

ShopKo and Pamida Locations

SHOPKO

- CALIFORNIA (1)  
Redding
- COLORADO (3)  
Fort Collins  
Longmont  
Loveland
- IDAHO (9)  
Boise (2)  
Chubbuck  
Coeur D'Alene  
Idaho Falls  
Lewiston  
Meridian  
Nampa  
Twin Falls
- ILLINOIS (15)  
Belvidere  
Dixon  
East Peoria  
Freeport  
Galesburg  
Jacksonville  
Macomb  
Moline  
Monmouth  
Pekin  
Peoria  
Quincy  
Rockford  
Springfield (2)
- INDIANA (2)  
Evansville (2)
- IOWA (13)  
Bettendorf  
Burlington  
Cedar Rapids (2)  
Clinton  
Coralville  
Dubuque  
Fort Madison  
Keokuk  
Mason City  
Muscatine  
Sioux City  
Spencer
- KANSAS (2)  
Wichita (2)
- KENTUCKY (1)  
Paducah
- MICHIGAN (4)  
Escanaba  
Houghton  
Kingsford  
Marquette
- MINNESOTA (13)  
Albert Lea  
Austin  
Duluth  
Fairmont  
Hutchinson  
Mankato  
Marshall  
Rochester (2)  
St. Cloud (2)  
Winona  
Worthington
- MISSOURI (3)  
Cape Girardeau  
Hannibal  
Joplin
- MONTANA (5)  
Billings  
Great Falls  
Helena  
Kalispell  
Missoula
- NEBRASKA (13)  
Bellevue  
Grand Island  
Hastings  
Lincoln (4)  
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 (42)  
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  
Plover  
Racine  
Rhineland  
Rice Lake  
River Falls

PAMIDA

- ILLINOIS (8)  
Dixon  
Havana  
Hoopeston  
Monticello  
Mount Carmel  
Savanna  
Sullivan  
Tuscola
- INDIANA (8)  
Attica  
Batesville  
Bloomfield  
Loogootee  
Petersburg  
Rockville  
Salem  
Syracuse
- IOWA (27)  
Albia  
Atlantic  
Chariton  
Clarinda  
Cresco  
Dyersville  
Estherville  
Forest City  
Hampton  
Harlan  
Hawarden  
Humboldt  
Ida Grove  
Jefferson  
Knoxville  
Leon  
New Hampton  
Oelwein  
Onawa  
Osceola  
Perry  
Red Oak  
Sheldon  
Toledo
- KANSAS (2)  
Clay Center  
Norton
- KENTUCKY (10)  
Brandenburg  
Carrollton  
Hodgenville  
Liberty  
Louisa  
Morgantown  
Munfordville  
Scottsville  
West Liberty  
Whitley City
- MICHIGAN (14)  
Calumet  
Chelsea  
Clio  
Gladwin  
Imlay City  
Iron River  
Ironwood  
Ishpeming  
Manistique  
Sparta  
Standish  
Tecumseh  
Wetmore  
Whitehall
- MINNESOTA (27)  
Aitkin  
Bemidji  
Benson  
Crookston  
Detroit Lakes  
East Grand Forks  
Ely  
Fergus Falls  
Glencoe  
Glenwood  
Hibbing  
Litchfield  
Luverne  
Mora  
Morris  
Ortonville  
Park Rapids  
Perham  
Pine City
- MISSOURI (1)  
Trenton
- MONTANA (6)  
Glasgow  
Lewiston  
Libby  
Livingston  
Shelby  
Sidney
- NEBRASKA (15)  
Alliance  
Auburn  
Beatrice  
Blair  
Crete  
Falls City  
Holdrege  
Nebraska City  
Ogallala  
Plattsmouth  
Seward  
Sidney  
Superior  
Wayne  
York
- NORTH DAKOTA (7)  
Beulah  
Bottineau  
Cavalier  
Grafton  
Rugby  
Valley City  
Wahpeton
- OHIO (15)  
Archbold  
Bellevue  
Columbiana  
Galion  
Greenfield  
Georgetown  
Minerva  
Montpelier  
Mt. Gilead  
New Lexington
- NEWTON FALLS  
Pomeroy  
Upper Sandusky  
Willard  
Woodsfield
- SOUTH DAKOTA (6)  
Belle Fourche  
Hot Springs  
Madison  
Sturgis  
Vermillion  
Winner
- TENNESSEE (1)  
Smithville
- WISCONSIN (15)  
Abbotsford  
Adams  
Ashland  
Clintonville  
Eagle River  
Hayward  
Ladysmith  
Lancaster  
Neillsville  
New Richmond  
Park Falls  
Reedsburg  
Spooner  
Waupun  
Wautoma
- WYOMING (9)  
Douglas  
Green River  
Lander  
Newcastle  
Powell  
Rawlins  
Torrington  
Wheatland  
Worland





Business Description

ShopKo Stores, Inc., a Fortune 500 Company headquartered in Green Bay, Wisconsin, is a customer-driven provider of high quality goods and services in two very unique market environments; mid-size to larger cities like Omaha, Nebraska and Salt Lake City, Utah and the smaller communities of rural America like Lancaster, Wisconsin. Our retail operations include 317 stores in 22 states. 160 stores are operated as ShopKo stores and another 157 as Pamida stores in over 250 cities and towns throughout the Midwest, Western Mountain and Pacific Northwest.

ShopKo

ShopKo is a customer lifestyle-driven specialty discount retailer located primarily in mid-sized and larger communities. We differentiate ourselves by focusing on dominating targeted categories of business through assortment, marketing, merchandising and store presentation. We are redefining value as more than just price and product. We are committed to offering a pleasant, friendly, easy, convenient and highly satisfying shopping experience to our time-compressed customer.

Pamida

Serving smaller and more rural populations, Pamida is a general merchandise discount store format with hard goods, apparel, pantry items and pharmacy capabilities. Currently located in over 157 locations, Pamida, a 1999 acquisition, virtually doubled the number of stores operated in similar regions to ShopKo with only one store in an overlapping market.

ProVantage

ShopKo maintains a 64.5% ownership stake in ProVantage, a leading health benefits management company providing prescription benefit management (PBM) and health care technology services to its clients. The ProVantage goal is to be the leading third-party supplier of services and products designed to optimize the quality and minimize the cost of healthcare services.

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ShopKo: Sandy, Utah

### Board of Directors

<b>Stephen E. Watson</b> President, Chief Executive Officer of Gander Mountain, L.L.C.	<b>Dale P. Kramer</b> Former Chairman, President and CEO of ShopKo Stores, Inc.	<b>William J. Podany</b> Chairman, President and Chief Executive Officer, ShopKo Stores, Inc.	<b>John G. Turner</b> Chairman, Chief Executive Officer, ReliaStar Financial
<b>Jack W. Eugster</b> Chairman, President and Chief Executive Officer of the Musicland Group, Inc.	<b>Gregory H. Wolf</b> Chairman and Chief Executive Officer of nextTHR.com	<b>Jeffrey C. Girard</b> Girard & Co.	

From Left to Right: Stephen E. Watson, Jack W. Eugster, Dale P. Kramer, Gregory H. Wolf, William J. Podany, Jeffrey C. Girard, John G. Turner

### Executive Officers and Members of ShopKo Executive and Operating Committees

Richard M. Ausick, Sr. Vice President, General Merchandise Manager

Michael J. Bettiga, Sr. Vice President, Stores/Retail Health Operations

Paul A. Burrows, Sr. Vice President, Information Services and Chief Information Officer

Roger J. Chustz, Sr. Vice President, General Merchandise Manager, Apparel and Product Development

Dennis C. Folz, Sr. Vice President, Human Resources

Paul H. Freischlag, Jr.,<sup>(1)</sup> Sr. Vice President and Chief Financial Officer

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

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

Michael J. Hopkins,<sup>(1)</sup> President, Pamida

Rodney D. Lawrence, Sr. Vice President, Store Planning, Construction, Real Estate, and Store Marketing

L. Terry McDonald, Sr. Vice President, Marketing and Communications

William J. Podany,<sup>(1)</sup> Chairman, President and CEO of ShopKo Stores, Inc. Chairman, ShopKo Executive, Operating and President's Review Committees

Chairman, ProVantage Health Services, Inc. Chairman, ProVantage Executive Committee

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

<sup>(1)</sup> Member, President's Review Committee

In Memory of William Tyrrell

The Board of Directors, management and associates of ShopKo lost a long time friend, mentor and supporter in the passing this spring of William Tyrrell.

Bill was the president and CEO of the organization from 1973 to 1991 and a valued member of the board of directors for over 25 years. During his tenure the company saw tremendous growth and development and we all will miss his insights, dedication and supportive involvement.

## financial highlights

ShopKo Stores, Inc. and Subsidiaries

	Fiscal Years Ended	
	January 29, 2000 (52 weeks)	January 30, 1999 (52 weeks)
<i>(In thousands, except per share data)</i>		
Consolidated Net Sales	<b>\$ 3,898,090</b>	\$ 2,958,557
Net Earnings	<b>\$ 102,180</b>	\$ 55,636
Basic Earnings per Common Share		
Before Extraordinary Item	<b>\$ 3.75</b>	\$ 2.14
Extraordinary Loss on Retirement of Debt	<b>(0.13)</b>	
Basic Net Earnings per Common Share	<b>\$ 3.62</b>	\$ 2.14
Diluted Earnings per Common Share		
Before Extraordinary Item	<b>\$ 3.70</b>	\$ 2.10
Extraordinary Loss on Retirement of Debt	<b>(0.13)</b>	
Diluted Net Earnings per Common Share	<b>\$ 3.57</b>	\$ 2.10
Weighted Average Number of		
Common Shares Outstanding	<b>28,237</b>	26,035
Adjusted Weighted Averaged Number of		
Common Shares Outstanding	<b>28,595</b>	26,517

### Business Segment Information

	Fiscal Years Ended	
	January 29, 2000 (52 weeks)	January 30, 1999 (52 weeks)
<i>(In thousands)</i>		
Consolidated Net Sales		
ShopKo Retail	<b>\$ 2,606,883</b>	\$ 2,351,183
Pamida Retail	<b>441,187</b>	
ProVantage	<b>902,390</b>	643,260
Intercompany	<b>(52,370)</b>	(35,886)
Total Net Sales	<b>\$ 3,898,090</b>	\$ 2,958,557
Income From Operations		
ShopKo Retail	<b>\$ 159,084</b>	\$ 140,763
Pamida Retail	<b>21,467</b>	
ProVantage	<b>18,384</b>	16,160
Corporate	<b>(28,582)</b>	(26,985)
Income from Operations	<b>170,353</b>	129,938
Net Interest Expense	<b>(46,894)</b>	(38,311)
Gain on Sale of ProVantage Stock	<b>56,760</b>	
Provision for Income Taxes	<b>(71,800)</b>	(35,991)
Minority Interest	<b>(2,463)</b>	
Extraordinary Loss on Retirement		
of Debt, Net of Income Taxes of \$2,443	<b>\$ (3,776)</b>	
Net Earnings	<b>\$ 102,180</b>	\$ 55,636

See accompanying financial statements.



ShopKo Stores, Inc. operates 160 ShopKo stores and 157 Pamida stores throughout the Midwest, Western Mountain and Pacific Northwest regions of the country. Pamida, a 1999 acquisition, virtually doubled the number of stores operated in similar geographic regions with only one market overlap. ProVantage serves clients in all 50 States.



# Letter From The President

## The Bottom Line: Growth



The true measure of performance is that promises made are promises kept. In 1999, your company met or exceeded all of the promises we made for delivering high performance results. For more than ten consecutive years we have achieved new records for revenues and this year are pleased to report another year of record earnings. That these new

records have been achieved is impressive, but even more exciting is that they are being achieved consistently, year after year. This is a truly significant indicator of the validity of our vision, the strength of our management team to execute that vision and our commitment to growth.

Our consolidated sales rose 31.8%, to \$3.9 billion, and diluted earnings per common share before special charges, the gain on the sale of ProVantage stock, and extraordinary charges are up 19.7% to \$2.67. Same store sales were up 6.2%, after rising 5.7% in 1998.

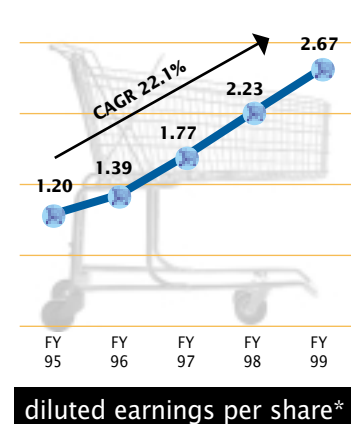
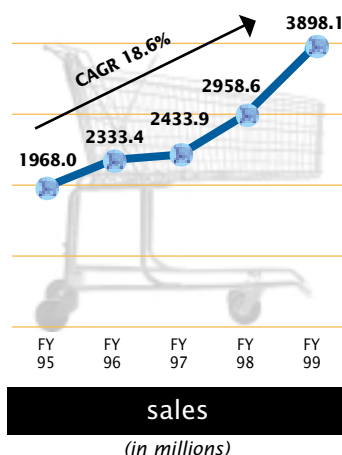
Our acquisition of the Pamida chain literally doubled the number of stores under our management. Not only did we

add these new stores and achieve \$7.0 million in synergies this year, but are confident we will achieve synergies in the \$15.0 - \$20.0 million range next year and approximately \$20.0 million in 2001. Ultimately however, what we have accomplished is to secure bright new opportunities for future growth. We launched the successful initial public offering (IPO) of ProVantage, our health benefit management company, receiving \$106.0 million in proceeds, while retaining a 64.5% ownership interest. The ProVantage organization is growing rapidly and on the leading edge of information, knowledge and decision-making capabilities needed to provide our society with better healthcare at a reduced cost.

We completed a smooth, orderly transition of management from our previous CEO, Dale Kramer, who spent his career building this organization and to whom I am grateful for the considerable mentoring. Together we created a vision to differentiate, operate and grow the organization. I am completely committed to continuing the planning process we developed and successfully executing our vision at a high performance level. We successfully accomplished many of our strategic initiatives and delivered on our promise to produce results, including the acquisition of Pamida, the ProVantage IPO, our secondary stock offering and the integration of Payless ShoeSource into our stores.

And while we have had many successes throughout the year, we certainly acknowledge our disappointment in

***Our sales rose 31.8%, to \$3.9 billion and earnings per share are up 19.7% to \$2.67.***



\*Before special charges, the gain on the sale of ProVantage stock and extraordinary charges.



our stock price. The discount retail sector is clearly out of favor in the current market. By all investment fundamentals we should be valued substantially greater than the market price of our stock. Unfortunately, many of the factors that create market conditions are beyond our control. We can only continue to remain focused on the areas in which we can have meaningful impact on our growth and ultimately our value. With the outstanding performance that your company has produced this year, we believe we are well-poised to take advantage of a shift in the market that will favor value-based discount retail stocks.

Your entire management team, along with each and every teammate, has worked hard and smart to build value in the brand and deliver a rewarding shopping experience for our customers. But our work is not done. We are on the right path, have the right people and have an operating model that is working well. The challenge is to keep our model fresh and current with the fast pace and ever-changing demands of our customers.

I must thank our entire organization for their drive, initiative and stamina that has built us into an aggressive, highly respected discount retailer. It was their performance that allowed me to be named *Discount Merchandiser* magazine's Retail Executive of the Year. It is a prestigious honor to be chosen by my peers in the industry for this recognition.

We continue to build and consolidate our supplier relationships and to recruit and train people with winning, high-performance attitudes. We are committed to outperforming our competition, as well as the marketplace in general, to achieve the kinds of results that meet and exceed expectations.

Determined to be more than just financially successful, we also strive to be good corporate citizens, helping others to reach their goals as well. Together with our supplier partners and associates, this year we have raised and donated over \$4.0 million to benefit the charitable organizations in the communities where we operate. One stellar example, we have again sponsored what has become the world's largest charity golf outing, raising more than \$2.0 million to benefit Special Olympics organizations in the 19 states where ShopKo does business.

We sincerely appreciate the faith and support shown by our investors, the commitment of our supplier partners, and the talent and enthusiasm of our dedicated managers and teammates. We assure you that your partnership is the foundation upon which ShopKo will continue to grow.



William J. Podany,  
Chairman, President and CEO, ShopKo Stores, Inc.

In September, after a successful completion of the ProVantage IPO, the Pamida acquisition, a secondary stock offering and having just been named to the Fortune 500, the New York Stock Exchange invited ShopKo to preside over the daily closing of the exchange. We also took the opportunity to meet with the investment community to educate them on the many exciting opportunities that ShopKo is undertaking and successfully managing.



William Podany, Chairman, President and CEO of ShopKo and William R. Johnston, President of the New York Stock Exchange along with members of the ShopKo management team officially close the trading day on September 21, 1999.



## Customer-Lifestyle-Driven

Activewear: ShopKo; Dubuque, Iowa

*Our activewear shoe and apparel merchandising capitalizes on the brand awareness of top flight companies such as Nike,*

**Growth.** It's all about growth. Growth in sales, growth in earnings, growth in number of stores, growth in customer satisfaction, growth in marketbasket size and growth in shareholder value.

For the last 10 years we have seen and heard all the skeptics and naysayers tell us how growth wasn't possible, it would be stymied by the competitive intrusion of the mega-stores, changing customer

lifestyles, a shrinking talent pool of labor, distribution facilities that couldn't handle the increases or because our information technology was outdated. The list of dire predictions went on.

Well, time and performance are the true measurement of growth and success. And today we can report that our critics were both right and **absolutely wrong.**





*Reebok, Fila and Adidas.*

They were right in that without addressing the fundamentals of our infrastructure, learning more about the changing lifestyles of our customer, differentiating ourselves from other discounters, finding ways to attract and keep quality employees, upgrading our distribution systems and information technology, we would have been left for dead.

But they were absolutely wrong about our ability to grow. They missed two key elements in their dire predictions ... one, our ability to clearly create a vision for the future and two, our almost fanatical passion to succeed!



## More Sizes, More Colors, More Choices

Women's Plus Sizes: ShopKo; Ashwaubenon, Wisconsin



*Category dominance is captured by the breadth, depth and quality of product offerings.*

Our vision led us to see a changing retail marketplace where customers have less time, more frenetic schedules and enjoy their shopping experiences less and less. They were frustrated and disappointed. They had rising expectations and diminished satisfaction. These characterizations and desires of the marketplace clearly spelled opportunity for ShopKo.

We have become insatiable students of the wants and desires of our targeted customer. We have placed priorities on the products and services they told us they wanted, the way they wanted them presented and the environment necessary to accommodate their shopping experience.





Menswear: ShopKo; Ashwaubenon, Wisconsin

Through extensive market research, we learned that they wanted assortment and depth in our offerings and they wanted to find advertised goods in stock.

They wanted a friendly atmosphere, with uncluttered spaces and bright, wide aisles. They wanted speed, with convenient, easy-to-find merchandise and quick, easy, friendly checkouts.



store square footage  
(in millions)



## Speed and Ease of the Shopping Experience

The Drugstore at ShopKo: Meridian, Idaho



*Nearly all ShopKo stores have complete pharmacy and optical services while over 38% of the Pamida stores have pharmacy services.*

We listened very carefully, channeling our passion into a process that has fundamentally and radically transformed ShopKo at virtually every level within our organization, from a traditional regional discounter to a unique retail format we call, “a specialty regional discounter.” This transformation offered us a basis for continuing future growth.

Growth by itself however, is short lived. Like a skyscraper without a strong foundation is certain to topple, growth without a sound plan and a strong team to provide exceptional execution is sure to flounder.

Over the last 10 years we’ve invested over \$440 million in infrastructure which includes over \$170 million in upgraded information technology and decision support systems.





ShopKo Payless Shoe Department: Rockford, Illinois



*Last year ShopKo stores filled over 11.8 million pharmacy and 714,000 optical prescriptions.*

We knew that the strength of our foundation would be the clarity of our vision and our ability to become champions of detail in executing our plan.

The vision was to create a unique business model. To build a brand and an organization that was both meaningful to the customer and offered growth and profit possibilities for ShopKo.

We've defined, crafted and tested the model. This business model starts with the fundamentals of successful retailing, then executes those practices at a high performance level. It continuously transforms the standard of excellence to ever higher levels so as to not just meet customer needs, but exceed their expectations.





Pamida: Lancaster, Wisconsin

*The acquisition of the Pamida chain of stores has broadened horizons for growth in new markets, opening up over 500 new*



### The Pamida Opportunity

Our recent acquisition of the Pamida chain is a perfect example of how our business model can be leveraged to achieve high performance results in another retail format. Pamida was a profitable enterprise but clearly not meeting its full earnings or growth potential. We were able to

acquire the business and literally double our number of stores without the need for any significant capital expenditure for expansion of our infrastructure, distribution, or purchasing.

Over the last 6 months, we have implemented a number of synergistic initiatives, and have met our objective of \$7.0 million in tangible synergies.

With Pamida being our most substantial transaction to date, we were able to leverage our investment





## Advertised Merchandise In-Stock

Cleaning Supplies: Pamida; Wautoma, Wisconsin

location possibilities. Pamida has Pantries in over 60% of its locations.

grade balance sheet, to refinance Pamida's debt – a debt that had choked their growth and made this transaction accretive in this fiscal year.

We analyzed Pamida's suppliers to find that ShopKo and Pamida share nearly 65% of the same vendor resources. This allows us the opportunity for additional volume discounts, purchase consolidation and transportation savings.



Pamida business mix



## Wide, Clean Aisles for Ease of Shopping

Linens and Domestics: ShopKo; Sandy, Utah



*Upscale merchandise for our trend-conscious customers.*

### The Pamida Customer

We also analyzed the Pamida customer profile and found that while the Pamida customer lived in smaller communities, their expectations for a pleasant and convenient shopping experience in an environment offering a broad range of merchandise, in-stock and delivered at real value were very similar to those of our ShopKo clientele.

To accommodate these expectations, we rapidly deployed experienced senior management from ShopKo to initiate our core competencies, bring discipline to the process and capitalize on efficiencies that we knew existed.





Housewares: ShopKo; Meridian, Idaho





## Well-Signed Merchandise

The Wellness Center at ShopKo: Meridian, Idaho



*Fresh concepts fit the changing needs of our customers' lifestyles.*

### The Potential for Pamida

It is important to understand that our goal is not to transform each Pamida store into a ShopKo store but rather apply the core competencies of the successful ShopKo business model to effectively run this enterprise. We are taking the hard-fought lessons that ShopKo has learned and applying them to Pamida. This delivers real value for the Pamida customer and offers our organization a

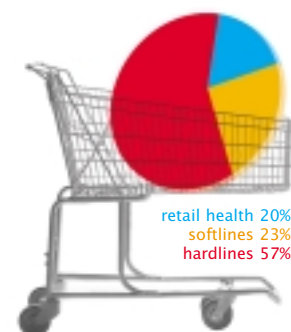
meaningful process by which to grow, one that is not limited by any size or geographical constraints. After careful analysis, we have determined that hundreds of potential markets currently exist that would be suitable for new Pamida store development. Markets that have no existing national competition, are manageable within our infrastructure, and would not have previously been appropriate as a ShopKo store market. We anticipate 20 - 25 new Pamida stores in each of the next several years.





## ShopKo Stores Strategy

Our strategy for ShopKo is clear and well defined by both our vision and our operating model. We will be exceptional in selected merchandising areas and dominate those categories. This is critical to building a business that is both unique and profitable. We are focused on Health, Home, Family Basics, Casual Apparel and Seasonal Products.



ShopKo business mix





*High quality, seasonal furnishings, attractively displayed distinguish our stores and delight our customers.*

Bold, impactful color selections and brand-dominated assortments create a strong visual impact.

Our associates greet customers throughout the store, offer assistance and create a friendly, welcome environment.

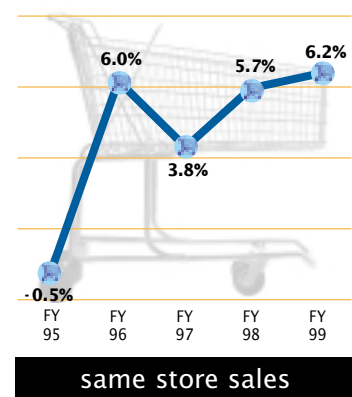
Our concept of value goes well beyond just having a low price. It is about the entire shopping

experience. It recognizes the real value of speed and convenience. It delivers superior quality in private-label and branded products at truly compelling prices. Clear, simply presented merchandise offerings presented in wide uncluttered aisles are important components of the experience. Fast, friendly and convenient shopping. We are driven by our obsession for having advertised merchandise in-stock and on the floor.





We have validated our concept of value and point to same store sales that are up 6.2% this year after posting a 5.7% rise last year as a solid example of its impact. We anticipate adding 5 - 11 new ShopKo stores in each of the next several years.





# Casual Furniture

Ready-to-Assemble



*Displays of both home and office furnishings are at customer level. They can see, feel and sample the product first hand.*

## The ProVantage Component

Our investment in ProVantage, a health benefit management company and a leading provider of health information technology, is solid testimony of our commitment to new avenues for growth. ProVantage achieved record sales of \$902.4 million this year. After an initial public offering in July 1999, ShopKo retains a 64.5% ownership of the business.

## Consolidated Corporate Growth

Growth is the key to our ongoing success. As part of our commitment to growth, we have forecasted an 8 to 10% increase in store square footage, currently at 20.1 million square feet, up 53.7% from the 13.1 million square feet operated at the end of last year. We are committed to providing leadership that nurtures our high performance



dy  
Casua  
tional  
Ready

## Simple, Impactful Presentation

Casual Furniture: ShopKo; Moline, Illinois



culture, one that is consistently driven to superior execution. We fully expect this culture to thrive in both of our retail endeavors; ShopKo Stores and Pamida.

All of our directives are squarely aimed at delivering a highly satisfying shopping experience for our customers.

While the marketplace is in a constant state of change we remain intensely aware of the need to understand and adapt quickly to those changes.

The entire team at ShopKo has a clear vision of the future and it is all about growth. We are committed to growth in value for our teammates, vendors, customers and shareholders.



## 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 52 weeks ended January 29, 2000 (fiscal 1999), the 52 weeks ended January 30, 1999 (fiscal 1998) and the 49 weeks ended January 31, 1998 (fiscal 1997).*

### RESULTS OF OPERATIONS

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

<i>Fiscal Years Ended</i>	<b>Jan. 29, 2000</b> (52 Weeks)	Jan. 30, 1999 (52 Weeks)	Jan. 31, 1998 (49 Weeks)
<b>Revenues:</b>			
Net sales	<b>100.0%</b>	100.0%	100.0%
Licensed department rentals and other income	<b>0.4</b>	0.4	0.5
	<b>100.4</b>	100.4	100.5
<b>Costs and Expenses:</b>			
Cost of sales	<b>78.2</b>	77.6	76.8
Selling, general and administrative expenses	<b>15.4</b>	15.9	16.6
Special charges	<b>0.2</b>	0.2	0.1
Depreciation and amortization expenses	<b>2.2</b>	2.3	2.4
	<b>96.0</b>	96.0	95.9
Income from operations	<b>4.4</b>	4.4	4.6
Interest expense – net	<b>(1.2)</b>	(1.3)	(1.3)
Gain on sale of ProVantage stock	<b>1.4</b>	0.0	0.0
Earnings before income taxes, minority interest and extraordinary item	<b>4.6</b>	3.1	3.3
Provision for income taxes	<b>1.8</b>	1.2	1.3
Earnings before minority interest and extraordinary item	<b>2.8</b>	1.9	2.0
Minority interest	<b>(0.1)</b>	0.0	0.0
Earnings before extraordinary item	<b>2.7</b>	1.9	2.0
Extraordinary (loss) on retirement of debt, net of income taxes	<b>(0.1)</b>	0.0	0.0
Net earnings	<b>2.6%</b>	1.9%	2.0%

The Company has three business segments: a ShopKo Retail segment (which includes ShopKo stores general merchandise, retail pharmacy and retail optical operations), a Pamida Retail segment (which includes Pamida stores general merchandise and retail pharmacy operations) and a ProVantage segment (which includes health benefit management services, pharmacy mail services, vision benefit management services and health information technology and clinical support services). Intercompany sales, which consist of prescriptions that were both sold at a ShopKo pharmacy or at a Pamida pharmacy and processed by ProVantage, have been eliminated in consolidation.

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

### ShopKo Retail Segment

<i>Fiscal Years Ended</i>	<b>Jan. 29, 2000</b> (52 Weeks)	Jan. 30, 1999 (52 Weeks)	Jan. 31, 1998 (49 Weeks)
<b>Revenues:</b>			
Net sales	<b>100.0%</b>	100.0%	100.0%
Licensed department rentals and other income	<b>0.5</b>	0.5	0.6
	<b>100.5</b>	100.5	100.6
<b>Costs and Expenses:</b>			
Cost of sales	<b>74.1</b>	73.8	73.6
Selling, general and administrative expenses	<b>17.8</b>	18.1	18.0
Depreciation and amortization expenses	<b>2.5</b>	2.6	2.6
	<b>94.4</b>	94.5	94.2
Income from operations	<b>6.1%</b>	6.0%	6.4%





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### Pamida Retail Segment

<i>Fiscal Year Ended</i>	<b>Jan. 29, 2000</b> (30 Weeks)
<b>Revenues:</b>	
Net sales	<b>100.0%</b>
Licensed department rentals and other income	<b>0.3</b>
	<b>100.3</b>
<b>Costs and Expenses:</b>	
Cost of sales	<b>73.7</b>
Selling, general and administrative expenses	<b>19.2</b>
Depreciation and amortization expenses	<b>2.5</b>
	<b>95.4</b>
Income from operations	<b>4.9%</b>

### ProVantage Segment

<i>Fiscal Years Ended</i>	<b>Jan. 29, 2000</b> (52 Weeks)	Jan. 30, 1999 (52 Weeks)	Jan. 31, 1998 (49 Weeks)
<b>Revenues:</b>			
Net sales	<b>100.0%</b>	100.0%	100.0%
Licensed department rentals and other income	<b>0.0</b>	0.1	0.1
	<b>100.0</b>	100.1	100.1
<b>Costs and Expenses:</b>			
Cost of sales	<b>93.3</b>	92.7	92.5
Selling, general and administrative expenses	<b>3.6</b>	3.9	4.0
Depreciation and amortization expenses	<b>1.1</b>	1.0	1.0
	<b>98.0</b>	97.6	97.5
Income from operations	<b>2.0%</b>	2.5%	2.6%

### Fiscal 1999 Compared to Fiscal 1998

Consolidated net sales for fiscal 1999 (52 weeks) increased \$939.5 million or 31.8% over fiscal 1998 (52 weeks) to \$3,898.1 million.

ShopKo Retail Store sales for fiscal 1999 increased 10.9% or \$255.7 million from fiscal 1998 to \$2,606.9 million. The Company attributes this increase primarily to increased comparable ShopKo Retail Store sales and the 13 new ShopKo stores opened during the year. ShopKo comparable Retail Store sales increased 6.2%, and the changes for that period by category were as follows: Retail Health – 16.9%, Hardlines – 5.5% and Softlines – 5.2%. Changes in retail comparable store sales for a year are based upon those stores which were open for the entire preceding year.

In July 1999, the Company acquired the retail chain Pamida, Inc. ("Pamida"), which operated 152 Pamida stores and 4 Heartland Home Furniture stores in 15 Midwest, North Central and Rocky Mountain states as of July 31, 1999. Since the acquisition, seven additional Pamida stores were opened and two Pamida stores were closed, increasing the number of Pamida stores in operation from 152 to 157 stores as of January 29, 2000. On August 30, 1999, the Company sold the entire Heartland Home Furniture business to a group of investors. Pamida stores' sales are included in net sales since their acquisition but they are not included in retail comparable store sales since they were not owned by ShopKo for the entire preceding fiscal year. Pamida Retail Store sales for the 30 weeks ended January 29, 2000 were \$441.2 million.

ProVantage sales for fiscal 1999 increased 40.3% or \$259.1 million over fiscal 1998 to \$902.4 million. This increase is due primarily to internally generated growth in claims processing and mail pharmacy.





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Consolidated gross margins as percentages of sales were 21.8% and 22.4% for fiscal 1999 and 1998, respectively. ShopKo Retail gross margins as percentages of sales were 25.9% and 26.2% for fiscal 1999 and 1998, respectively. The ShopKo Retail gross margins include LIFO credits of \$4.0 million for fiscal 1999 and \$3.6 million for fiscal 1998. ShopKo Retail gross margins, before LIFO credits, were 25.7% and 26.0% for fiscal 1999 and 1998, respectively. The decrease in the ShopKo retail gross margin rate is primarily attributable to increased third party sales in retail pharmacy as well as other changes in our merchandising mix. Pamida Retail gross margin as a percent of sales was 26.3% for the 30 weeks ended January 29, 2000 and include a LIFO credit of \$1.6 million. Pamida Retail gross margin, before LIFO credit, was 25.9% for the 30 weeks ended January 29, 2000. ProVantage gross margins as percentages of sales were 6.7% and 7.3% for fiscal 1999 and 1998, respectively. The decrease in the gross margin rate is primarily due to increasing prescription drug costs and the addition of larger clients with lower average transaction fees.

Consolidated selling, general and administrative expenses as a percentage of net sales decreased to 15.4% in fiscal 1999, compared with 15.9% in fiscal 1998. ShopKo Retail selling, general and administrative expenses were 17.8% and 18.1% of net sales for fiscal 1999 and 1998, respectively. This reduction is primarily due to leveraging store payroll and fixed costs against increased sales volume. Pamida Retail selling, general and administrative expenses were 19.2% of sales for the 30 weeks ended January 29, 2000. ProVantage selling, general and administrative expenses decreased to 3.6% compared with 3.9% in fiscal 1998. This decrease is primarily due to leveraging costs against increased sales volume.

The Company's operating earnings (earnings before interest, gain on issuance of subsidiary stock, income taxes, minority interest and extraordinary item) increased 31.1% to \$170.4 million in fiscal 1999 from \$129.9 million in fiscal 1998. ShopKo Retail operating earnings (earnings before corporate expenses, interest

and income taxes) increased 13.0% to \$159.1 million in fiscal 1999 compared to \$140.8 million in fiscal 1998. This increase is primarily due to increased sales. Pamida Retail operating earnings were \$21.5 million for the 30 weeks ended January 29, 2000. ProVantage operating earnings increased 13.8% in fiscal 1999 to \$18.4 million compared to \$16.2 million in fiscal 1998. This increase is due to internally generated growth primarily in health benefit management services.

Net interest expense as a percentage of net sales decreased to 1.2% in fiscal 1999 compared with 1.3% in fiscal 1998. This decrease is primarily due to increased sales.

### Fiscal 1998 Compared to Fiscal 1997

Consolidated net sales for fiscal 1998 (52 weeks) increased \$524.6 million or 21.6% over fiscal 1997 (49 weeks) to \$2,958.6 million.

ShopKo Retail sales for fiscal 1998 (52 weeks) increased 17.5% or \$349.6 million from fiscal 1997 (49 weeks) to \$2,351.2 million. The Company attributes this increase to the 17 new stores acquired from Penn-Daniels, Incorporated ("Penn-Daniels"), three additional weeks in the fiscal year and merchandising operations and marketing initiatives. On a 52-week basis, ShopKo comparable Retail Store sales increased 5.7%, and the changes for that period by category were as follows: Retail Health – 11.9%, Hardlines – 5.9% and Softlines – (0.2%).

ProVantage sales for fiscal 1998 (52 weeks) increased 40.4% or \$185.0 million over fiscal 1997 (49 weeks) to \$643.3 million. This increase is due primarily to internally generated growth in claims processing and mail pharmacy.

Consolidated gross margins as percentages of sales were 22.4% and 23.2% for fiscal 1998 and 1997, respectively. ShopKo Retail gross margins as percentages of sales were 26.2% and 26.4% for fiscal 1998 and 1997, respectively. The ShopKo Retail gross margins include LIFO credits of \$3.6 million for fiscal 1998 and \$3.7 million for fiscal 1997. ShopKo Retail gross margins, before LIFO credits,





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were 26.0% and 26.2% for fiscal 1998 and 1997, respectively. This decrease is primarily due to increases in promotional sales and third party sales in ShopKo Retail pharmacy. ProVantage gross margins as percentages of sales were 7.3% and 7.5% for fiscal 1998 and 1997, respectively. This decrease is attributable to increases in the cost of prescriptions and the addition of larger clients with lower average transaction fees, offset in part by the addition of higher margin clinical services and information technology products.

Consolidated selling, general and administrative expenses as a percentage of net sales decreased to 15.9% in fiscal 1998, compared with 16.6% in fiscal 1997. ShopKo Retail selling, general and administrative expenses were 18.1% and 18.0% of net sales for fiscal 1998 and 1997, respectively. Excluding the 17 new stores related to the Penn-Daniels acquisition and expenses incurred for year 2000 compliance, ShopKo Retail selling, general and administrative expenses as a percent of sales were 17.6% for fiscal 1998. The decrease is attributable to continued expense control initiatives at store level. ProVantage selling, general and administrative expenses were 3.9% and 4.0% of net sales for fiscal 1998 and 1997, respectively. This decrease is primarily due to leveraging expenses over the increased sales volume.

The Company's operating earnings (earnings before interest and income taxes) increased 17.0% to \$129.9 million in fiscal 1998 from \$111.0 million in fiscal 1997. ShopKo Retail operating earnings (earnings before corporate expenses, interest and income taxes) increased 10.6% to \$140.8 million in fiscal 1998 compared to \$127.3 million in fiscal 1997. This increase is primarily due to increased sales and expense control initiatives. ProVantage operating earnings increased 34.0% in fiscal 1998 to \$16.2 million compared to \$12.1 million in fiscal 1997. This increase is due to internally generated growth primarily in health benefit management services.

Net interest expense as a percentage of net sales was 1.3% in both fiscal 1998 and fiscal 1997.

### 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 \$64.5 million, \$73.8 million and \$142.6 million in fiscal years 1999, 1998 and 1997, respectively.

On July 19, 1999, the initial public offering of 5,600,000 shares of ProVantage common stock at \$18.00 per share was completed. The Company also sold an additional 840,000 shares of ProVantage common stock pursuant to the underwriters' over-allotment option. The Company received approximately \$106.0 million in this transaction of which \$20.0 million was retained by ProVantage. The Company used the remaining proceeds of the offering to pay down its short-term debt. ProVantage's stock is listed on the New York Stock Exchange under the symbol 'PHS.'

On July 21, 1999, the Company completed an offering of 4,025,000 shares of its common stock at \$38.50 per share. The Company used the net offering proceeds of approximately \$147.1 million for repayment of a portion of the debt it assumed in connection with its recent acquisition of Pamida and for other corporate purposes.

The Company had a \$200.0 million revolving credit agreement with a consortium of banks of which \$195.0 million was outstanding as of January 29, 2000. This credit facility is unsecured and is effective through January 31, 2002. In April 1999, the Company negotiated a \$50.0 million unsecured banker's acceptance note which is due April 17, 2000 of which \$50.0 million was outstanding as of January 29, 2000. In September 1999, the Company also negotiated a \$100.0 million unsecured 364-day credit facility.

Pamida's \$125.0 million committed Loan and Security Agreement, as amended, had been utilized by Pamida prior to the Company's acquisition of Pamida and shortly thereafter for working capital purposes. During August 1999, the remaining balance of this loan was paid in full and the agreement was terminated.





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On September 2, 1999, the Company redeemed all of Pamida's 11<sup>3</sup>/<sub>4</sub>% senior subordinated notes in return for payments of approximately \$153.2 million, which included principal, accrued interest and premium due on call. The Company funded this redemption from cash flows from operations and other financing activities.

The Company has entered into a credit agreement with ProVantage which provides that ProVantage may borrow up to \$25.0 million from the Company on a revolving basis. ProVantage's capital needs are expected to be met through the proceeds of its initial public offering, cash generated from its operations, and borrowings under the credit agreement with the Company or third party sources.

### Capital Expenditures and Acquisitions

The Company spent \$151.7 million on capital expenditures (excluding acquisitions) in fiscal 1999, compared to \$99.7 million in fiscal 1998 and \$32.0 million in fiscal 1997. The following table sets forth the components of the Company's capital expenditures and acquisitions (in millions):

<i>Fiscal Years Ended</i>	<b>Jan. 29, 2000</b> (52 Weeks)	Jan. 30, 1999 (52 Weeks)	Jan. 31, 1998 (49 Weeks)
<b>Capital Expenditures</b>			
New stores	<b>\$ 57.2</b>	\$42.6	\$ 0.0
Remodeling and refixturing	<b>18.7</b>	15.2	12.6
Distribution centers	<b>25.9</b>	1.4	0.7
Management information and point-of-sale equipment and systems	<b>33.0</b>	34.5	18.0
Other	<b>16.9</b>	6.0	0.7
<b>Total</b>	<b>\$151.7</b>	\$99.7	\$ 32.0
<b>Acquisitions</b>	<b>\$104.0</b>		\$ 40.5

During fiscal 1999, the Company converted 10 former Venture store locations and one former Target store location to ShopKo stores, including the addition of in-store pharmacies and optical centers. Also during fiscal 1999, the Company opened two new ShopKo stores. During fiscal 1999, the Company began the expansion of the ShopKo distribution centers in Idaho and Wisconsin and the building of a new distribution center in Omaha, Nebraska. Since the Pamida acquisition, the Company has opened seven new Pamida stores and closed two Pamida stores.

On February 14, 2000, the Company announced plans to open five new ShopKo stores and eight new Pamida stores in fiscal 2000, with more store openings planned for later in the year. In total, the Company expects to open 5 to 9 ShopKo stores and 20 to 25 Pamida stores in fiscal 2000.

The Company's total capital expenditures for the fiscal year ending February 3, 2001 are expected to approximate \$200.0 to \$250.0 million. The expenditures would relate to construction of the new ShopKo and Pamida stores; expansion and building of ShopKo distribution centers; 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. Such plans may be reviewed and revised from time to time in light of changing conditions.





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The Company expects to pursue growth of its Retail Store business through new store construction or acquisition of existing retail stores or businesses. ProVantage expects to consider and, if appropriate, pursue the acquisition of health services or health information technology businesses. Such plans may be reviewed and revised from time to time in light of changing conditions.

Funds generated from operations, and if necessary, the Company's revolving credit facility or other short-term borrowings are expected to fund the projected working capital needs and total capital expenditures through fiscal 2000 except for possible acquisitions described above. Depending upon the size and structure of any such acquisitions, the Company and/or ProVantage 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 ScripCard from Avatex Corporation, formerly known as Foxmeyer Health Corporation. CareStream ScripCard was a prescription benefit management company which has been integrated with the Company's ProVantage subsidiary. The purchase price was \$30.5 million in cash, plus a supplemental cash payment equal to 1.5% of ProVantage's market value subject to a minimum of \$2.5 million and a maximum of \$5.0 million. On August 10, 1999, Avatex exercised its supplemental cash payment right in the amount of \$5.0 million which was paid by ProVantage to Avatex in August 1999. This payment was capitalized as additional purchase price and will be amortized over 18 years.

On August 20, 1997, the Company acquired PharMark, a software and database development business providing information driven strategies for optimizing medical and pharmaceutical outcomes, based in Arlington, Virginia. The purchase price for PharMark was approximately \$15.2 million. The sellers of PharMark 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 or the date on which the Company ceases to own at least a majority of ProVantage's common stock. The Contingent Payments may be made, at ProVantage'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. The Contingent Payments, if any, will be capitalized as additional purchase price and amortized over a period of 15 to 18 years.

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 \$26.6 million has been retired. 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. Penn-Daniels operated 18 Jacks discount stores in Iowa, Illinois and Missouri and one Lots-A-Deals close-out store in Moline, Illinois.

In connection with the Penn-Daniels acquisition, ShopKo incurred special pre-tax costs of \$5.7 million eliminating duplicate operations at the Penn-Daniels administrative office and warehouse and other transaction related items in fiscal 1998. The Company funded these costs from available cash and borrowings under the Company's revolving credit facility.

On July 6, 1999, the Company completed a tender offer for all of the outstanding voting common stock of Pamida at a price of \$11.50 per share. The Company simultaneously acquired all of Pamida's non-voting common stock from 399 Venture Partners, Inc. at a price of \$11.50 per share. Pamida is a retail chain headquartered in Omaha, Nebraska operating 157 Pamida stores in 15 Midwest, North Central and Rocky Mountain states as of January 29, 2000. At the time of





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the acquisition, Pamida also operated 4 Heartland Home Furniture stores. On August 30, 1999, the Company sold the entire Heartland Home Furniture business to a group of investors. During fiscal 1999, the Company incurred \$8.1 million in special pre-tax costs relating to the Pamida acquisition for employee retention programs, elimination of administrative functions and various integration initiatives. During fiscal 2000, the Company expects to incur additional special charges of approximately \$4.0 to \$6.0 million for the same integration initiatives mentioned above.

On December 31, 1999, ProVantage acquired for \$5.0 million the remaining minority interest held in ProVMed LLC that was not already owned by ProVantage. ProVMed LLC performs advanced data warehousing, clinical and administration information support services. The purchase price included an allocation to goodwill of \$3.4 million that is being amortized over a period of 20 years.

All acquisitions have been accounted for under the purchase method of accounting and the results of all acquisition's operations have been included in the Company's consolidated statements of earnings since the acquisition dates.

### Termination of Plan of Reorganization

On April 2, 1997, the Company and two other parties mutually agreed to terminate a planned business combination. The Company recorded special pre-tax charges of \$2.8 million (\$0.06 per share) during 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 percent 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.

### Stock Repurchase Program

On March 26, 1998, the Company announced that the Board of Directors had authorized the repurchase of up to \$20.0 million of the Company's Common Stock. During fiscal 1999, 815,600 shares of common stock had been repurchased for approximately \$20.0 million. On January 12, 2000, the Company announced that the Board of Directors had authorized the repurchase of another \$20.0 million of the Company's Common Stock. As of March 15, 2000, no shares of Common Stock had been repurchased under this program.



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### Senior Note Repurchase Program

On February 8, 1999, ShopKo announced that its Board of Directors had authorized the Company to repurchase its Senior Notes from time to time in the open market and through privately negotiated transactions. Any purchases would depend on price, market conditions and other factors. During fiscal 1999, the Company repurchased approximately \$57.1 million of the Senior Notes, resulting in an extraordinary loss of \$3.8 million, net of income tax benefit of \$2.4 million.

### Inflation

Inflation has and is expected to have only a minor effect on the results of operations of the Company and its internal and external sources of liquidity.

### Recent Pronouncements

In June 1998, Statement of Financial Accounting Standard ("SFAS") No. 133, "Accounting for Derivative Instruments and Hedging Activities," was issued. The Company believes this statement will have no significant impact on the Company's consolidated financial statements.

### Market Risk

The Company is exposed to market risk from changes in interest rates based on its financing activities. At January 29, 2000, the Company had \$245.0 million of short-term debt with a weighted average interest rate of 6.4%. This short-term debt was incurred under the Company's credit facilities to fund the Company's working capital requirements and repay the debt assumed in the Pamida acquisition. This short-term debt exposes the Company to the possibility of increased or decreased interest expense in the event of changes in short-term interest rates. During fiscal 1999, the monthly average amount borrowed under the short-term credit facilities was approximately \$184.6 million, and the weighted average interest rate was 5.9% per annum. If the Company's

weighted average interest rate were to change by 10.0% for fiscal 1999, net income would have changed by an immaterial amount.

At January 29, 2000, the Company had fixed-rate long-term debt totaling \$459.5 million. These instruments are fixed-rate and therefore, do not expose the Company to the possibility of earnings loss or gain due to changes in market interest rates. In general, fluctuation in the market value of these instruments based on fluctuation in interest rates, would impact the Company's earnings and cash flows only if the Company were to reacquire all or a portion of these instruments prior to their maturity. Management continually monitors the interest rate environment with the objective of lowering borrowing costs without subjecting the Company to excessive exposure to fluctuating interest rates.

### 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, capital expenditures and deployment plans and future operating and financial 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 August 1999 Registration Statement on Form S-3 (Reg. No. 333-79763), ProVantage's Registration Statement on Form S-1, as amended (Reg. No. 333-71743), the Company's Annual Report on Form 10-K for the fiscal year ended January 29, 2000 and other risks and uncertainties as may be indicated in the Company's and ProVantage's subsequent filings with the Securities and Exchange Commission.





## Ten Year Financial Summary

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	Fiscal Years Ended		
	Jan. 29, 2000 (52 Weeks)	Jan. 30, 1999 (52 Weeks)	Jan. 31, 1998 <sup>(1)</sup> (49 Weeks)
<b>Summary of Operations (Millions)</b>			
Net sales	<b>\$3,898</b>	\$ 2,959	\$ 2,434
Licensed department rentals and other income	<b>14</b>	12	12
Gross margin	<b>850</b>	662	564
Selling, general and administrative expenses	<b>601</b>	472	404
Special charges	<b>8<sup>(3)</sup></b>	6 <sup>(4)</sup>	3 <sup>(5)</sup>
Depreciation and amortization expenses	<b>84</b>	68	58
Interest expense – net	<b>47</b>	38	31
Gain on sale of ProVantage stock	<b>57</b>		
Earnings before income taxes, minority interest and extraordinary item	<b>180</b>	92	80
Earnings before minority interest and extraordinary item	<b>108</b>	56	49
Earnings before extraordinary item	<b>106<sup>(6)</sup></b>	56	49
Net earnings	<b>102</b>	56	49
<b>Per Share Data (Dollars)</b>			
Basic earnings per common share before extraordinary item	<b>\$ 3.75</b>	\$ 2.14	\$ 1.73
Basic net earnings per common share	<b>3.62</b>	2.14	1.73
Diluted earnings per common share before extraordinary item	<b>3.70</b>	2.10	1.71
Diluted net earnings per common share	<b>3.57</b>	2.10	1.71
Cash dividends declared per common share <sup>(8)(9)</sup>			
<b>Financial Data (Millions)</b>			
Working capital	<b>\$ 71</b>	\$ 167	\$ 144
Property and equipment – net	<b>909</b>	704	630
Total assets	<b>2,083</b>	1,374	1,251
Total debt <sup>(10)</sup>	<b>705</b>	472	440
Total shareholders' equity	<b>695</b>	459	396
Capital expenditures	<b>152</b>	100	32
<b>Financial Ratios</b>			
Current ratio	<b>1.1</b>	1.4	1.4
Return on beginning assets	<b>7.4%</b>	4.4%	4.0%
Return on beginning shareholders' equity	<b>22.2%</b>	14.0%	10.6%
Total debt as % of total capitalization <sup>(11)</sup>	<b>46.3%</b>	49.3%	51.4%
<b>Other Year End Data</b>			
ShopKo stores open at year end	<b>160</b>	147	149 <sup>(12)</sup>
Average ShopKo store size – square feet	<b>89,545</b>	89,106	88,754
Pamida stores open at year end <sup>(13)</sup>	<b>157</b>		
Average Pamida store size – square feet	<b>36,055</b>		

(1) Fiscal year end was changed from the last Saturday in February to the Saturday nearest January 31.

(2) 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).

(3) Special charges related to employee retention programs, elimination of administrative functions and various integration initiatives at Pamida.

(4) Special charges related to the elimination of duplicate operations at the Penn-Daniels administrative office and warehouse.

(5) Special charges related to the termination of proposed combination with two other parties.

(6) The repurchase of Senior Notes resulted in an extraordinary loss of \$3.8 million, net of income tax benefit of \$2.4 million.

(7) 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.



# Ten Year Financial Summary

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Fiscal Years Ended						
Feb. 22, 1997 (52 Weeks)	Feb. 24, 1996 (52 Weeks)	Feb. 25, 1995 (52 Weeks)	Feb. 26, 1994 <sup>(2)</sup> (52 Weeks)	Feb. 27, 1993 (52 Weeks)	Feb. 29, 1992 (53 Weeks)	Feb. 23, 1991 (52 Weeks)
\$2,333	\$1,968	\$1,853	\$1,739	\$1,683	\$1,648	\$1,521
13	14	12	12	11	11	12
550	501	488	453	457	452	417
397	361	356	344	326	325	296
60	56	53	47	43	40	39
32	34	29	21	18	17	21
74	63	62	53	81	81	73
45	38	38	32	50	50	45
45	38	38	32	50	50	45
45	38	38	32	50	50	45
\$ 1.40	\$ 1.20	\$ 1.18	\$ 1.00	\$ 1.56	\$ 1.55 <sup>(7)</sup>	\$ 1.41 <sup>(7)</sup>
1.40	1.20	1.18	1.00	1.56	1.55 <sup>(7)</sup>	1.41 <sup>(7)</sup>
1.39	1.20	1.18	1.00	1.56	1.55 <sup>(7)</sup>	1.41 <sup>(7)</sup>
1.39	1.20	1.18	1.00	1.56	1.55 <sup>(7)</sup>	1.41 <sup>(7)</sup>
0.22	0.44	0.44	0.44	0.44	0.11	
\$ 232	\$ 215	\$ 187	\$ 119	\$ 82	\$ 79	\$ 70
603	617	618	578	493	445	432
1,234	1,118	1,110	953	792	706	692
421	416	429	337	225	193	215
461	422	397	374	355	320	273
39	53	95	134	91	53	59
1.7	1.8	1.7	1.5	1.4	1.4	1.4
4.0%	3.5%	4.0%	4.1%	7.1%	7.2%	7.0%
10.7%	9.7%	10.1%	9.0%	15.7%	18.1%	19.7%
46.6%	48.5%	50.9%	46.2%	37.9%	36.7%	42.8%
130	129	124	117	111	109	104
89,840	89,945	90,260	90,440	89,500	87,400	87,200

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

(9) Upon termination of the proposed combination with two other parties, the Company determined to retain earnings for the growth and expansion of its business and not declare or pay any cash dividends.

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

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

(12) Includes 19 stores acquired from Penn-Daniels, Incorporated, two of which closed in fiscal 1998.

(13) The Company acquired the Pamida retail store chain in July 1999.





# Consolidated Statements of Earnings

ShopKo Stores, Inc. and Subsidiaries

	Fiscal Years Ended		
	January 29, 2000 (52 Weeks)	January 30, 1999 (52 Weeks)	January 31, 1998 (49 Weeks)
<i>(In thousands, except per share data)</i>			
<b>Revenues:</b>			
Net sales	<b>\$3,898,090</b>	\$2,958,557	\$2,433,929
Licensed department rentals and other income	<b>13,856</b>	12,325	11,756
	<b>3,911,946</b>	2,970,882	2,445,685
<b>Costs and Expenses:</b>			
Cost of sales	<b>3,047,930</b>	2,296,085	1,869,973
Selling, general and administrative expenses	<b>601,157</b>	471,546	403,635
Special charges	<b>8,068</b>	5,723	2,800
Depreciation and amortization expenses	<b>84,438</b>	67,590	58,252
	<b>3,741,593</b>	2,840,944	2,334,660
Income from operations	<b>170,353</b>	129,938	111,025
Interest expense – net	<b>(46,894)</b>	(38,311)	(30,582)
Gain on sale of ProVantage stock	<b>56,760</b>		
Earnings before income taxes, minority interest and extraordinary item	<b>180,219</b>	91,627	80,443
Provision for income taxes	<b>71,800</b>	35,991	31,598
Earnings before minority interest and extraordinary item	<b>108,419</b>	55,636	48,845
Minority interest	<b>(2,463)</b>		
Earnings before extraordinary item	<b>105,956</b>	55,636	48,845
Extraordinary (loss) on retirement of debt, net of income taxes of \$2,443	<b>(3,776)</b>		
Net earnings	<b>\$ 102,180</b>	\$ 55,636	\$ 48,845
Basic earnings per common share before extraordinary item	<b>\$ 3.75</b>	\$ 2.14	\$ 1.73
Extraordinary (loss) on retirement of debt	<b>(0.13)</b>		
Basic net earnings per common share	<b>\$ 3.62</b>	\$ 2.14	\$ 1.73
Weighted average number of common shares outstanding	<b>28,237</b>	26,035	28,161
Diluted earnings per common share before extraordinary item	<b>\$ 3.70</b>	\$ 2.10	\$ 1.71
Extraordinary (loss) on retirement of debt	<b>(0.13)</b>		
Diluted net earnings per common share	<b>\$ 3.57</b>	\$ 2.10	\$ 1.71
Adjusted weighted average number of common shares outstanding	<b>28,595</b>	26,517	28,569

See notes to consolidated financial statements.



## onsolidated Balance Sheets

ShopKo Stores, Inc. and Subsidiaries

<i>(In thousands)</i>	January 29, 2000	January 30, 1999
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 26,916	\$ 30,219
Receivables, less allowance for losses of \$6,826 and \$7,487, respectively	179,140	117,652
Merchandise inventories	663,164	434,643
Other current assets	16,042	5,461
Total current assets	885,262	587,975
Other assets and deferred charges	16,396	6,960
Intangible assets – net	272,193	74,749
Property and equipment – net	909,438	703,840
Total assets	\$2,083,289	\$1,373,524
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities:		
Short-term debt	\$ 245,000	\$ —
Accounts payable – trade	281,291	189,581
Accrued compensation and related taxes	51,548	40,955
Accrued other liabilities	211,049	169,530
Accrued income and other taxes	18,970	16,127
Current portion of long-term obligations	6,416	4,597
Total current liabilities	814,274	420,790
Long-term obligations and leases, less current portions	453,084	467,191
Deferred income taxes	69,771	26,301
Minority interest	51,658	
Shareholders' equity:		
Preferred stock; none outstanding		
Common stock; shares issued, 30,400 at January 29, 2000 and 26,129 at January 30, 1999	304	261
Additional paid-in capital	381,354	228,479
Retained earnings	332,872	230,502
Less treasury stock, at cost; 816 shares	(20,028)	
Total shareholders' equity	694,502	459,242
Total liabilities and shareholders' equity	\$2,083,289	\$1,373,524

See notes to consolidated financial statements.





# Consolidated Statements of Cash Flows

ShopKo Stores, Inc. and Subsidiaries

	Fiscal Years Ended		
	January 29, 2000 (52 Weeks)	January 30, 1999 (52 Weeks)	January 31, 1998 (49 Weeks)
<i>(In thousands)</i>			
<b>Cash flows from operating activities:</b>			
Net earnings	\$ 102,180	\$ 55,636	\$ 48,845
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Depreciation and amortization	84,438	67,590	58,252
Provision for losses on receivables	1,256	609	2,999
(Gain) loss on the sale of property and equipment	(3,110)	415	(540)
Gain on sale of ProVantage stock	(56,760)		
Deferred income taxes	42,213	12,000	(1,334)
Extraordinary loss on early extinguishment of debt, net of tax benefit	3,776		
Change in assets and liabilities (excluding effects of business acquisitions):			
Receivables	(53,993)	(19,857)	(3,593)
Merchandise inventories	(29,941)	(64,630)	(9,872)
Other current assets	(3,419)	1,442	(1,282)
Other assets and intangibles	(8,143)	(5,839)	(1,878)
Accounts payable	21,010	(4,065)	17,867
Accrued liabilities	(34,985)	30,548	33,137
<b>Net cash provided by operating activities</b>	<b>64,522</b>	<b>73,849</b>	<b>142,601</b>
<b>Cash flows from investing activities:</b>			
Payments for property and equipment	(151,731)	(99,725)	(32,003)
Proceeds from the sale of property and equipment	7,871	2,301	2,348
Business acquisitions, net of cash acquired	(104,033)		(40,488)
<b>Net cash (used in) investing activities</b>	<b>(247,893)</b>	<b>(97,424)</b>	<b>(70,143)</b>
<b>Cash flows from financing activities:</b>			
Change in short-term debt	150,708		
Change in common stock from stock options	3,974	4,572	10,907
Change in common stock from public offering	147,147		23,419
Proceeds from the sale of ProVantage stock	105,955		
Purchase of treasury stock	(20,028)		(152,179)
Retirement of debt and capital leases	(207,688)	(5,122)	(24,811)
<b>Net cash provided by (used in) financing activities</b>	<b>180,068</b>	<b>(550)</b>	<b>(142,664)</b>
Net (decrease) in cash and cash equivalents	(3,303)	(24,125)	(70,206)
Cash and cash equivalents at beginning of year	30,219	54,344	124,550
<b>Cash and cash equivalents at end of year</b>	<b>\$ 26,916</b>	<b>\$ 30,219</b>	<b>\$ 54,344</b>
<b>Supplemental cash flow information:</b>			
Noncash investing and financial activities –			
Retirement of treasury stock		\$ 152,179	
Capital lease obligations incurred	\$ 3,568	\$ 35,779	
Restricted stock issued			\$ 416
Cash paid during the period for:			
Interest	\$ 52,783	\$ 38,140	\$ 29,265
Income taxes	\$ 24,631	\$ 28,423	\$ 26,852

See notes to consolidated financial statements.



# Consolidated Statements of Shareholders' Equity

ShopKo Stores, Inc. and Subsidiaries

(In thousands)	Common Stock		Additional Paid-in Capital	Retained Earnings	Treasury Stock		Total	
	Shares	Amount			Shares	Amount	Shares	Amount
<b>Balances at February 22, 1997</b>	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)
<b>Balances at January 31, 1998</b>	33,941	339	283,520	264,316	(8,174)	(152,179)	25,767	395,996
Net earnings				55,636				55,636
Sale of common stock under option plans	362	4	4,568				362	4,572
Income tax benefit related to stock options			2,435					2,435
Restricted stock expense				603				603
Retirement of treasury stock	(8,174)	(82)	(62,044)	(90,053)	8,174	152,179		
<b>Balances at January 30, 1999</b>	26,129	261	228,479	230,502			26,129	459,242
Net earnings				102,180				102,180
Sale of common stock under option plans	246	3	3,971				246	3,974
Income tax benefit related to stock options			1,797					1,797
Sale of common stock in public offering	4,025	40	147,107				4,025	147,147
Restricted stock expense				190				190
Purchase of treasury stock					(816)	(20,028)	(816)	(20,028)
<b>Balances at January 29, 2000</b>	<b>30,400</b>	<b>\$ 304</b>	<b>\$381,354</b>	<b>\$332,872</b>	<b>(816)</b>	<b>\$ (20,028)</b>	<b>29,584</b>	<b>\$694,502</b>

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 majority owned subsidiaries ("ShopKo" or the "Company"). All significant intercompany accounts and transactions have been eliminated.

ShopKo is engaged in the business of providing general merchandise and professional health services through its two retail store chains. ShopKo Retail stores are operated in the Midwest, Western Mountain and Pacific Northwest states. Pamida, Inc. ("Pamida") Retail stores are operated in the Midwest, North Central and Rocky Mountain states. The Company also provides health benefit management services, pharmacy mail services, vision benefit management services and health information technology and clinical support services through its subsidiary ProVantage Health Services, Inc. ("ProVantage"). ProVantage conducts business principally throughout the United States.

### 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. Consequently, for that transition year, the statements of earnings, cash flows and shareholders' equity are presented for the 49-week period ended January 31, 1998. The table below illustrates how the fiscal years are referred to in the notes to consolidated financial statements.

January 31, 1999 through January 29, 2000 (52 weeks)	1999
February 1, 1998 through January 30, 1999 (52 weeks)	1998
February 23, 1997 through January 31, 1998 (49 weeks)	1997

### Cash and Cash Equivalents

The Company records all highly liquid investments with a maturity of three months or less as cash equivalents.

### Receivables

Receivables consist of amounts collectible from third party pharmacy insurance carriers and self-funded medical plan sponsors for medical claims; from retail store customers for optical and pharmacy purchases; from merchandise vendors for promotional and

advertising allowances; 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 \$28.9 million at January 29, 2000 and \$34.4 million at January 30, 1999.

### Property and Equipment – Net

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.

The components of property and equipment are:

<i>(in thousands)</i>	<b>Jan. 29, 2000</b>	Jan. 30, 1999
Property and equipment at cost:		
Land	<b>\$ 135,591</b>	\$ 121,577
Buildings	<b>572,761</b>	540,953
Equipment	<b>539,399</b>	408,313
Leasehold improvements	<b>91,242</b>	58,820
Property under construction	<b>54,759</b>	12,999
Property under capital leases	<b>103,248</b>	58,004
	<b>1,497,000</b>	1,200,666
Less accumulated depreciation and amortization:		
Property and equipment	<b>558,216</b>	487,137
Property under capital leases	<b>29,346</b>	9,689
Net property and equipment	<b>\$ 909,438</b>	\$ 703,840



## otes to Consolidated Financial Statements

ShopKo Stores, Inc. and Subsidiaries

### Intangible Assets – Net

Intangible assets related to acquisitions are amortized using the straight-line method over 18 to 40 years. Underwriting and issuance costs of long-term obligations are amortized over the term of the obligations using the straight-line method. Accumulated amortization for intangible assets was \$20.4 million and \$11.7 million at January 29, 2000 and January 30, 1999, respectively.

### Impairment of Long Lived Assets

The Company evaluates whether events and circumstances have occurred that indicate the remaining estimated useful lives 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. Impairment losses, if any, would be measured by comparing the carrying amount of the asset to the present value of the cash flows using discounted rates that reflect the inherent risks of the underlying business. In the opinion of management, no such impairment existed as of January 29, 2000 or January 30, 1999.

### Accrued Other Liabilities

Accrued other liabilities include other current liabilities not related to compensation or taxes and amounts related to ProVantage for medical claims and formulary rebate sharing. As of January 29, 2000 and January 30, 1999, the amounts payable by ProVantage for medical claims and formulary rebate sharing included in the accrued other liabilities were \$93.7 million and \$73.2 million, respectively.

### Revenue Recognition

Revenues from the Company's retail stores are recognized at the time customers take possession of merchandise purchased or services are rendered, net of returns. Revenues from licensed departments are recorded at the net amounts to be received from licensees.

ProVantage's net sales are recorded when earned and include: (i) administrative and dispensing fees plus the cost of pharmaceuticals dispensed by pharmacies participating in the network maintained by ProVantage or by ProVantage's mail service pharmacy to members of health benefit plans sponsored by ProVantage's clients; (ii) administrative fees plus the cost of sales of eyeglasses

and contact lenses relating to vision benefit management services; and (iii) license and service fees for health information technology and clinical support services.

### Pre-opening Costs

The Company expenses pre-opening costs of retail stores as incurred.

### Net Earnings Per Common 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.

### 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 reported amount of revenues and expenses during the reporting period. Actual results could differ from those estimates.

### Reclassifications

Certain reclassifications have been made to the fiscal 1998 and 1997 consolidated financial statements to conform to those used in fiscal 1999.

## B. Acquisitions

The Company on January 3, 1995 acquired 97% of the outstanding common stock of Bravell, Inc. ("Bravell"), a pharmacy benefits management firm for approximately \$17.3 million. The Company was also required to make additional payments that were contingent upon the future results of Bravell's operations. In fiscal 1996, \$0.7 million was paid based on the financial results for fiscal 1995. The Company made a payment of approximately \$8.9 million to the founders of Bravell on April 10, 1997 to (i) acquire the remaining 3% of the common stock of Bravell which the Company did not acquire in fiscal 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 ScripCard from Avatex Corporation, formerly known as Foxmeyer Health Corporation. CareStream ScripCard was a prescription benefit management company which has been integrated with the Company's ProVantage subsidiary. The purchase price was \$30.5 million in cash, plus a supplemental cash payment equal to 1.5% of ProVantage's market value subject to a minimum of \$2.5 million and a maximum of \$5.0 million. On August 10, 1999, Avatex exercised its right to the supplemental cash payment in the amount of \$5.0 million which ProVantage paid to Avatex in August 1999. This payment was capitalized as additional purchase price and will be amortized over 18 years.

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, a software and database development business providing information driven strategies for optimizing medical and pharmaceutical outcomes. The purchase price for Mikalix was approximately \$15.2 million. 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 or the date on which the Company ceases to own at least a majority of ProVantage's common stock. The Contingent Payments may be made, at ProVantage'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. The Contingent Payments, if any, will be capitalized as additional purchase price and amortized over a period of 15 to 18 years.

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. Penn-Daniels operated 18 Jacks' discount stores in Iowa, Illinois and Missouri and one Lots-A-Deals close-out store in Moline, Illinois. In connection with the Penn-Daniels acquisition, the Company incurred special charges of \$5.7 million

eliminating duplicate operations at the Penn-Daniels administrative office and warehouse and other transaction related items.

On July 6, 1999, the Company acquired all of the outstanding voting and nonvoting common stock of Pamida for \$94.0 million in cash, \$285.8 million in assumed debt and \$138.6 million in assumed trade and other accrued liabilities. Pamida is a retail chain headquartered in Omaha, Nebraska operating Pamida retail stores in 15 Midwest, North Central and Rocky Mountain states. In connection with the Pamida acquisition, the Company incurred special charges of \$8.1 million for employee retention programs, elimination of administrative functions and various integration initiatives. The allocation of the purchase price of Pamida 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.

On December 31, 1999, ProVantage acquired for \$5.0 million the remaining minority interest held in ProVMed LLC that was not already owned by ProVantage. ProVMed LLC performs advanced data warehousing, clinical and administration information support services. The purchase price included an allocation to goodwill of \$3.4 million that is being amortized over a period of 20 years.

These acquisitions were accounted for under the purchase method of accounting and the allocations of the purchase prices were based on fair values at the dates of acquisition. The aggregate excess of the purchase prices over the fair value of the net assets acquired (goodwill) of approximately \$61.2 million, excluding Pamida, is being amortized on a straight-line basis over 18 to 22 years. Goodwill associated with the Pamida acquisition of approximately \$186.6 million is being amortized on a straight-line basis over 40 years. The results of operations since the dates of acquisition have been included in the consolidated statements of earnings.

The pro forma effects of these acquisitions, excluding Pamida, were not material on the Company's statements of earnings. The following presents selected unaudited pro forma consolidated statement of earnings information that has been prepared assuming the Pamida acquisition occurred on January 31, 1999 and February 1, 1998, respectively:

	Year To Date (52) Weeks Ended	
<i>(in thousands, except per share data)</i>	<b>Jan. 29, 2000</b>	Jan. 30, 1999
Net sales	<b>\$4,181,567</b>	\$3,630,951
Earnings before extraordinary item	<b>101,190</b>	56,678
Diluted earnings per share before extraordinary item	<b>3.54</b>	2.14

These pro forma results of operations have been prepared for comparative purposes only and do not purport to be indicative of the results of operations which actually would have resulted had the acquisition been consummated on such dates, or for any other future dates or periods, nor do the results give effect to the special charges related to the Pamida acquisition, synergies, cost savings or other charges expected to result from the acquisition of Pamida.

#### C. Short-Term Debt

As of January 29, 2000, the Company had a \$200.0 million revolving credit agreement with a consortium of banks. This credit facility is unsecured and is effective through January 31, 2002. The Company pays an annual facility fee of 1/5 of one percent. In April 1999, the Company negotiated a \$50.0 million unsecured banker's acceptance note which is due April 17, 2000. In September 1999, the Company also negotiated a \$100.0 million unsecured 364-day credit facility and pays an annual facility fee of 0.17 percent. The Company had \$245.0 million outstanding as of January 29, 2000; \$195.0 million outstanding under the revolving credit agreement and \$50.0 million outstanding under the banker's acceptance note. There were no amounts outstanding under the current or prior agreements as of January 30, 1999. The weighted average interest rate on borrowings outstanding as of January 29, 2000 was 6.4%.

The Company's revolving credit agreement has a restrictive covenant which requires maintenance of a minimum net worth. This covenant may potentially limit the payment of dividends. As of January 29, 2000, the Company was in compliance with this covenant; having a net worth balance of \$694.5 million compared to a required balance of \$385.3 million.

The Company also issues letters of credit during the ordinary course of business as required by foreign vendors. As of January 29, 2000 and January 30, 1999, the Company had issued letters of credit for \$25.2 million and \$17.3 million, respectively.

#### D. Long-Term Obligations and Leases

<i>(in thousands)</i>	<b>Jan. 29, 2000</b>	Jan. 30, 1999
Senior Unsecured Notes, 9.0% due November 15, 2004, less unamortized discount of \$87 and \$170, respectively	<b>\$ 72,623</b>	\$ 99,830
Senior Unsecured Notes, 8.5% due March 15, 2002, less unamortized discount of \$33 and \$113, respectively	<b>70,142</b>	99,887
Senior Unsecured Notes, 9.25% due March 15, 2022, less unamortized discount of \$424 and \$443, respectively	<b>99,576</b>	99,557
Senior Unsecured Notes, 6.5% due August 15, 2003, less unamortized discount of \$98 and \$126, respectively	<b>99,902</b>	99,874
Mortgage and other obligations	<b>19,726</b>	20,177
Capital lease obligations	<b>97,531</b>	52,463
	<b>459,500</b>	471,788
Less current portion	<b>6,416</b>	4,597
Long-term obligations	<b>\$453,084</b>	\$467,191

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.

During fiscal 1999, the Company repurchased approximately \$57.1 million of the Senior Notes, resulting in an extraordinary loss of \$3.8 million, net of income tax benefit of \$2.4 million.

The mortgage obligations represent debt collateralized by certain properties assumed in the Penn-Daniels acquisition. The other obligations include industrial revenue bonds and a note payable. The interest rates on this debt range from 5.5% to 8.8% with maturities ranging from March 2002 to March 2009.



Approximate annual maturities of long-term obligations, excluding capital leases, for the five years subsequent to the year ended January 29, 2000 are as follows (in thousands):

Year	Long-Term Obligations
2000	\$ 1,862
2001	1,973
2002	76,823
2003	101,748
2004	73,871
Later	105,692
Total maturities	\$361,969

The Company leases certain stores and equipment under capital leases. Many of these leases include renewal options, and occasionally, include options to purchase. In addition to its capital leases, the Company is obligated under operating leases, primarily for land, buildings and computer equipment.

Minimum future obligations under capital and operating leases in effect at January 29, 2000 are as follows (in thousands):

Year	Capital Lease Obligations	Operating Lease Obligations
2000	\$ 13,834	\$ 26,566
2001	13,756	23,233
2002	13,567	20,176
2003	12,414	17,945
2004	11,560	15,679
Later	125,103	157,861
Total minimum future obligations	190,234	\$261,460
Less interest	(92,703)	
Present value of minimum future obligations	\$ 97,531	

The present values of minimum future obligations shown above are calculated based on interest rates ranging from 7.0% to 14.6% for capital leases determined to be applicable at the inception of the capital leases.

Contingent rent expense, based primarily on sales performance, for capital and operating leases was \$0.9 million in fiscal year 1999 and \$0.5 million in fiscal years 1998 and 1997. Total minimum rental expense, net of sublease income, related to all operating leases with terms greater than one year was \$20.7, \$9.3 and \$5.3 million in fiscal years 1999, 1998 and 1997, 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.

## 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):

	1999	1998
Deferred tax liabilities:		
Property and equipment	\$ 50,637	\$ 33,557
Intangibles	15,880	2,394
Inventory valuation	17,233	11,188
Gain on sale of ProVantage stock	18,694	
Other	2,314	625
Total deferred tax liabilities	104,758	47,764
Deferred tax assets:		
Reserves and allowances	(20,359)	(14,391)
Capital leases	(8,802)	(2,443)
Compensation and benefits	(6,515)	(2,704)
Total deferred tax assets	(35,676)	(19,538)
Net deferred tax liability	\$ 69,082	\$ 28,226

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):

	1999	1998	1997
Current			
Federal	\$ 22,575	\$ 19,419	\$ 27,741
State	7,012	4,572	5,191
Deferred	42,213	12,000	(1,334)
Total provision	\$ 71,800	\$ 35,991	\$ 31,598

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

	1999	1998	1997
Statutory income tax rate	35.0%	35.0%	35.0%
State income taxes, net of federal tax benefits	4.1	4.3	4.3
Goodwill	0.7		
Effective income tax rate	39.8%	39.3%	39.3%

## 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 and Stock Incentive Plan allow the granting of stock options and other equity-based awards 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 4,850,000 shares for issuance under the 1991 and 1995 Stock Option Plans and the 1998 Stock Incentive Plan. Options under the 1991 and 1995 Stock Option Plans and the 1998 Stock Incentive Plan vest generally over two to five years. Most stock options vest immediately upon a change of control. Option activity is summarized as follows (shares/options in thousands):

	Shares	Price Range	Weighted Ave. Exercise Price
Outstanding, February 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)
Cancelled and forfeited	(790)	10.00 – 24.56	(11.41)
Outstanding, January 31, 1998	2,296	10.00 – 28.69	17.32
Granted	324	28.19 – 36.44	30.66
Exercised	(361)	10.00 – 16.25	(12.65)
Cancelled and forfeited	(157)	10.00 – 31.75	(19.52)
Outstanding, January 30, 1999	2,102	10.00 – 36.44	20.02
Granted	1,031	23.31 – 37.63	27.69
Exercised	(246)	10.00 – 20.00	(16.17)
Cancelled and forfeited	(249)	10.00 – 35.13	(28.05)
Outstanding, January 29, 2000	<b>2,638</b>	<b>\$10.00 – \$37.63</b>	<b>\$22.62</b>

	Options Exercisable	Weighted Ave. Exercise Price
January 29, 2000	<b>1,110</b>	<b>\$17.65</b>
January 30, 1999	549	13.39
January 31, 1998	741	13.39

The following tables summarize information about stock options outstanding at January 29, 2000 (shares in thousands):

Range of Exercise Prices	Options Outstanding		
	Shares Outstanding at Jan. 29, 2000	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price
\$10.00 to \$20.00	1,081	5.4 years	\$ 16.20
20.01 to 25.00	925	9.1	23.75
25.01 to 37.63	632	8.9	31.95
<b>\$10.00 to \$37.63</b>	<b>2,638</b>	<b>7.5</b>	<b>\$ 22.62</b>

Range of Exercise Prices	Options Exercisable	
	Shares Exercisable at Jan. 29, 2000	Weighted Average Exercise Price
\$10.00 to \$20.00	951	\$ 16.28
20.01 to 25.00	130	24.56
25.01 to 37.63	29	31.34
<b>\$10.00 to \$37.63</b>	<b>1,110</b>	<b>\$ 17.65</b>

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 pro forma amounts indicated below:

	1999	1998	1997
Net earnings (in thousands)			
As reported	<b>\$102,180</b>	\$ 55,636	\$ 48,845
Pro forma	<b>101,117</b>	53,972	48,325
Diluted net earnings per common share			
As reported	<b>\$ 3.57</b>	\$ 2.10	\$ 1.71
Pro forma	<b>3.54</b>	2.04	1.69

The weighted average fair value of options granted was \$10.82, \$10.96 and \$7.35 per share in fiscal years 1999, 1998 and 1997, respectively.



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:

	1999	1998	1997
Risk-free interest rate	<b>6.4%</b>	5.3%	7.0%
Expected volatility	<b>36.0%</b>	34.0%	35.0%
Dividend yield	<b>0.0%</b>	0.0%	0.0%
Expected option life, standard option (years)	<b>1.0 to 5.0</b>	1.0 to 5.0	2.0 to 5.0

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 25,000 shares and 75,000 shares of restricted stock outstanding at January 29, 2000 and January 30, 1999, respectively.

### G. Employee Benefits

Substantially all employees of the Company are covered by a defined contribution profit sharing plan. The plan for ShopKo and ProVantage employees 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. Pamida's plan matches one-half of the first 5 percent of compensation contributed by participating employees. Contributions were \$13.9, \$14.2 and \$12.8 million for fiscal years 1999, 1998 and 1997, respectively.

The Company also provides certain postretirement benefits, other than pensions. Costs associated with these benefits are accrued during the employee's service period. The annual cost and accumulated benefit obligation associated with these benefits are not material.

### H. Fair Values of Financial Instruments

The carrying amounts of cash, receivables, accounts payable, accrued liabilities and short-term debt 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 long-term obligations (excluding capital leases) at January 29, 2000 and January 30, 1999 are as follows (amounts in thousands):

	January 29, 2000	January 30, 1999
Carrying amount	<b>\$361,969</b>	\$419,325
Fair value	<b>367,633</b>	449,722

### I. Business Segment Information

The Company's reportable segments are based on the Company's strategic business operating units, and include a ShopKo Retail segment (which includes ShopKo stores general merchandise, retail pharmacy and retail optical operations), a Pamida Retail segment (which includes Pamida stores general merchandise and retail pharmacy operations) and a ProVantage segment (which includes health benefit management services, pharmacy mail services, vision benefit management services and health information technology and clinical support services).

The accounting policies of the segments are the same as those described in the summary of significant accounting policies. Intersegment sales and transfers are accounted for at current market prices. The Company evaluates performance based on operating earnings of the respective business segments.



# Notes to Consolidated Financial Statements

ShopKo Stores, Inc. and Subsidiaries

Summarized financial information concerning the Company's reportable segments is shown in the following table (in thousands):

	Fiscal Years		
	1999	1998	1997
Net sales			
ShopKo Retail	\$2,606,883	\$2,351,183	\$2,001,568
Pamida Retail	441,187		
ProVantage	902,390	643,260	458,297
Intercompany*	(52,370)	(35,886)	(25,936)
Total net sales	\$3,898,090	\$2,958,557	\$2,433,929

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

Income from operations			
ShopKo Retail	\$ 159,084	\$ 140,763	\$ 127,269
Pamida Retail	21,467		
ProVantage	18,384	16,160	12,057
Corporate	(28,582)	(26,985)	(28,301)
Income from operations	\$ 170,353	\$ 129,938	\$ 111,025

Depreciation and amortization expenses			
ShopKo Retail	\$ 64,126	\$ 60,106	\$ 53,245
Pamida Retail	10,764		
ProVantage	9,024	6,776	4,715
Corporate	524	708	292
Total depreciation and amortization expenses	\$ 84,438	\$ 67,590	\$ 58,252

Capital expenditures			
ShopKo Retail	\$ 94,168	\$ 85,531	\$ 27,762
Pamida Retail	25,978		
ProVantage	15,872	8,863	3,514
Corporate	15,713	5,331	727
Total capital expenditures	\$ 151,731	\$ 99,725	\$ 32,003

	As of January 29, 2000	As of January 30, 1999	As of January 31, 1998
Assets			
ShopKo Retail	\$1,249,674	\$1,147,221	\$1,040,146
Pamida Retail	548,170		
ProVantage	257,249	198,251	155,010
Corporate	28,196	28,052	55,679
Total assets	\$2,083,289	\$1,373,524	\$1,250,835



## J. Significant Events

### Termination of Combination

On April 2, 1997, the Company and two other parties mutually agreed to terminate a planned business combination. The Company recorded a one-time pre-tax charge of approximately \$2.8 million (\$0.06 per share) during 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 percent 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.

### Treasury Stock Retirement

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

### ProVantage Initial Public Offering

On July 19, 1999, the initial public offering of 6,440,000 shares of ProVantage common stock at \$18.00 per share was completed which included the underwriters' over-allotment option of 840,000 shares. The Company received approximately \$106.0 million in the transaction and recognized a \$56.8 million pre-tax gain. The Company retained approximately 64.5 percent of ProVantage's stock. ProVantage's stock is listed on the New York Stock Exchange under the symbol 'PHS.'

### ShopKo Stock Offering

On July 21, 1999, the Company completed an offering of 4,025,000 shares of common stock at \$38.50 per share. The Company used the net proceeds of approximately \$147.1 million of the offering for repayment of a portion of the debt it assumed in connection with its recent acquisition of Pamida.

### Repurchase of ShopKo Stock

On March 26, 1998, the Company announced that the Board of Directors had authorized the repurchase of up to \$20.0 million of the Company's Common Stock. As of December 6, 1999, 815,600 shares of Common Stock had been repurchased for approximately \$20.0 million. On January 12, 2000, the Company announced that the Board of Directors had authorized the repurchase of another \$20.0 million of the Company's Common Stock. As of March 15, 2000, no shares of Common Stock had been repurchased under this program.



# Notes to Consolidated Financial Statements

ShopKo Stores, Inc. and Subsidiaries

## K. Unaudited Quarterly Financial Information

Unaudited quarterly financial information is as follows:

	Fiscal Year (52 Weeks) Ended January 29, 2000				
<i>(In thousands, except per share data)</i>	First (13 Weeks)	Second (13 Weeks)	Third (13 Weeks)	Fourth (13 Weeks)	Year (52 Weeks)
Net sales	\$ 752,650	\$ 868,488	\$ 1,018,191	\$ 1,258,761	\$ 3,898,090
Gross margin	152,195	183,101	215,036	299,828	850,160
Earnings before extraordinary item	4,313	42,845	9,358	49,440	105,956
Net earnings	537	42,845	9,358	49,440	102,180
Basic earnings per common share before extraordinary item	0.16	1.60	0.31	1.67	3.75
Weighted average shares	26,140	26,810	30,376	29,621	28,237
Diluted earnings per common share before extraordinary item	0.16	1.57	0.30	1.66	3.71
Adjusted weighted average shares	26,591	27,299	30,702	29,786	28,595
Price range per common share*	36 <sup>1</sup> / <sub>16</sub> – 28 <sup>1</sup> / <sub>4</sub>	40 <sup>5</sup> / <sub>8</sub> – 33 <sup>5</sup> / <sub>16</sub>	38 <sup>1</sup> / <sub>4</sub> – 23	25 <sup>3</sup> / <sub>8</sub> – 18 <sup>3</sup> / <sub>16</sub>	40 <sup>5</sup> / <sub>8</sub> – 18 <sup>3</sup> / <sub>16</sub>

	Fiscal Year (52 Weeks) Ended January 30, 1999				
	First (13 Weeks)	Second (13 Weeks)	Third (13 Weeks)	Fourth (13 Weeks)	Year (52 Weeks)
Net sales	\$ 641,700	\$ 672,524	\$ 726,448	\$ 917,885	\$ 2,958,557
Gross margin	139,232	151,937	152,837	218,466	662,472
Earnings before extraordinary item	2,151	5,900	6,964	40,621	55,636
Net earnings	2,151	5,900	6,964	40,621	55,636
Basic earnings per common share before extraordinary item	0.08	0.23	0.27	1.56	2.14
Weighted average shares	25,869	26,067	26,093	26,113	26,035
Diluted earnings per common share before extraordinary item	0.08	0.22	0.26	1.53	2.10
Adjusted weighted average shares	26,346	26,626	26,517	26,592	26,517
Price range per common share*	34 <sup>15</sup> / <sub>16</sub> – 25 <sup>7</sup> / <sub>8</sub>	36 <sup>5</sup> / <sub>8</sub> – 29 <sup>1</sup> / <sub>4</sub>	32 <sup>1</sup> / <sub>2</sub> – 25 <sup>11</sup> / <sub>8</sub>	33 <sup>11</sup> / <sub>16</sub> – 29 <sup>11</sup> / <sub>16</sub>	36 <sup>5</sup> / <sub>8</sub> – 25 <sup>1</sup> / <sub>8</sub>

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



# I

## ndependent Auditors' Report

ShopKo Stores, Inc. and Subsidiaries

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 29, 2000 and January 30, 1999, and the related consolidated statements of earnings, shareholders' equity and cash flows for the year (52 weeks) ended January 29, 2000, the year (52 weeks) ended January 30, 1999 and the year (49 weeks) ended January 31, 1998. 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 auditing standards generally accepted in the United States of America. 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 29, 2000 and January 30, 1999, and the results of their operations and their cash flows for the year (52 weeks) ended January 29, 2000, the year (52 weeks) ended January 30, 1999 and the year (49 weeks) ended January 31, 1998 in conformity with accounting principles generally accepted in the United States of America.

Deloitte & Touche LLP  
Milwaukee, Wisconsin  
March 15, 2000

# S

## hareholders' Information

ShopKo Stores, Inc. and Subsidiaries

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 24, 2000, ShopKo's common shares were held by 944 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, or write to them at:

Norwest Shareowner Services  
P.O. Box 64854  
St. Paul, MN 55164-0854

### 1999 Annual Meeting

The annual meeting of shareholders will be held May 24, 2000 at 10 a.m. at the Radisson Inn, 2040 Airport Drive, Green Bay, Wisconsin, 54313.

### [www.shopko.com](http://www.shopko.com)

ShopKo's website provides a host of information about the company including, but not limited to, Annual Report, 10-K, recent press releases, and other pertinent information.

Written request for information may be directed to:

Investor Relations Department  
ShopKo Stores, Inc.  
P.O. Box 19060  
Green Bay, WI 54307-9060

