	**404**	397	361	356	344	326	325	296	282	262
Nonrecurring charge[3]	**3**									
Depreciation and amortization expenses	**58**	60	56	53	47	43	40	39	35	31
Interest expense – net	**31**	32	34	29	21	18	17	21	20	16
Earnings before income taxes	**80**	74	63	62	53	81	81	73	70	61
Net earnings	**49**	45	38	38	32	50	50	45	43	37
Per Share Data (dollars)										
Basic net earnings per common share	**$ 1.73**	$ 1.40	$ 1.20	$ 1.18	$ 1.00	$ 1.56	$ 1.55[4]	$ 1.41[4]	$ 1.33[4]	$ 1.15[4]
Diluted net earnings per common share	**1.71**	1.39	1.20	1.18	1.00	1.56	1.55[4]	1.41[4]	1.33[4]	1.15[4]
Cash dividends declared per common share[5][6]		0.22	0.44	0.44	0.44	0.44	0.11			
Financial Data (millions)										
Working capital	**$ 144**	$ 232	$ 215	$ 187	$ 119	$ 82	$ 79	$ 70	$ 59	$ 57
Property and equipment – net	**630**	603	617	618	578	493	445	432	412	369
Total assets	**1,251**	1,234	1,118	1,110	953	792	706	692	648	576
Total debt[7]	**440**	421	416	429	337	225	193	215	237	231
Total shareholders' equity	**396**	461	422	397	374	355	320	273	228	186
Capital expenditures	**32**	39	53	95	134	91	53	59	80	91
Financial Ratios										
Current ratio	**1.4**	1.7	1.8	1.7	1.5	1.4	1.4	1.4	1.3	1.4
Return on beginning assets	**4.0%**	4.0%	3.5%	4.0%	4.1%	7.1%	7.2%	7.0%	7.4%	7.6%
Return on beginning shareholders' equity	**10.6%**	10.7%	9.7%	10.1%	9.0%	15.7%	18.1%	19.7%	22.9%	24.8%
Total debt as % of total capitalization[8]	**51.4%**	46.6%	48.5%	50.9%	46.2%	37.9%	36.7%	42.8%	50.0%	53.9%
Other Year End Data										
Stores open at year end	**149**	130	129	124	117	111	109	104	98	87
Average store size – square feet	**88,754**	89,840	89,945	90,260	90,440	89,500	87,400	87,200	87,000	85,900

(1) The effect of adopting Statement of Financial Accounting Standards ("SFAS") No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions," resulted in a decrease in net earnings of $0.6 million ($0.02 per share). Adoption of SFAS No. 109, "Accounting for Income Taxes," had no effect on reported net earnings or financial position.

(2) Includes the effect of a change in the method of accounting for LIFO inventories which increased net earnings by $3.0 million.

(3) Nonrecurring charge related to the termination of the proposed combination with Phar-Mor and Cabot Noble.

(4) The number of common shares used in the computation is the total number of shares of the Company's Common Stock outstanding upon completion of the initial public offering.

(5) First quarterly dividend was declared in the fourth quarter of fiscal 1991.

(6) Upon termination of the proposed combination with Phar-Mor and Cabot Noble, the Company determined to retain earnings for the growth and expansion of its business and not declare or pay any cash dividends.

(7) Total debt includes short-term debt, current portion of long-term obligations, long-term obligations and payable to related party.

(8) Total capitalization includes shareholders' equity, total debt and non-current deferred income taxes.

(9) Includes 19 stores acquired from Penn-Daniels, Incorporated, two of which will be closed by September 1998.

Supplemental Financial Information

ShopKo Stores, Inc. and Subsidiaries

IN THOUSANDS, EXCEPT PER SHARE DATA

	52 WEEKS ENDED January 31, 1998 (F1997) and February 1, 1997 (F1996)							
	Retail Store		ProVantage		Corporate		Total	
	F1997	F1996	**F1997**	F1996	**F1997**	F1996	**F1997**	F1996
Net Sales	**$2,103,419**	$2,000,830	**$500,891**	$330,048	**$(27,388)**	$(20,509)	**$2,576,922**	$2,310,369
Comparable store sales increase	**3.8%**	5.9%						
Sales increase over 1996	**5.1%**		**51.8%**				**11.5%**	
Gross margin	**555,807**	524,829	**37,283**	22,444			**593,090**	547,273
Percent of net sales	**26.4%**	26.3%	**7.4%**	6.8%			**23.0%**	23.7%
Other income	**11,724**	12,333	**539**	844			**12,263**	13,177
Percent of net sales	**0.6%**	0.6%	**0.1%**	0.3%			**0.5%**	0.6%
Selling, general and administrative expenses	**381,099**	365,580	**19,990**	11,828	**26,603**	16,070	**427,692**	393,478
Percent of net sales	**18.1%**	18.3%	**4.0%**	3.6%			**16.6%**	17.0%
Nonrecurring charge					**2,800**		**2,800**	
Depreciation and amortization expenses	**56,112**	57,053	**4,779**	2,233	**405**	471	**61,296**	59,757
Percent of net sales	**2.7%**	2.9%	**0.9%**	0.7%			**2.4%**	2.6%
Income from operations	**130,320**	114,529	**13,053**	9,227	**(29,808)**	(16,541)	**113,565**	107,215
Percent of net sales	**6.2%**	5.7%	**2.6%**	2.8%			**4.4%**	4.7%
Interest expense – net							**32,239**	32,000
Earnings before income taxes							**81,326**	75,215
Provision for income taxes							**31,944**	29,546
Net earnings							**$ 49,382**	$ 45,669
Earnings per share – basic							**$ 1.74**	$ 1.42
Earnings per share – diluted							**$ 1.72**	$ 1.40

This unaudited financial information should be read in conjunction with the Company's audited consolidated financial statements including the notes thereto.

Consolidated Statements of Earnings

ShopKo Stores, Inc. and Subsidiaries

IN THOUSANDS, EXCEPT PER SHARE DATA

	FISCAL YEARS ENDED Jan. 31, 1998 (49 Weeks)	Feb. 22, 1997 (52 Weeks)	Feb. 24, 1996 (52 Weeks)
Revenues:			
Net sales	**$2,447,847**	$2,333,407	$1,968,016
Licensed department rentals and other income	**11,756**	13,058	13,924
	2,459,603	2,346,465	1,981,940
Costs and Expenses:			
Cost of sales	**1,883,891**	1,783,741	1,466,733
Selling, general and administrative expenses	**403,635**	397,092	361,402
Nonrecurring charge	**2,800**		
Depreciation and amortization expenses	**58,252**	59,833	56,383
	2,348,578	2,240,666	1,884,518
Income from operations	**111,025**	105,799	97,422
Interest expense – net	**30,582**	31,777	34,282
Earnings before income taxes	**80,443**	74,022	63,140
Provision for income taxes	**31,598**	29,076	24,701
Net earnings	**$ 48,845**	$ 44,946	$ 38,439
Basic net earnings per common share	**$ 1.73**	$ 1.40	$ 1.20
Weighted average number of common shares outstanding	**28,161**	32,092	32,005
Diluted net earnings per common share	**$ 1.71**	$ 1.39	$ 1.20
Adjusted weighted average number of common shares outstanding	**28,569**	32,370	32,056

See notes to consolidated financial statements.

Consolidated Balance Sheets

ShopKo Stores, Inc. and Subsidiaries

IN THOUSANDS	Jan. 31, 1998	Feb. 22, 1997
Assets		
Current assets:		
Cash and cash equivalents	**$ 54,344**	$ 124,550
Receivables, less allowance for losses of $8,637 and $5,585, respectively	**97,812**	95,178
Merchandise inventories	**376,568**	334,962
Other current assets	**13,508**	10,482
Total current assets	**542,232**	565,172
Other assets and deferred charges	**7,202**	5,558
Intangible assets – net	**71,668**	60,330
Property and equipment – net	**629,733**	602,832
Total assets	**$1,250,835**	$1,233,892
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable – trade	**$ 193,646**	$ 165,712
Accrued compensation and related taxes	**39,964**	34,861
Accrued other liabilities	**135,522**	113,064
Accrued income and other taxes	**24,502**	17,664
Current portion of long-term obligations	**4,174**	2,014
Total current liabilities	**397,808**	333,315
Long-term obligations	**436,125**	418,714
Deferred income taxes	**20,906**	20,999
Shareholders' equity:		
Preferred stock; none outstanding		
Common stock; shares issued, 33,941 at January 31, 1998 and 32,167 at February 22, 1997	**339**	322
Additional paid-in capital	**283,520**	245,137
Retained earnings	**264,316**	215,405
Less treasury stock; 8,174 shares	**(152,179)**	
Total shareholders' equity	**395,996**	460,864
Total liabilities and shareholders' equity	**$1,250,835**	$1,233,892

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

ShopKo Stores, Inc. and Subsidiaries

IN THOUSANDS	FISCAL YEARS ENDED		
	Jan. 31, 1998 (49 Weeks)	Feb. 22, 1997 (52 Weeks)	Feb. 24, 1996 (52 Weeks)
Cash Flows from Operating Activities:			
Net earnings	$ 48,845	$ 44,946	$ 38,439
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Depreciation and amortization	58,252	59,833	56,383
Provision for losses on receivables	2,999	1,200	23
(Gain) on the sale of property and equipment	(540)	(2,140)	(2,739)
Deferred income taxes	(1,334)	(1,620)	5,206
Change in assets and liabilities (excluding effects of business acquisitions):			
Receivables	(3,593)	(40,636)	(13,470)
Merchandise inventories	(9,872)	(12,529)	78,190
Other current assets	(1,282)	523	2,448
Other assets and intangibles	(1,878)	(13,062)	(2,879)
Accounts payable	17,867	21,074	(4,655)
Accrued liabilities	33,137	54,133	(1,395)
Net cash provided by operating activities	142,601	111,722	155,551
Cash Flows from Investing Activities:			
Payments for property and equipment	(32,003)	(38,899)	(53,012)
Proceeds from the sale of property and equipment	2,348	3,275	4,171
Business acquisitions, net of cash acquired	(40,488)	(30,500)	
Net cash (used in) investing activities	(70,143)	(66,124)	(48,841)
Cash Flows from Financing Activities:			
Change in short-term debt			(15,000)
Change in common stock from stock options	10,907	1,249	
Change in common stock from public offering	23,419		
Purchase of treasury stock	(152,179)		
Dividends paid		(10,583)	(14,083)
Reduction in debt and capital leases	(24,811)	(1,183)	(756)
Net cash (used in) financing activities	(142,664)	(10,517)	(29,839)
Net (decrease) increase in cash and cash equivalents	(70,206)	35,081	76,871
Cash and cash equivalents at beginning of year	124,550	89,469	12,598
Cash and cash equivalents at end of year	$ 54,344	$ 124,550	$ 89,469
Supplemental cash flow information:			
Noncash investing and financial activities –			
Capital lease obligations incurred		$ 5,533	$ 2,573
Restricted stock issued	$ 416	$ 1,012	
Cash paid during the period for:			
Interest	$ 29,265	$ 31,663	$ 34,803
Income taxes	$ 26,852	$ 30,086	$ 33,062

See notes to consolidated financial statements.

Consolidated Statements of Shareholders' Equity

ShopKo Stores, Inc. and Subsidiaries

IN THOUSANDS, EXCEPT PER SHARE DATA	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Retained Earnings	Treasury Stock Shares	Treasury Stock Amount	Total Shares	Total Amount
Balances at February 25, 1995	32,005	$320	$242,843	$154,112			32,005	$397,275
Net earnings				38,439				38,439
Cash dividends declared on common stock – $0.44 per share				(14,083)				(14,083)
Balances at February 24, 1996	32,005	320	242,843	178,468			32,005	421,631
Net earnings				44,946				44,946
Sale of common stock under option plans	97	1	1,248				97	1,249
Income tax benefit related to stock options			35					35
Issuance of restricted stock	65	1	1,011	(1,012)			65	
Restricted stock expense				63				63
Cash dividends declared on common stock – $0.22 per share				(7,060)				(7,060)
Balances at February 22, 1997	32,167	322	245,137	215,405			32,167	460,864
Net earnings				48,845				48,845
Sale of common stock under option plans	780	7	10,900				780	10,907
Income tax benefit related to stock options			3,658					3,658
Sale of common stock in public offering	984	10	23,409				984	23,419
Issuance of restricted stock	10		246	(246)			10	
Remeasurement of restricted stock			170	(170)				
Restricted stock expense				482				482
Purchase of treasury stock					(8,174)	$ (152,179)	(8,174)	(152,179)
Balances at January 31, 1998	**33,941**	**$339**	**$283,520**	**$264,316**	**(8,174)**	**$(152,179)**	**25,767**	**$395,996**

See notes to consolidated financial statements.

A

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Basis of Presentation

The consolidated financial statements include the accounts of ShopKo Stores, Inc. and its subsidiaries ("ShopKo" or the "Company"). All significant intercompany accounts and transactions have been eliminated. The Company, which is a Minnesota corporation, was incorporated in 1961 and in 1971 became a wholly owned subsidiary of Supervalu Inc. ("Supervalu"). On October 16, 1991, the Company sold 17,250,000 common shares or 54% of equity ownership in an initial public offering. On July 2, 1997, Supervalu exited its remaining 46% investment in the Company through a stock buyback and secondary public offering.

ShopKo is engaged in the business of providing general merchandise and health services through its retail stores. Retail stores are operated in the Midwest, Western Mountain and Pacific Northwest states and four free-standing optical centers are located in Ohio. The Company also provides custom prescription benefit management services; pharmacy mail service; vision benefit management services and health care knowledge through technology and clinical support services through its subsidiary ProVantage, Inc. ("ProVantage"). ProVantage conducts business throughout the United States and parts of Europe.

Change in Fiscal Year

The Company changed its fiscal year end from the last Saturday in February to the Saturday nearest January 31, effective with the fiscal year ended January 31, 1998. This change was made in order to coincide the Company's fiscal year with the calendar predominantly used by the retail industry. The current year consolidated balance sheet and statements of earnings, cash flows and shareholders' equity are presented for the year ended January 31, 1998 (49 weeks). All other years presented are for 52 weeks ending the last Saturday in February. In addition, the table below illustrates how the fiscal years are referred to in the notes to consolidated financial statements.

February 23, 1997 through January 31, 1998 (49 weeks)	1997
February 25, 1996 through February 22, 1997 (52 weeks)	1996
February 26, 1995 through February 24, 1996 (52 weeks)	1995

Cash and Cash Equivalents

The Company records all highly liquid investments with a maturity of three months or less as cash equivalents. In accordance with Statement of Financial Accounting Standards ("SFAS") No. 115, "Accounting for Certain Investments in Debt and Equity Securities," these investments are classified as trading securities and are reported at fair value.

Receivables

Receivables consist of amounts collectible from third party pharmacy insurance carriers and self-funded medical plan sponsors for medical claims, from merchandise vendors for promotional and advertising allowances, from retail store customers for optical, main store layaway and pharmacy purchases and from pharmaceutical manufacturers and third party formulary administrators for formulary fees. Substantially all amounts are expected to be collected within one year.

Merchandise Inventories

Merchandise inventories are stated at the lower of cost or market. Cost, which includes certain distribution and transportation costs, is determined through use of the last-in, first-out (LIFO) method for substantially all inventories. If the first-in, first-out (FIFO) method had been used to determine cost of inventories, the Company's inventories would have been higher by approximately \$38.1 million at January 31, 1998, \$41.8 million at February 22, 1997 and \$39.2 million at February 24, 1996.

Property and Equipment

Property and equipment are carried at cost. The cost of buildings and equipment is depreciated over the estimated useful lives of the assets. Buildings and certain equipment (principally computer and retail store equipment) are depreciated using the straight-line method. Remaining properties are depreciated on an accelerated basis. Useful lives generally assigned are: buildings – 25 to 50 years; retail store equipment – 8 to 10 years; warehouse, transportation and other equipment – 3 to 10 years. Costs of leasehold improvements are amortized over the period of the lease or the estimated useful life of the asset, whichever is shorter, using the straight-line method. Property under capital leases is amortized over the related lease term using the straight-line method. Interest on property under construction of \$0.1 and \$0.2 million was capitalized in fiscal years 1996 and 1995, respectively.

The components of property and equipment are:

IN THOUSANDS	Jan. 31, 1998	Feb. 22, 1997
Property and equipment at cost:		
Land	$ 118,723	$ 107,982
Buildings	522,732	492,001
Equipment	348,817	313,505
Leasehold improvements	53,932	49,929
Property under construction	456	2,219
Property under capital leases	26,419	26,419
	1,071,079	992,055
Less accumulated depreciation and amortization:		
Property and equipment	430,293	380,643
Property under capital leases	11,053	8,580
Net property and equipment	$ 629,733	$ 602,832

Intangible Assets

The excess of cost over fair value of the net assets of businesses acquired is amortized using the straight-line method over 18 to 22 years. Accumulated amortization for these costs was $5.7 million and $2.5 million at January 31, 1998 and February 22, 1997, respectively.

Impairment of Long Lived Assets

The Company evaluates whether events and circumstances have occurred that indicate the remaining estimated useful life of long lived assets may warrant revision or that the remaining balance of an asset may not be recoverable. The measurement of possible impairment is based on the ability to recover the balance of assets from expected future operating cash flows on an undiscounted basis. In the opinion of management, no such impairment existed as of January 31, 1998 or February 22, 1997.

Accrued Other Liabilities

Accrued other liabilities include amounts related to ProVantage for medical claims and formulary rebate sharing and other current liabilities not related to compensation or taxes. As of January 31, 1998 and February 22, 1997, the amounts payable by ProVantage for medical claims and formulary rebate sharing included in the accrued other liabilities were $56.4 million and $39.8 million, respectively.

ProVantage Accounting

ProVantage records as sales the amounts billed to insurance companies, third party administrators and self-funded medical plan sponsors for medical claims and claims processing fees, the amount of prescription sales through the mail service pharmacy, the amounts billed to pharmaceutical manufacturers and third party formulary administrators for formulary fees and contract and license fees for health information technology services. Cost of sales includes the amounts paid to network pharmacies and optical centers for medical claims, the cost of prescription medications sold through the mail service pharmacy and the amounts paid to plan sponsors for shared formulary fees.

Pre-Opening Costs

Pre-opening costs of retail stores are charged against earnings in the year the store opens.

Net Earnings Per Common Share

In 1997, SFAS No. 128, "Earnings Per Share" was issued. SFAS No. 128 replaces the previously reported primary and fully diluted earnings per share with basic and diluted earnings per share. Basic net earnings per common share are computed by dividing net earnings by the weighted average number of common shares outstanding. Diluted net earnings per common share are computed by dividing net earnings by the weighted average number of common shares outstanding increased by the number of dilutive potential common shares based on the treasury stock method. All earnings per share amounts for all periods presented are restated to conform with the adoption of SFAS No. 128. For fiscal years 1997, 1996 and 1995, respectively, the weighted average shares outstanding were increased by 408,000, 278,000 and 51,000 for the dilutive effect of employee stock options in calculating diluted earnings per share.

Use of Estimates

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

B

ACQUISITIONS

On January 3, 1995, the Company completed the acquisition of Bravell, Inc. ("Bravell"), a prescription benefit management company. The transaction was accounted for as a purchase, whereby the Company acquired 97% of the outstanding common stock of Bravell for approximately $17.3 million. The Company was also required to make additional payments which were contingent upon future results of Bravell's operations. In fiscal 1996, $0.7 million was paid based on the results of fiscal 1995. On April 10, 1997, the Company made a payment of approximately $8.9 million to the founders of Bravell to (i) acquire the remaining 3% of the common stock of Bravell which the Company did not acquire in January 1995, (ii) extinguish all remaining contingent payment obligations to the founders and (iii) terminate the founders' employment agreements.

On August 2, 1996, the Company completed the acquisition of CareStream Scrip Card from Avatex Corporation, formerly known as Foxmeyer Health Corporation. CareStream Scrip Card is a prescription benefit management company which has been integrated with the Company's ProVantage subsidiary. The purchase price was $30.5 million in cash, with a supplemental cash payment of between $2.5 million and $5.0 million due between six months and five years after August 2, 1996. The purchase price was funded from the Company's available cash.

On August 20, 1997, the Company acquired The Mikalix Group, Inc. and its subsidiaries ("Mikalix"), an international privately held group of companies based in Alexandria, Virginia. Mikalix's primary subsidiary is PharMark Corporation ("PharMark"), a software and database development company providing information driven strategies for optimizing medical and pharmaceutical outcomes. The purchase price for Mikalix was approximately $15.3 million, of which $13.3 million was paid in cash and $2.0 million is due over the next two years. The sellers of Mikalix may also be entitled to contingent payments of up to $8.0 million in the aggregate based on future increases in the market value of ProVantage's outstanding common stock (the "Contingent Payments"). The Contingent Payments, if any, will be due on the first to occur of August 20, 2002 and certain liquidity events related to ProVantage. The Contingent Payments may be made, at the Company's election, in either cash, Company common stock, or ProVantage common stock; provided, however, that any stock used for such payments must be traded in a public market.

On December 19, 1997, the Company bought the outstanding stock of Penn-Daniels, Incorporated ("Penn-Daniels"), a retail chain headquartered in Quincy, Illinois for approximately $16.4 million in cash and $42.5 million of assumed debt, of which approximately $21.0 million was retired at the time of the closing. The Company utilized cash and borrowings under its revolving credit facility to fund the acquisition and the retirement of a portion of Penn-Daniels' outstanding debt. The acquisition was accounted for under the purchase method of accounting. Penn-Daniels operated 18 Jacks discount stores in Iowa, Illinois and Missouri and one Lots-A-Deals close-out store in Moline, Illinois.

The allocation of the purchase prices of Bravell, CareStream Scrip Card and Mikalix were based on fair values at the dates of acquisition. The excess of the purchase prices over the fair value of the net assets acquired (goodwill) of approximately $72.0 million is being amortized on a straight-line basis over 18 to 22 years. The allocation of the purchase price of Penn-Daniels was based on estimated fair values at the date of acquisition. The estimates are based on available information and are subject to change upon completion of the appraisal process. The results of Bravell's, CareStream Scrip Card's, Mikalix's and Penn-Daniels' operations since the dates of acquisition have been included in the consolidated statement of earnings.

C

SHORT-TERM DEBT

The Company entered into a new $200.0 million revolving credit facility on July 8, 1997. The new facility effective through January 31, 2002, has terms and conditions similar to those of the prior credit agreement. The Company pays an annual facility fee of 1/5 of one percent. As of January 31, 1998 and February 22, 1997, the Company had no amounts outstanding under the current or prior agreements.

The Company also issues letters of credit during the ordinary course of business as required by foreign vendors. As of January 31, 1998 and February 22, 1997, the Company had issued letters of credit for $21.5 million and $33.4 million, respectively.

D

LONG-TERM OBLIGATIONS AND LEASES

IN THOUSANDS	Jan. 31, 1998	Feb. 22, 1997
Senior Unsecured Notes, 9.0% due November 15, 2004, less unamortized discount of $200 and $227, respectively	**$ 99,800**	$ 99,773
Senior Unsecured Notes, 8.5% due March 15, 2002, less unamortized discount of $150 and $184, respectively	**99,850**	99,816
Senior Unsecured Notes, 9.25% due March 15, 2022, less unamortized discount of $462 and $480, respectively	**99,538**	99,520
Senior Unsecured Notes, 6.5% due August 15, 2003, less unamortized discount of $154 and $182, respectively	**99,846**	99,818
Industrial Revenue Bond, 6.4% due May 1, 2008	**1,000**	1,000
Mortgage obligations	**21,304**	
Capital lease obligations	**18,961**	20,801
	440,299	420,728
Less current portion	**4,174**	2,014
Long-term obligations	**$436,125**	$418,714

The notes contain certain covenants which, among other things, restrict the ability of the Company to consolidate, merge or convey, transfer or lease its properties and assets substantially as an entirety, to create liens or to enter into sale and leaseback transactions.

The mortgage obligations represent debt collaterized by certain properties assumed in the Penn-Daniels acquisition. The interest rates on this debt range from 7.25% to 8.75% with maturities ranging from February 1999 to April 2007.

Approximate annual maturities of long-term obligations, excluding capital leases, for the five years subsequent to the year ended January 31, 1998 are as follows (in thousands):

Year	Long-Term Obligations
1998	$ 2,087
1999	3,211
2000	1,511
2001	1,642
2002	106,349
Later	306,538
Total maturities	$421,338

The underwriting and issuance costs of all the long-term obligations are being amortized over the terms of the notes using the straight-line method. At January 31, 1998 and February 22, 1997, $2.3 million and $2.6 million remained to be amortized over future periods. Amortization expense for these costs was $0.3 million in fiscal years 1997, 1996 and 1995.

The Company leases certain stores and computer equipment under capital leases. Many of these leases include renewal options, and occasionally, include options to purchase.

Amortization of property under capital leases was $2.5, $2.7 and $1.1 million in fiscal years 1997, 1996 and 1995, respectively. Minimum future obligations under capital leases in effect at January 31, 1998 are as follows (in thousands):

Year	Lease Obligations
1998	$ 3,968
1999	2,689
2000	2,492
2001	2,492
2002	2,520
Later	24,777
Total minimum future obligations	38,938
Less interest	19,977
Present value of minimum future obligations	$ 18,961

The present values of minimum future obligations shown above are calculated based on interest rates ranging from 7.4% to 13.4%, with a weighted average of 10.5%, determined to be applicable at the inception of the leases.

Interest expense on the outstanding obligations under capital leases was $2.1, $2.2 and $1.7 million in fiscal years 1997, 1996 and 1995, respectively.

Contingent rent expense, based primarily on sales performance, for capital and operating leases was $0.5 million in each of the fiscal years 1997, 1996 and 1995.

In addition to its capital leases, the Company is obligated under operating leases, primarily for land and buildings. Minimum future obligations under operating leases in effect at January 31, 1998 are as follows (in thousands):

Year	Lease Obligations
1998	$ 6,700
1999	6,618
2000	6,397
2001	5,794
2002	4,991
Later	52,987
Total minimum obligations	$ 83,487

Total minimum rental expense, net of sublease income, related to all operating leases with terms greater than one year was $5.3, $4.6 and $3.5 million in fiscal years 1997, 1996 and 1995, respectively.

Certain operating leases require payments to be made on an escalating basis. The accompanying consolidated statements of earnings reflect rent expense on a straight-line basis over the term of the leases. An obligation of $2.8 million and $1.8 million, representing pro-rata future payments, is reflected in the accompanying consolidated balance sheets at January 31, 1998 and February 22, 1997, respectively.

E

INCOME TAXES

Deferred income taxes reflect the net tax effect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Components of the Company's net deferred tax liability are as follows (in thousands):

	1997	1996
Deferred tax liabilities:		
Property and equipment	$ 26,200	$ 25,812
LIFO inventory valuation	9,800	6,518
Other	3,098	2,418
Total deferred tax liabilities	39,098	34,748
Deferred tax assets:		
Reserves and allowances	(20,620)	(15,155)
Capital leases	(2,252)	(2,033)
Total deferred tax assets	(22,872)	(17,188)
Net deferred tax liability	$ 16,226	$ 17,560

The amounts reflected in the provision for income taxes are based on applicable federal statutory rates, adjusted for permanent differences between financial and taxable income. The provision for federal and state income taxes includes the following (in thousands):

	1997	1996	1995
Current			
Federal	$27,812	$25,858	$16,163
State	5,191	4,838	3,332
General business and other tax credits	(71)		
Deferred	(1,334)	(1,620)	5,206
Total provision	$31,598	$29,076	$24,701

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

	1997	1996	1995
Statutory income tax rate	35.0%	35.0%	35.0%
State income taxes, net of federal tax benefits	4.3	4.0	4.0
Other	0.0	0.3	0.1
Effective income tax rate	39.3%	39.3%	39.1%

Provision is made for deferred income taxes and future income tax benefits applicable to temporary differences between financial and tax reporting. The sources of these differences and the effects of each are as follows (in thousands):

	1997	1996	1995
Depreciation	$ (142)	$ 3,256	$2,804
Inventory and LIFO valuation reserves	2,021	(212)	2,544
Insurance accruals and valuation reserves	(148)	(1,625)	(537)
Other property related items		(707)	117
Compensation	(1,690)	(433)	(329)
Other	(1,375)	(1,899)	607
Total deferred tax (benefit) expense	$(1,334)	$(1,620)	$5,206

Other temporary differences between financial and tax reporting include amortization and interest relating to capital leases and certain provisions for expenses which are not deducted for tax purposes until paid.

F

PREFERRED AND COMMON STOCK

The Company has 20,000,000 shares of $0.01 preferred stock authorized but unissued. There are 75,000,000 shares of $0.01 par value common stock authorized.

The Company's Stock Option Plans allow the granting of stock options to various officers, directors and other employees of the Company at prices not less than 100 percent of fair market value, determined by the closing price on the date of grant. The Company has reserved 2,400,000 and 1,200,000 shares for issuance under the 1991 and 1995 Stock Option Plans. The majority of these options vest at the rate of 40% on the second anniversary of the grant date and 20% annually thereafter for officers and employees and at the rate of 60% on the second anniversary of the date of grant and 20% annually thereafter for non-employee directors. All stock options vest immediately upon a change of control. Changes in the options are as follows (shares/options in thousands):

	Shares	Price Range	Weighted Average Exercise Price
Outstanding, Feb. 25, 1995	1,936	$10.00 – $16.25	$13.54
Granted	576	10.50 – 10.75	10.64
Canceled and forfeited	(139)	10.00 – 16.25	(13.77)
Outstanding, Feb. 24, 1996	2,373	10.00 – 16.25	12.82
Granted	542	10.63 – 16.25	11.59
Exercised	(97)	10.00 – 15.00	(12.91)
Canceled and forfeited	(182)	10.00 – 16.25	(11.84)
Outstanding, Feb. 22, 1997	2,636	10.00 – 16.25	12.63
Granted	1,233	17.88 – 28.69	21.45
Exercised	(783)	10.00 – 16.25	(13.98)
Canceled and forfeited	(790)	10.00 – 24.56	(11.41)
Outstanding, Jan. 31, 1998	**2,296**	**$10.00–$28.69**	**$17.32**

	Options Exercisable	Weighted Average Exercise Price
January 31, 1998	**741**	**$13.39**
February 22, 1997	1,305	14.14
February 24, 1996	1,062	14.39

The following tables summarize information about stock options outstanding at January 31, 1998 (shares in thousands):

	Options Outstanding		
Range of Exercise Prices	Shares Outstanding at Jan. 31, 1998	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price
$10.00 to $14.00	547	6.8 years	$10.58
$14.01 to $18.00	754	5.7	15.80
$18.01 to $28.69	995	9.5	22.18
$10.00 to $28.69	2,296	7.6	$17.32

	Options Exercisable	
Range of Exercise Prices	Shares Exercisable at Jan. 31, 1998	Weighted Average Exercise Price
$10.00 to $14.00	276	$10.60
$14.01 to $18.00	465	15.04
$18.01 to $28.69		
$10.00 to $28.69	741	$13.39

The Company has adopted the disclosure-only provisions of SFAS No. 123, "Accounting for Stock-Based Compensation." Accordingly, no compensation cost has been recognized for the Company's stock option plans. If the Company had elected to recognize compensation cost based on the fair value of the options granted at grant date as prescribed by SFAS No. 123, net earnings and diluted net earnings per common share would have been reduced to the proforma amounts indicated below:

	1997	1996
Net earnings (in thousands)		
As reported	**$48,845**	$44,946
Proforma	**48,325**	44,228
Diluted net earnings per common share		
As reported	**$ 1.71**	$ 1.39
Proforma	**1.69**	1.37

The weighted average fair value of options granted was $7.35 per share in fiscal 1997 and $3.04 per share in fiscal 1996.

The fair value of stock options used to compute proforma net earnings and diluted net earnings per common share disclosures is the estimated present value at grant date using the Black-Scholes option-pricing model with weighted average assumptions as follows:

	1997	1996
Risk-free interest rate	**7.0%**	7.0%
Expected volatility	**35.0%**	29.0%
Dividend yield	**0.0%**	0.0%
Expected option life, standard option	**2.0 to 5.0 years**	5.0 years
Expected option life, performance vested option		2.5 years

In fiscal 1993, the Company adopted a Restricted Stock Plan which provides awards of up to 200,000 shares of common stock to key employees of the Company. Plan participants are entitled to cash dividends and to vote their respective shares. Restrictions limit the sale or transfer of the shares during a restricted period. There were 75,000 and 70,000 shares of restricted stock outstanding at January 31, 1998 and February 22, 1997, respectively.

G

EMPLOYEE BENEFITS

Substantially all employees of the Company are covered by a defined contribution profit sharing plan. The plan provides for two types of company contributions; an amount determined annually by the Board of Directors and an employer matching contribution equal to one-half of the first 6 percent of compensation contributed by participating employees. Contributions were $12.8, $11.8 and $7.7 million for fiscal years 1997, 1996 and 1995, respectively.

The Company also has change of control severance agreements with certain key officers. Under these agreements, the officers are entitled to a lump-sum cash payment equal to a multiple of one, two or three times their annual salary plus a multiple of one, two or three times their average annual bonus for the three fiscal years immediately preceding the date of termination, if, within two years after a "change of control" (as defined in such agreements) the Company terminates the individual's employment without cause.

In accordance with SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions," the Company accrues the estimated cost of retiree benefits, other than pensions, during employees' credited service period. The net periodic costs for postretirement benefits include the following (in thousands):

	1997	1996	1995
Service cost for benefits accumulated during the year	**$130**	$ 98	$ 98
Interest cost on accumulated benefit obligation	**138**	95	96
Net periodic postretirement benefit cost	**$268**	$193	$194

The Company's postretirement health care plans currently are not funded. The accumulated postretirement benefit obligations are as follows (in thousands):

	Jan. 31, 1998	Feb. 22, 1997
Retirees	**$ 343**	$ 423
Active plan participants	**1,842**	1,163
Unrecognized net (loss)	**(425)**	
Total accumulated postretirement obligations	**$1,760**	$1,586

The assumed discount rate used in determining the accumulated postretirement benefit obligation was 7.0% as of January 31, 1998 and 7.3% as of February 22, 1997.

The assumed health care cost trend rate used in measuring the accumulated postretirement benefit obligation was 8.3% for fiscal 1997 decreasing each successive year until it reaches 5.5% in fiscal 2015 after which it remains constant. A 1% increase in the healthcare trend rate would have an immaterial effect on the accumulated postretirement benefit obligation at the end of fiscal 1997 and fiscal 1996 and on the net periodic cost for the fiscal years.

H

FAIR VALUES OF FINANCIAL INSTRUMENTS

The following disclosure is made in accordance with the requirements of SFAS No. 107, "Disclosures about Fair Value of Financial Instruments." The following methods and assumptions were used by the Company in estimating its fair value disclosures for financial instruments.

Short-term debt and long-term obligations: The carrying amounts, if any, of the Company's borrowings under its short-term revolving credit agreement approximate their fair value. The fair values of the Company's long-term obligations are estimated using discounted cash flow analysis based on interest rates that are currently available to the Company for issuance of debt with similar terms and remaining maturities.

The carrying amounts and fair values of the Company's financial instruments at January 31, 1998 are as follows (amounts in thousands):

	Carrying Amount	Fair Value
Long-term obligations:		
Senior Unsecured Notes, due November 15, 2004	$ 99,800	$113,101
Senior Unsecured Notes, due March 15, 2002	99,850	107,680
Senior Unsecured Notes, due March 15, 2022	99,538	122,868
Senior Unsecured Notes, due August 15, 2003	99,846	100,509
Industrial Revenue Bond, due May 1, 2008	1,000	1,000
Mortgage obligations	21,304	21,112
Capital lease obligations	18,961	21,733

Notes to Consolidated Financial Statements

ShopKo Stores, Inc. and Subsidiaries

I

UNAUDITED QUARTERLY FINANCIAL INFORMATION

Unaudited quarterly financial information is as follows:

IN THOUSANDS, EXCEPT PER SHARE DATA	FISCAL YEAR (49 WEEKS) ENDED JANUARY 31, 1998				
	First (16 Weeks)	**Second (12 Weeks)**	**Third (12 Weeks)**	**Fourth (9 Weeks)**	**Year (49 Weeks)**
Net sales	**$719,968**	**$546,106**	**$608,389**	**$573,384**	**$2,447,847**
Gross margins	**163,583**	**119,852**	**138,143**	**142,378**	**563,956**
Net earnings	**7,238**	**4,173**	**11,912**	**25,522**	**48,845**
Basic net earnings per common share	**0.22**	**0.15**	**0.46**	**0.99**	**1.73**
Weighted average shares	**32,240**	**26,975**	**25,718**	**25,749**	**28,161**
Diluted net earnings per common share	**0.22**	**0.15**	**0.45**	**0.98**	**1.71**
Adjusted weighted average shares	**32,767**	**27,831**	**26,468**	**26,086**	**28,569**
Dividends declared per common share					
Price range per common share*	**26¾–14½**	**29¾–25½**	**28 11/16–21**	**25⅝–19¼**	**29¾–14½**

	FISCAL YEAR (52 WEEKS) ENDED FEBRUARY 22, 1997				
	First (16 Weeks)	Second (12 Weeks)	Third (12 Weeks)	Fourth (12 Weeks)	Year (52 Weeks)
Net sales	$ 610,911	$ 498,517	$ 591,208	$ 632,771	$ 2,333,407
Gross margins	146,391	112,974	131,258	159,043	549,666
Net earnings	5,759	3,922	10,936	24,329	44,946
Basic net earnings per common share	0.18	0.12	0.34	0.76	1.40
Weighted average shares	32,020	32,052	32,073	32,092	32,092
Diluted net earnings per common share	0.18	0.12	0.34	0.75	1.39
Adjusted weighted average shares	32,431	32,472	32,413	32,370	32,370
Dividends declared per common share	0.11	0.11			0.22
Price range per common share*	16½–11¼	16¼–13½	16⅛–15	16⅛–14⅝	16½–11¼

*Price range per common share reflects the highest and lowest stock market prices on the New York Stock Exchange during each quarter.

J

SIGNIFICANT EVENTS

Termination of Combination

On September 7, 1996, the Company entered into a Plan of Reorganization with Phar-Mor, Inc. ("Phar-Mor") and Cabot Noble, Inc. ("Cabot Noble"). Pursuant to the Plan of Reorganization, the Company and Phar-Mor would have become subsidiaries of Cabot Noble. On April 2, 1997, the Company, Cabot Noble and Phar-Mor mutually agreed to terminate this planned business combination. The Company recorded a one-time pre-tax charge of approximately $2.8 million ($0.06 per share) during the first quarter of fiscal 1997 to cover costs associated with the terminated business combination.

Common Stock Buyback and Secondary Offering

On April 24, 1997, the Company and Supervalu Inc. ("Supervalu") entered into an agreement pursuant to which Supervalu exited its 46% investment in the Company. Under the terms of the agreement, the companies completed two simultaneous transactions. The first transaction was a $150.0 million stock buyback, whereby the Company repurchased 8,174,387 shares of its common stock held by Supervalu for $18.35 per share. The second transaction was a secondary public offering of Supervalu's remaining 6,557,280 shares of the Company's common stock and 983,592 additional shares which were issued by the Company to cover over-allotments. The secondary offering was priced at $25.00 per share on June 26, 1997. The stock buyback and secondary offering were completed on July 2, 1997. The Company received $23.4 million proceeds from the sale of the over-allotment shares. Supervalu paid the underwriting discount for the shares it sold and certain other expenses related to the secondary offering.

K

BUSINESS SEGMENT INFORMATION

The Company has two business segments: a Retail Store segment (which includes general merchandise, retail pharmacy and retail optical operations) and a ProVantage segment (which includes prescription benefit management, mail service pharmacy, vision benefit management and health information technology). Information about the Company's operations in the different businesses is as follows (in thousands):

	FISCAL YEARS		
	1997	1996	1995
Net Sales			
Retail Store	**$2,001,568**	$2,005,731	$1,881,038
ProVantage	**472,215**	348,780	93,845
Intercompany*	**(25,936)**	(21,104)	(6,867)
Total net sales	**$2,447,847**	$2,333,407	$1,968,016
Earnings Before Income Taxes			
Retail Store	**$ 127,269**	$ 113,683	$ 107,216
ProVantage	**12,664**	9,533	2,713
Corporate	**(28,908)**	(17,417)	(12,507)
Interest expense	**(30,582)**	(31,777)	(34,282)
Earnings before income taxes	**$ 80,443**	$ 74,022	$ 63,140
Assets			
Retail Store	**$1,051,875**	$ 985,374	$ 991,285
ProVantage	**143,308**	123,847	38,981
Corporate	**55,652**	124,671	87,694
Total assets	**$1,250,835**	$1,233,892	$1,117,960
Depreciation and Amortization Expenses			
Retail Store	**$ 53,245**	$ 57,036	$ 54,982
ProVantage	**4,641**	2,312	1,009
Corporate	**366**	485	392
Total depreciation and amortization expenses	**$ 58,252**	$ 59,833	$ 56,383
Capital Expenditures			
Retail Store	**$ 27,762**	$ 34,258	$ 51,915
ProVantage	**3,514**	2,953	136
Corporate	**727**	1,688	961
Total capital expenditures	**$ 32,003**	$ 38,899	$ 53,012

*Intercompany sales consist of prescriptions that were both sold at a ShopKo pharmacy and processed by ProVantage.

Independent Auditors' Report

To the Board of Directors and Shareholders
ShopKo Stores, Inc.:

We have audited the consolidated balance sheets of ShopKo Stores, Inc. and subsidiaries as of January 31, 1998 and February 22, 1997 and the related consolidated statements of earnings, shareholders' equity and cash flows for the year (49 weeks) ended January 31, 1998 and for each of the two years (52 weeks) in the period ended February 22, 1997. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements 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 ShopKo Stores, Inc. and subsidiaries as of January 31, 1998 and February 22, 1997, and the results of their operations and their cash flows for the year (49 weeks) ended January 31, 1998 and for each of the two years (52 weeks) in the period ended February 22, 1997 in conformity with generally accepted accounting principles.

DELOITTE & TOUCHE LLP
Milwaukee, Wisconsin
March 12, 1998

Shareholders' Information

ShopKo Stores, Inc. common shares are listed on the New York Stock Exchange under the symbol "SKO" and in newspapers as "ShopKo." As of March 20, 1998, ShopKo's common shares were held by 1,030 record shareholders.

Transfer Agent and Registrar

For help with questions regarding lost, stolen or destroyed stock certificates, consolidation of accounts, transferring of shares and name and address changes, call Norwest Shareowner Services at 1-800-468-9716.

1998 Annual Meeting

The annual meeting of shareholders will be held May 13, 1998 at 10 a.m. at the Best Western Midway Hotel, 780 Packer Drive, Green Bay, Wisconsin.

Investor Relations/Form 10-K

A copy of the Company's 1997 Form 10-K annual report to the Securities and Exchange Commission will be furnished without charge to any shareholder upon written request. Written requests should be directed to: Investor Relations Department
ShopKo Stores, Inc.
P.O. Box 19060
Green Bay, WI 54307-9060

You can reach ShopKo via the Internet at www.shopko.com

BOARD OF DIRECTORS

Dale P. Kramer
Chairman of the Board, President and Chief Executive Officer of ShopKo Stores, Inc.

William J. Podany
President and Chief Operating Officer of ShopKo Retail Stores and Executive Vice President of ShopKo Stores, Inc.

Jack W. Eugster
Chairman, President and Chief Executive Officer of The Musicland Group, Inc.

Jeffrey C. Girard
Girard & Co.

James L. Reinertsen, M.D.
Chief Executive Officer of HealthSystem Minnesota

William J. Tyrrell
Former President of ShopKo Stores, Inc.

Stephen E. Watson
President and Chief Executive Officer Gander Mountain, L.L.C.

From Left to Right: James L. Reinertsen, M.D., William J. Tyrrell, William J. Podany, Jack W. Eugster, Dale P. Kramer, Jeffrey C. Girard, Stephen E. Watson

OFFICERS

ShopKo Stores, Inc.

Dale P. Kramer
Chairman of the Board, President and Chief Executive Officer

Gregory S. Ahmann
Vice President, Retail Pharmacy Operations

James B. Alvord
Vice President, Divisional Merchandise Manager

George P. Antoon
Vice President, Divisional Merchandise Manager

Michael J. Bettiga
Senior Vice President and General Merchandise Manager Retail Health Services

Bonnie C. Bolton
Vice President, Advertising

Paul A. Burrows
Senior Vice President and Chief Information Officer

Donald A. Bye
Vice President, Retail Optical Operations

Oscar R. Cavazos
Vice President, Divisional Merchandise Manager

Roger J. Chustz, Jr.
Senior Vice President, General Merchandise Manager, Apparel

Richard W. Cooper
Vice President, Distribution and Transportation

Richard F. Danen
Vice President and Treasurer

John J. Dembinski
Vice President, Replenishment

Rose A. Downs
Regional Vice President

Steven T. Harig
Senior Vice President, Planning, Replenishment and Analysis, Distribution and Transportation

Thomas D. Hendra
Vice President, Data Mining and Outside Information Services

Gary A. Hillermann
Senior Vice President, General Merchandise Manager, Hardlines

Michael J. Hopkins
Senior Vice President, General Merchandise Manager, Home

Gary M. Jones
Vice President, Divisional Merchandise Manager

Jeffrey A. Jones
Senior Vice President and Chief Financial Officer

Ingrid A. King
Regional Vice President

Gene M. Klawikowski
Vice President, Systems Development

Richard T. Laucks
Vice President, Loss Prevention and Administration

Rodney D. Lawrence
Senior Vice President, Store Marketing/ Store Planning

David A. Liebergen
Senior Vice President, Human Resources, Legal Affairs and Internal Communication

L. Terry McDonald
Senior Vice President, Marketing

Raymond L. Pash
Vice President, Divisional Merchandise Manager

William J. Podany
President and Chief Operating Officer, ShopKo Retail Stores and Executive Vice President, ShopKo Stores, Inc.

Phyllis J. Proffer
Vice President, Strategic Planning and Investor Relations

Randy L. Roiko
Vice President, Merchandise Planning and Analysis

Dennis R. Ruebel
Vice President, Divisional Merchandise Manager, Retail Health Services

Richard D. Schepp
Senior Vice President, General Counsel and Secretary

Robert S. Segal
Vice President, Divisional Merchandise Manager

Jeffery R. Simons
Vice President and Controller

Jean R. Srour
Vice President, Divisional Merchandise Manager

Katherine W. Steirly
Vice President, Divisional Merchandise Manager

Larry J. Vick
Vice President, Divisional Merchandise Manager

ProVantage, Inc.

George M. Barlow
General Manager, ProVmed

A. Robert Bloom
Vice President and Controller, PharMark

Joseph A. Coffini
Vice President, Managed Care Services

Peter F. Hoffman, M.D., Ph.D.
Vice President and Chief Medical Officer, PharMark

Jeffrey A. Jones
Executive Vice President and Chief Operating Officer

Thomas J. Knapp
Vice President and Chief Information Officer

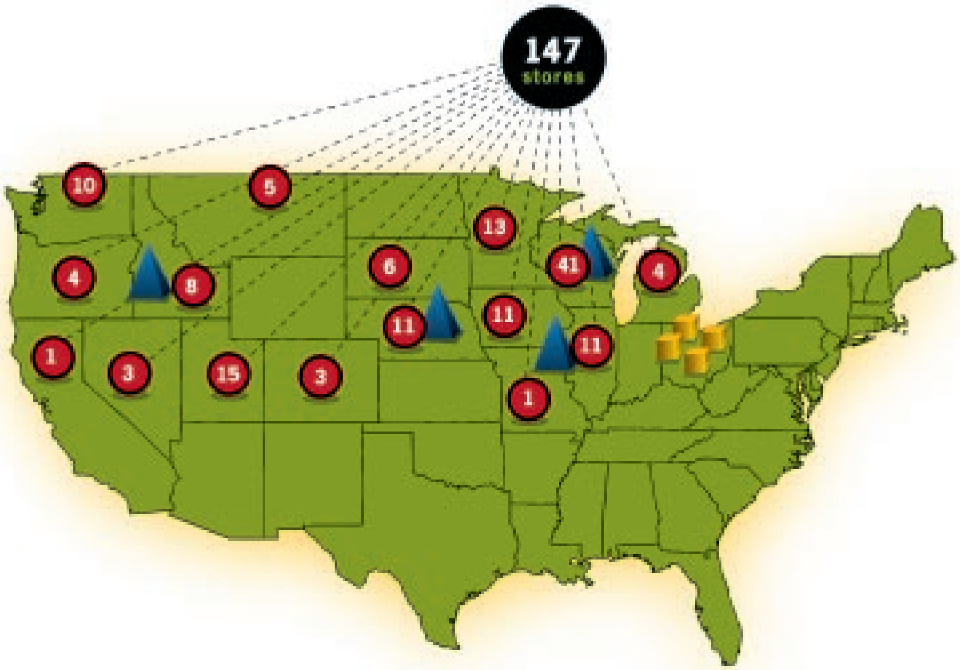
Jane Koontz
Vice President, Human Resources

Glen C. Laschober
Executive Vice President

Aida A. LeRoy
Executive Vice President, PharMark

M. Lee Morse
President, PharMark

Matthew J. Zirpoli
Vice President, Sales



SHOPKO RETAIL STORES

DISTRIBUTION CENTERS

VISION ADVANTAGE STORES

PROVantage
serves clients in all 50 states as well as England and Germany

STORE LOCATIONS

California 1
Redding

Colorado 3
Fort Collins
Longmont
Loveland

Idaho 8
Boise (2)
Chubbuck
Coeur d'Alene
Idaho Falls
Lewiston
Nampa
Twin Falls

Illinois 11
Belvidere
Dixon
Freeport
Galesburg
Jacksonville
Macomb
Monmouth
Pekin
Quincy
Springfield (2)

Iowa 11
Bettendorf
Burlington
Cedar Rapids (2)
Clinton
Fort Madison
Keokuk
Mason City
Muscatine
Sioux City
Spencer

Michigan 4
Escanaba
Houghton
Kingsford
Marquette

Minnesota 13
Albert Lea
Austin
Duluth
Fairmont
Hutchinson
Mankato
Marshall
Rochester (2)
St. Cloud (2)
Winona
Worthington

Missouri 1
Hannibal

Montana 5
Billings
Great Falls
Helena
Kalispell
Missoula

Nebraska 11
Bellevue
Grand Island
Hastings
Lincoln (2)
Norfolk
North Platte
Omaha (4)

Nevada 3
Reno (2)
Sparks

Oregon 4
Bend
Eugene (2)
Salem

South Dakota 6
Aberdeen
Mitchell
Rapid City
Sioux Falls (2)
Watertown

Utah 15
Brigham City
Layton
Logan
Murray
Ogden
Orem
Provo
Riverdale
Salt Lake City (2)
Sandy City
Spanish Fork
West Bountiful
West Jordan
West Valley City

Washington 10
Kennewick
Lacey
Pullman
Spokane (3)
Union Gap
Walla Walla
Wenatchee
Yakima

Wisconsin 41
Appleton
Ashwaubenon
Beaver Dam
Beloit
Chippewa Falls
Delavan
De Pere
Eau Claire
Fond du Lac
Fort Atkinson
Grafton
Green Bay (2)
Janesville
Kenosha
Kimberly
La Crosse (2)
Madison (3)
Manitowoc
Marinette
Marshfield
Menasha
Monona
Monroe
Neenah
Onalaska
Oshkosh
Racine
Rice Lake
River Falls
Rothschild
Sheboygan
Stevens Point (2)
Watertown
Wausau
West Bend
Wisconsin Rapids

Vision Advantage Locations (4)
Ohio:
Akron
Cuyahoga Falls
Lima
Mansfield

Distribution Centers (4)
Boise, ID
De Pere, WI
Omaha, NE
Quincy, IL

700 Pilgrim Way, P.O. Box 19060, Green Bay, WI 54307-9060 920.497-2211

ShopKo STORES INC.