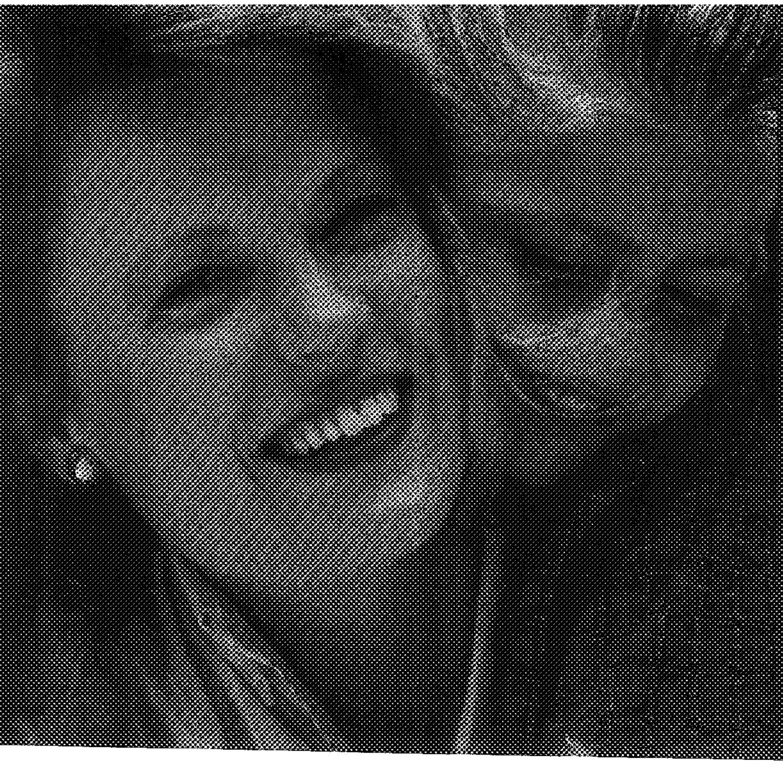

ANNUAL REPORT

Fiscal Year Ended February 26, 1994

AR/S

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on the **future**

full speed ahead to

Vision 2000.

ShopKo® STORES INC.

2-26-94

SHOPKO IS

... Committed to becoming our customers' primary store by offering quality merchandise and service to meet their day-to-day fashion, home, health and family needs with style – at prices they feel good about.

... A true alternative to discount and department stores. Our focus on mainstream America lets us concentrate on understanding and enhancing our customers' lifestyles. Our size lets us remain flexible and adapt to our customers' changing needs.

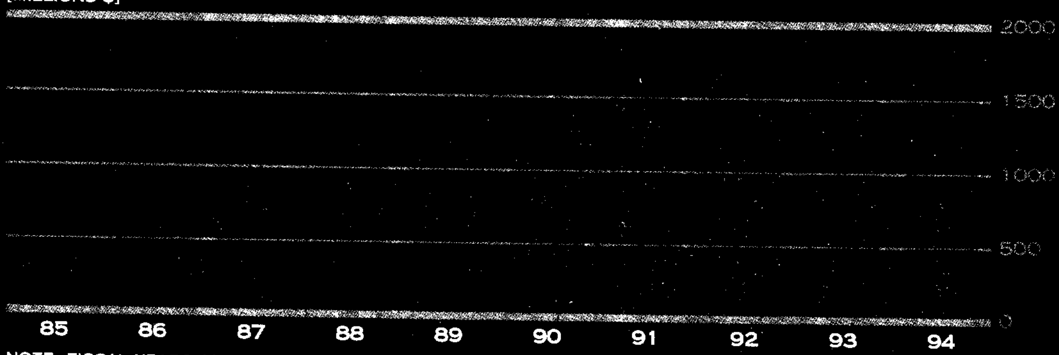
... Absolutely convinced that being truly customer-oriented will keep us first in the customer's mind and will be rewarding to all our stakeholders. As our customers' primary store, it is our goal not only to satisfy them, but to excite them every time they visit us.

FINANCIAL HIGHLIGHTS

ShopKo Stores, Inc. and Subsidiaries

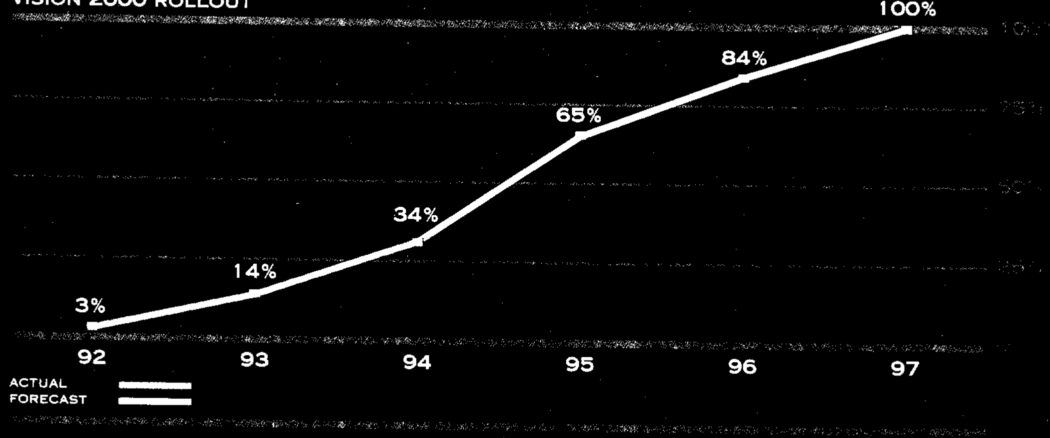
(In thousands, except per share data)	Fiscal years ended February 26, 1994 (52 weeks)	February 27, 1993 (52 weeks)
Net Sales	$ 1,738,746	$ 1,682,854
Net Earnings	32,122	50,059
Net Earnings Per Common Share	1.00	1.56
Dividends Per Common Share	0.44	0.44
Shareholders' Equity	$ 373,706	$ 355,480
Stores Open at Year End	117	111

NET SALES
[MILLIONS $]



NOTE: FISCAL YEARS 1985 AND 1986 ARE UNAUDITED. FISCAL YEARS 1987 AND 1992 ARE 53 WEEK YEARS.

VISION 2000 ROLLOUT



Dale P. Kramer
President and Chief Executive Officer

"We're particularly excited about our VISION 2000 focus and the early results from our new stores!"

TO OUR SHAREHOLDERS

For a company accustomed to record sales and earnings for over a decade, fiscal 1994 (year ending February 26, 1994) was very disappointing. In a difficult year for retailers, an overly aggressive sales plan led to increased promotional activity, with a negative impact on earnings made worse by spring rains and flooding, slow economic recovery, and a soft apparel market. Also, we underestimated the impact and time involved in converting from decentralized to centralized management systems, a move that will make us much more efficient in the long term. As a result, the performance improvements we expected to see immediately have been emerging more gradually. However, because of the quality of our inventory and a stronger sales performance in the fourth quarter, we believe we ended the year positioned to return to significant growth.

Sales for the year were $1.74 billion, reflecting a 3.3 percent increase over the $1.68 billion sales for the prior year. Comparable store sales increased by 1.2 percent. Net earnings were $32.1 million, compared to $50.1 million in the previous year. These earnings translate into $1.00 per share, compared to the prior year's $1.56 per share.

Despite our disappointing financial performance, there were a number of important accomplishments. First, we made significant progress in our store expansion and remodeling program. ShopKo opened six new stores, relocated two, and remodeled 16, bringing 34 percent of our chain into the VISION 2000 format.

We also implemented a host of new systems, processes, and management initiatives. These include new vendor standards to enhance the quality of our merchandise and the use of our expanded distribution centers to flow goods to the stores more efficiently. We improved our cashiering service and productivity levels. We added highly efficient new pharmacy and optical systems. Maintaining our leadership in health care services, we launched ProVantage, a new prescription management service for group health care providers. We reengineered the operation of our central optical lab. Our Gallup Customer Satisfaction Program helped us better focus on customer needs. We retained a new advertising agency to communicate our VISION 2000 focus to customers and deliver greater cost efficiency in our media purchases.

The most important factor in our success, however, will always be people. A number of exceptional managers were promoted and several accomplished individuals were hired, solidifying our management team. Their talents and leadership are key as we continue the transition to centralization and VISION 2000. We are deeply thankful to our associates, who contributed their fullest efforts all year long.

ShopKo continues to face challenges in the coming year: competition and an accelerated remodeling schedule will keep pressure on margins. We've had to make some substantial investments to implement the VISION 2000 strategy; these will exert pressures on fixed expenses and borrowing. But these investments, combined with our improved merchandise assortments, position us as attractive to value-conscious customers. We anticipate the benefits of this positioning will only continue to grow.

We've redefined our market position, our product and our merchandising strategy. We've assembled and refined the knowledge and resources to implement this strategy. The opportunities are great. Our focus has never been stronger. And our commitment to achieving our vision is absolute.

Sincerely,

Dale P Kramer

Dale P. Kramer
President and Chief Executive Officer

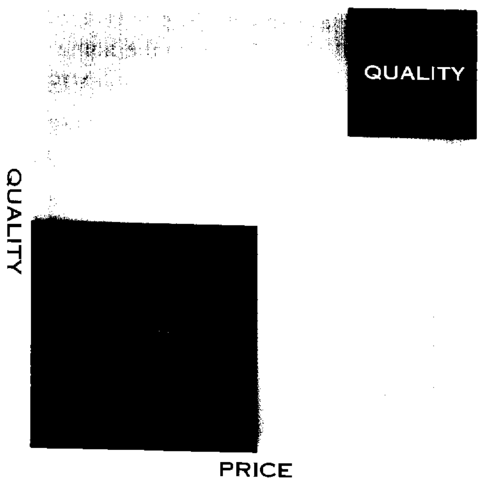
growing strong

MAXIMIZING NEW OPPORTUNITIES FOR GROWTH

When change occurs, winners study it and adapt. In recent years the retail environment has undergone some major changes; ShopKo has responded with a comprehensive strategy for repositioning to achieve continuing growth and greater profitability.

ShopKo initially built its success as a discount store. However, shifting demographics have created significant new opportunities for us. Now there's a growing demand for more value, better product quality, greater variety, timely fashion, and more service—provided at attractive, but not necessarily rock-bottom, prices. We're prepared not only to meet that demand, but to dominate the substantial market it represents in the small to mid-size communities we serve.

IN BROAD TERMS, TODAY'S RETAIL ENVIRONMENT CONSISTS OF THREE SEGMENTS: ONE FOCUSED ON LOW PRICE, ANOTHER ON PREMIUM QUALITY, AND THE THIRD ON VALUE. SHOPKO HAS THE OPPORTUNITY TO LEAD IN VALUE.



In broad terms, today's retail environment consists of three segments. At the bottom is the "price" segment, appealing to consumers willing to compromise in product quality and shopping environment in order to get the lowest possible price. In contrast, at the top is the "quality" segment, appealing to a relatively small number of affluent consumers who place a priority on fashion, quality, and service and who are willing to pay a premium price. In the middle is the "value" segment. We believe that this segment offers the greatest opportunities for ShopKo.

What is the source of these new opportunities?

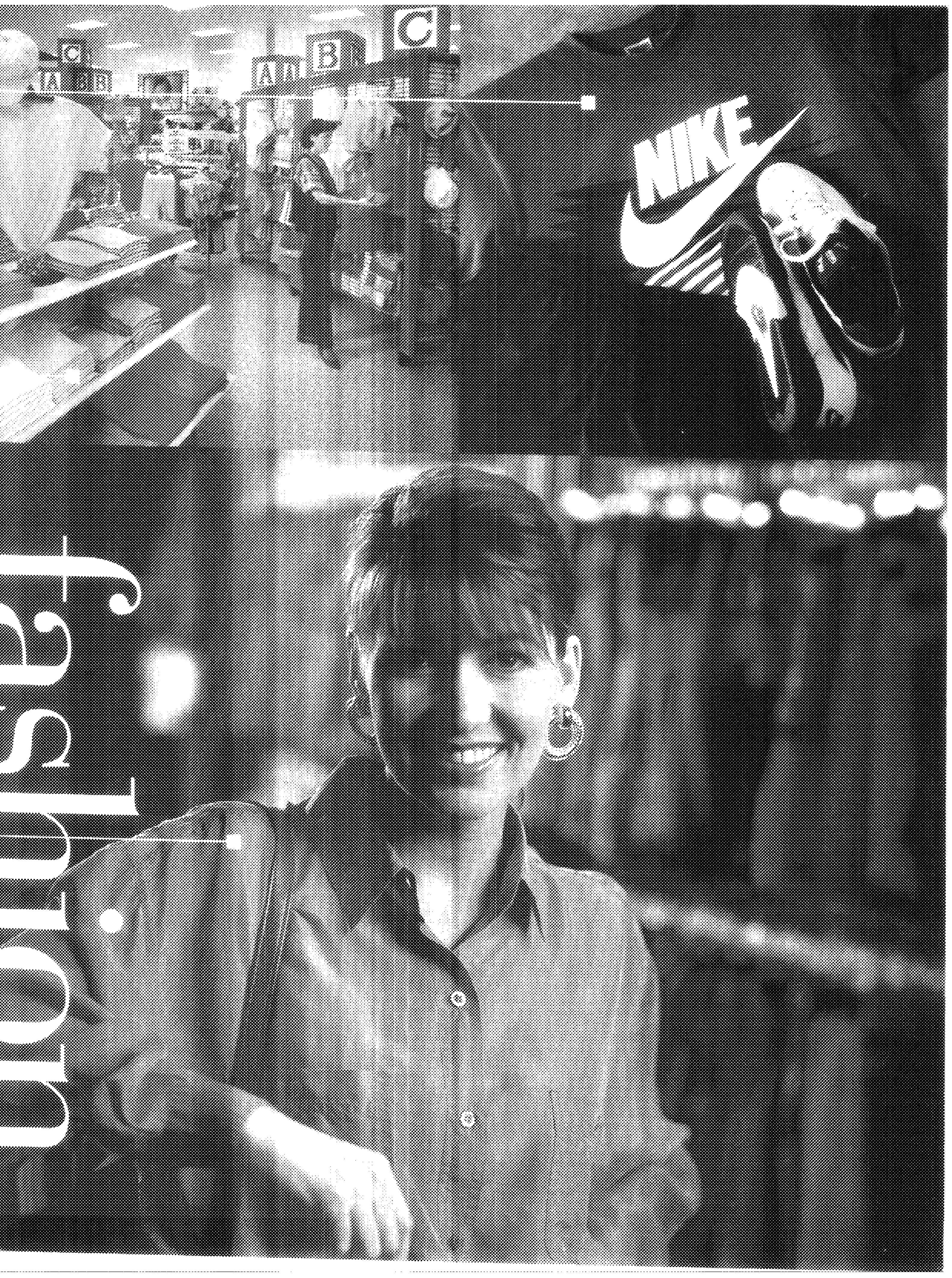
A growing number of consumers who became accustomed to better quality and more fashion choices in the 1980s are now having families and refocusing their financial priorities. They still demand a broader selection of better quality products, a higher taste level, a more attractive, upscale shopping environment, and more responsive customer service than they find in price-driven stores. But they're also very budget-conscious. These are the customers of value-driven stores like ShopKo.

It's true that retail competition has increased. However, our new strategy turns this challenge into an opportunity. The largest and most aggressive retailer competing in our markets is Wal-Mart. But its strengths, strategy and merchandising are driven firmly by price. As a value-driven retailer, ShopKo can and does operate profitably side-by-side with Wal-Mart, meeting a different taste level and capturing a different and growing category of business. Together, we form a new destination area in small and mid-sized markets, where we help keep retail business in town rather than losing it to metropolitan areas.

Selection and value are key elements in our strategy to differentiate ShopKo from discounters focused exclusively on low price. New brand names that customers want, greater variety, and high quality merchandise ensure ongoing product appeal.

The VISION 2000 ShopKo store employs upscale merchandising techniques to communicate our emphasis on style and quality.

Our primary customer is female, age 25 to 50, with a household income level of $20,000 to $50,000. She's typically married, and has children or soon will. With her higher than average education and busy lifestyle, she demands quality, fashion, attentive fast service, and respect, while seeking a value price.


fashion
NIKE

THE CORE STRATEGY

VISION 2000 is our strategy for achieving a new position of strength in the "value" segment of the marketplace. This strategy has a number of components, all designed to work together in establishing ShopKo firmly as a highly profitable growth retailer.

At the center of our VISION 2000 strategy are four areas of excellence: fashion, home, health and family products.

WHEN CUSTOMERS ENTER A VISION 2000 STORE, THEY IMMEDIATELY RECOGNIZE THAT WE'RE OFFERING MERCHANDISE AT A HIGHER TASTE LEVEL, YET THEY FIND OUR PRICES COMPATIBLE WITH THEIR NEED FOR VALUE.

To encourage consumers to shop our entire store rather than just one category, it's critical that we present a consistent quality level across all four areas. We're devoting a great deal of attention to achieving this goal by actively planning our merchandise assortments, studying consumer responses, and fine-tuning our offerings.

One component of VISION 2000 is the use of improved merchandising techniques. With attractive fixtures, displays, and overall presentation, our new and remodeled stores have the look and feel of quality rather than the austere look that identifies "price" segment retailers. Customers entering our stores know immediately that our merchandise is geared toward better quality and a higher taste level.

The merchandise fulfills this expectation and reinforces our differentiation. Because of our size and flexibility, we can respond quickly to market demands and still achieve purchasing efficiencies. Our products are contemporary, their quality standards are high, and they are available in greater variety. The introduction of a number of quality brand names and private label merchandise contributes to the quality and differentiation of our product offerings. Yet consumers also find our prices compatible with their need for value.

We've redefined our product emphasis to yield greater profitability, shifting away from categories where we have limited ability to differentiate ourselves, such as automotive products and hardware, and expanding higher margin apparel and home furnishings departments. Today, our new category of consumers is more willing and able to spend on soft merchandise. By increasing the focus in this direction we'll improve our margin mix, allowing us to remain price competitive in such traffic categories as health and beauty aids.

Our strategy to establish ShopKo in its new market position also includes a level of customer service that clearly differentiates us from the competition. Along with merchandising, product, and pricing considerations, we can appeal to today's consumers by enhancing their shopping experience. They want staff readily available to answer their questions. They associate quality with such amenities as a pleasant, easy-to-shop environment, ample merchandise in stock, and little or no checkout waiting time. ShopKo is committed to delivering such service.

Realization of the VISION 2000 strategy is well under way. The key requirements are adding new stores, remodeling our existing stores, enhancing our quality in fashion and customer service, fully centralizing our management for maximum efficiency, and maintaining high awareness of our goals throughout the organization.

Today's consumers value time spent with their families, and want products that will fit in with their busy schedules and fast-paced lifestyles.

We're adding new vendors to create a merchandise mix that meets the demand for high taste level products and provides high profit margins.

Our knowledgeable and friendly VISION 2000 sales associates are readily available when customers have questions or need assistance.


home

implementation

IMPLEMENTING THE VISION

We made great strides toward implementing the VISION 2000 strategy last year. Having completed a significant expansion of our distribution capabilities, we were able to accelerate our store expansion and remodeling program. With six new stores, two relocated stores and 16 remodels, a third of our entire chain is now using the VISION 2000 format.

The difference VISION 2000 makes is tangible and exciting to consumers—and the results are exciting for ShopKo. Our new merchandising techniques showcase products, making them more visible and appealing to customers than ever before.

WE ARE SEEING EARLY INDICATIONS OF THE POWER OF THE VISION 2000 STRATEGY, AND EXPECT CONTINUED PERFORMANCE IMPROVEMENT.

We are also using the VISION 2000 format more effectively with the implementation of new systems and technologies. Our investment two years ago resulted in three outstanding warehouse and distribution facilities. Today, more than 70 percent of our main store merchandise purchases flow through these distribution centers, enabling us to operate at a lower cost while better meeting the merchandise needs of all our stores.

We strengthened our partnership with vendors, improving our vendor structure and mix, implementing new quality standards to upgrade our merchandise, and working more closely with suppliers to provide product differentiation at competitive prices.

We also enhanced our customer service at a lower cost. We increased our checkout speed while reducing our costs by intensifying training in cashiering techniques. Our new state-of-the-art pharmacy and optical systems let us serve customers more quickly and efficiently. Process improvements in our central optical lab increased productivity and reduced the amount of work sent to outside vendors. We began offering same-day optical lab service in new and remodeled stores, improving our efficiency in processing prescriptions. And we introduced ProVantage, a unique prescription management service and mail service pharmacy which, combined with our already successful retail health care operations, allows us to deliver an unparalleled level of comprehensive pharmacy and optical services to group benefit managers.

Our Gallup program to measure customer service performance in all of our stores, pharmacies and optical centers has focused our associates on what is really important to customers.

Our new advertising agency began communicating VISION 2000 to customers with the campaign, "We'll help you make more of the magic" last Christmas, highlighting ShopKo's strength in seasonal categories, upgraded merchandising and service.

We are encouraged by early sales indications of the success of VISION 2000. By implementing this strategy, we have accelerated our sales and moved into a more differentiated merchandise mix. Stores remodeled last year that weren't affected by competitive openings delivered positive comparable sales increases of 5 percent over the previous year, without increases in the physical size of the stores. We believe this is an early indication of the power of our new strategy. We expect this performance to continue to improve as our customers embrace our new format.

With a clearly focused management team, we look forward to reaping the rewards of last year's accomplishments and investments as we lay the groundwork for even greater rewards ahead.

With our new purchasing and distribution systems, we're bringing products into our stores more efficiently.

By providing high value, our health care area has become extremely profitable.

Consumers trust the quality of our health care products, and appreciate the convenience and personalized service they receive when purchasing them from ShopKo.


OPTICAL

WE'RE FOCUSED ON THE FUTURE

The transition into our new, differentiated market position is gaining momentum, and we're confident that it's the appropriate direction for achieving our long-term goals.

Merchandise repositioning requires time to yield its full rewards: time for fine-tuning our new central functions, for integrating our suppliers into the strategy, and for consumers to learn to look to ShopKo for the new, greater value we offer. Next year will continue to be a transitional period, and we anticipate challenges. Nevertheless, we expect our performance to improve significantly as VISION 2000 implementation progresses.

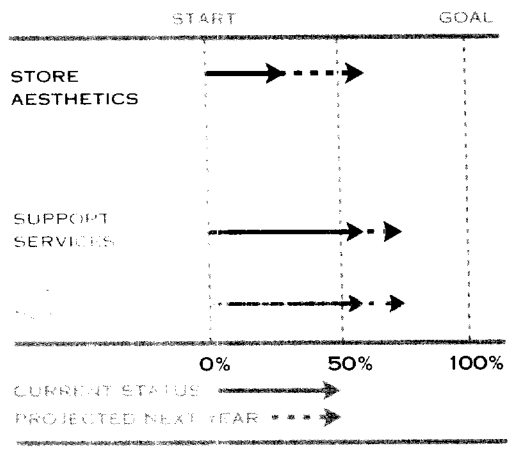
WE ARE GROWING INTO THE FUTURE BY EMPHASIZING OUR STRENGTHS IN A DIRECTION THAT IS CLEARLY APPROPRIATE FOR SHOPKO. AS OUR TRANSITION TO VISION 2000 GAINS MOMENTUM, WE EXPECT SIGNIFICANT PERFORMANCE INCREASES.

We're committed to moving ahead aggressively with the remodeling of 34 of our stores in the coming year. By the 1994 holiday season, nearly two-thirds of all ShopKo stores will be using the VISION 2000 format, and we expect to complete the store transition by fiscal 1997. We believe remodeling acceleration will maximize the sales from existing stores and drive comparable store increases by leading with our four areas of excellence. In addition, we believe expense controls in payroll, advertising, and central processes will have a positive impact on our profitability.

We continue every day to raise the level of quality, fashion, and value throughout our stores. We're also enhancing our service delivery through extensive training of sales associates, a policy of replenishing stores before shopping hours so that associates can focus on assisting customers during the shopping day. We're poised to raise consumer awareness of our VISION 2000 strategy, too: beginning with the upcoming back-to-school season, our new communication strategy, positioning ShopKo as "The Store for You," will spread the message that we're uniquely prepared to meet our customers' need for high value shopping.

We are growing into the future, emphasizing the strengths necessary for our long-term success: the size and market penetration necessary to drive our sales and profitability goals; the flexibility and agility needed to deliver freshness, excitement, and value in our products; and the clear vision to keep us on course.

PROGRESS TO DATE IN OVERALL STRATEGY



By accelerating our store remodels, we're rapidly implementing our new VISION 2000 focus.

At ShopKo, Christmas is fresh and exciting—thanks to our VISION 2000 focus and our ability to offer high value.

Family time is accentuated most during the holidays and special seasons. With our new advertising and merchandising programs, we're capturing customers' attention—and more sales.


Shopko

Management's Discussion and Analysis includes periods when the Company operated as a wholly owned subsidiary of SUPERVALU INC. It should be read in conjunction with the Company's consolidated financial statements and notes.

RESULTS OF OPERATIONS

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

	Fiscal years ended		
	Feb. 26, 1994 (52 Wks.)	Feb. 27, 1993 (52 Wks.)	Feb. 29, 1992 (53 Wks.)
Revenues:			
Net sales	**100.0%**	100.0%	100.0%
Licensed department rentals and other income	**.7**	.7	.7
Costs and expenses:			
Cost of sales	**74.2**	73.0	72.7
Selling, general and administrative expenses	**22.3**	21.8	22.0
Interest expense	**1.2**	1.1	1.1
Earnings before income taxes	**3.0**	4.8	4.9
Provision for income taxes	**1.2**	1.8	1.9
Net earnings	**1.8%**	3.0%	3.0%

Fiscal 1994 Compared to Fiscal 1993

Net sales for fiscal 1994 increased $55.9 million or 3.3%, over fiscal 1993. The Company opened 8 new stores in fiscal 1994 (including 2 relocated stores).

Comparable store sales increased 1.2% for fiscal 1994 compared to 1.5% in fiscal 1993. Management believes that comparable store sales were negatively impacted by unfavorable economic conditions, increased competition, lower consumer confidence and unseasonable spring weather. Comparable store sales increases for a fiscal year are based upon those stores which were open for the entire preceding fiscal year including any relocated stores.

Gross margin as a percentage of sales was 25.8% and 27.0% for fiscal 1994 and 1993, respectively. Pre-tax LIFO expense was $3.7 million for fiscal 1994 as compared to $1.8 million for fiscal 1993. Gross margins, before LIFO expense, were 26.1% in fiscal 1994 as compared to 27.1% in fiscal 1993. The Company attributes the decrease in gross margin percent to the continuation of competitive pricing pressure in the discount marketplace, increased promotional activity, and lower than expected sales in various apparel and seasonal categories.

Selling, general and administrative expenses increased 0.5% of net sales to 22.3% compared with 21.8% in fiscal 1993. The percentage increase is due to low comparable sales growth, increased costs related to the Company's new stores, remodeling programs and continued investment in centralizing certain merchandise and replenishment functions.

Interest expense in fiscal 1994 increased from the prior year by 0.1% to 1.2% of net sales. The increase is primarily due to increased borrowings, partially offset by lower long-term borrowing rates.

The effective tax rate for fiscal 1994 increased to 39.3% as compared to 38.5% for fiscal 1993. The increase is the result of the passage of the Omnibus Budget Reconciliation Act of 1993. Accordingly, the Company recorded additional tax expense of $0.8 million or $0.03 per share.

Fiscal 1993 Compared to Fiscal 1992

Net sales for fiscal 1993 (52 weeks) increased $34.4 million or 2.1%, over fiscal 1992 (53 weeks). On a 52 week basis, the sales increase was 3.6%. Increases in net sales reflect new store openings, sales growth at existing stores and inflation. The Company opened 3 new stores in fiscal 1993 (including one relocated store).

Comparable store sales increased 1.5% for fiscal 1993 compared to 1.7% (on a 52 week basis) in fiscal 1992. Management attributes the lower increase in comparable store sales in fiscal 1993 primarily to increased competition from national competitors as well as lower inflation. Comparable store sales increases for a fiscal year are based upon those stores which were open for the entire preceding fiscal year including any relocated stores.

Gross margin as a percentage of sales was 27.0% and 27.3% for fiscal 1993 and 1992, respectively. Pre-tax LIFO expense was $1.8 million for fiscal 1993 as compared to $5.3 million for fiscal 1992. Gross margins, before LIFO expense, were 27.1% in fiscal 1993 as compared to 27.6% in fiscal 1992.

Selling, general and administrative expenses decreased 0.2% of net sales to 21.8% compared with 22.0% in fiscal 1992. The decrease is due to overall expense control.

Interest expense in fiscal 1993 remained at 1.1% of net sales.

The effective tax rate for fiscal 1993 decreased to 38.5% as compared to 39.0%. The decrease is attributable to a reduction in state income taxes.

Accounting Changes

In fiscal 1994, the Company adopted Statement of Financial Accounting Standards ("SFAS") No. 106, "Employers' Accounting for Postretirement Benefits Other than Pensions" and SFAS No. 109, "Accounting for Income Taxes."

SFAS No. 106 requires the Company to accrue the estimated cost of retiree benefits, other than pensions, during employees' active service period. The Company elected to immediately recognize the accumulated postretirement benefit obligation, resulting in a charge to earnings of $0.6 million or $0.02 per share.

SFAS No. 109, which requires the Company to use the liability method of computing deferred income taxes, had no effect on reported net earnings.

LIQUIDITY AND CAPITAL RESOURCES

The Company relies primarily on cash generated from its operations, with the remaining needs being met from short-term and long-term borrowings. Cash provided from net earnings before depreciation and amortization was $79.5 million, $93.3 million and $90.0 million in fiscal 1994, 1993, and 1992, respectively. The Company's principle uses of cash are for the purchase of property and equipment and increases in working capital.

Working capital increased to $118.8 million at the end of fiscal 1994 from $81.8 million at the end of fiscal 1993 and $78.8 million at the end of fiscal 1992. The increase in working capital in fiscal 1994 resulted principally from increases in inventory (net of accounts payable) as a result of the 6 additional stores opened in fiscal 1994 plus the 5 stores that opened the first week of fiscal 1995.

On October 4, 1993, the Company replaced its $107.5 million revolving credit agreement with a $175.0 million revolving line of credit. This credit agreement is with a consortium of banks, is unsecured and has a term of three years, subject to an extension for an additional year. As of February 26, 1994, the Company had $26.2 million outstanding under the new revolving credit agreement. The weighted average interest rate on borrowings under the revolving credit agreements for fiscal 1994 was 3.4%.

On August 25, 1993, the Company issued $100 million 6.5% senior unsecured notes due August 15, 2003 in the public bond market. The net proceeds of $98.7 million, after underwriting and issuance costs, were used to reduce the Company's short-term debt, for working capital needs and for other general corporate purposes.

On March 12, 1992, the Company issued $100 million 8.5% senior unsecured notes due March 15, 2002 and $100 million 9.25% senior unsecured notes due March 15, 2022 in the public bond market. The net proceeds of $197.1 million, after underwriting and issuance costs, were used to repay the outstanding borrowings under the Company's credit agreement with SUPERVALU INC. of $181.2 million with the remainder being used for working capital and other general corporate purposes.

Capital Expenditures

The Company spent $133.8 million on capital expenditures in fiscal 1994, compared to $91.1 million in fiscal 1993 and $53.4 million in fiscal 1992. The increase in capital expenditures in fiscal 1994 resulted principally from new store expansion and management information and point of sale equipment and systems, offset by reductions from distribution centers due to completion of that expansion project.

The following table sets forth the components of the Company's actual capital expenditures (in millions):

	Fiscal year		
	1994	1993	1992
New stores	**$ 82.4**	$ 32.9	$ 25.4
Remodeling and refixturing	**29.4**	24.7	8.0
Distribution centers	**.7**	21.9	12.8
Management information and point-of sale equipment and systems	**20.1**	10.5	6.6
Other	**1.2**	1.1	.6
Total	**$133.8**	$ 91.1	$ 53.4

A portion of capital expenditures (such as land, site preparation and building construction) is made for new stores in one or more fiscal years prior to their opening. The fiscal year in which such expenditures occur varies depending on the timing of the store opening.

The Company opened 8 new stores (including 2 relocated stores) and remodeled 16 other stores in fiscal 1994. Present plans are to open 7 new stores and remodel 34 other stores in fiscal 1995. Management also anticipates opening 10 new stores in fiscal 1996. The Company's plans with respect to store openings and remodeling may be reviewed and revised from time to time in light of changing conditions. In certain instances, the Company's ability to proceed with projects is subject to successful negotiation of site acquisitions or leases and the availability of financing, and the timing of projects is subject to normal construction and other delays. Thus, it is possible that not all of the projects described above will be commenced and that other projects will be added. The Company's total capital expenditures for new stores, remodels and management information systems is not anticipated to exceed $150.0 million in fiscal 1995.

In comparison to periods of slower expansion, accelerated expansion increases certain of the Company's expenses, particularly pre-opening costs, depreciation and interest expense. The relative increase in these expenses as a percentage of sales is also impacted by the delay between the incurrence of the expenses and the realization of expected sales growth due to such expenditures.

Pursuant to a shelf registration statement filed in the second quarter of fiscal 1994, the Company has available an additional $100 million of debt securities it may sell in the public market. This available debt financing, together with the existing $175 million revolving credit agreement and funds generated from operations, are expected to be sufficient to fund the projected total capital expenditure and working capital needs through fiscal 1995.

Inflation

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

SEVEN YEAR FINANCIAL SUMMARY

ShopKo Stores, Inc. and Subsidiaries

	Fiscal years ended						
	Feb. 26, 1994(1) (52 Weeks)	Feb.27, 1993 (52 Weeks)	Feb. 29, 1992 (53 Weeks)	Feb. 23, 1991 (52 Weeks)	Feb. 24 1990(2) (52 Weeks)	Feb. 25, 1989 (52 Weeks)	Feb. 27, 1988 (52 Weeks)
Summary of Operations (Millions)							
Net sales	**$ 1,739**	$ 1,683	$ 1,648	$ 1,521	$ 1,420	$ 1,248	$ 1,051
Licensed department rentals and other income	**12**	11	11	12	11	10	9
Gross margin	**449**	454	450	415	394	358	296
Selling, general and administrative expenses	**387**	366	363	333	315	291	244
Interest expense	**21**	18	17	21	20	16	13
Earnings before income taxes	**53**	81	81	73	70	61	48
Net earnings	**32**	50	50	45	43	37	27
Per Share Data (Dollars)							
Net earnings per common share	**$ 1.00**	$ 1.56	$ 1.55(3)	$ 1.41(3)	$ 1.33(3)	$ 1.15(3)	$ 0.85(3)
Cash dividends declared per common share (4)	**0.44**	0.44	0.11				
Financial Data (Millions)							
Working capital	**$ 119**	$ 82	$ 79	$ 70	$ 59	$ 57	$ 37
Property and equipment–net	**578**	493	445	432	412	369	313
Total assets	**953**	792	706	692	648	576	485
Total debt (5)	**337**	225	193	215	237	231	193
Shareholders' equity	**374**	355	320	273	228	186	149
Capital expenditures	**134**	91	53	59	80	91	88
Depreciation and amortization	**47**	43	40	39	35	31	25
Financial Ratios							
Current ratio	**1.5**	1.4	1.4	1.4	1.3	1.4	1.3
Return on beginning assets	**4.1%**	7.1%	7.2%	7.0%	7.4%	7.6%	6.9%
Return on beginning shareholders' equity	**9.0%**	15.7%	18.1%	19.7%	22.9%	24.8%	22.3%
Total debt as % of total capitalization (6)	**46.2%**	37.9%	36.7%	42.8%	50.0%	53.9%	54.9%
Other Year End Data							
Stores open at year end	**117**	111	109	104	98	87	75
Average store size–square feet	**90,440**	89,500	87,400	87,200	87,000	85,900	84,700

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

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

(3) 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.

(4) First quarterly dividend was declared in the fourth quarter of fiscal 1992.

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

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

CONSOLIDATED STATEMENTS OF EARNINGS

ShopKo Stores, Inc. and Subsidiaries

(In thousands, except per share data)	**February 26, 1994 (52 Weeks)**	February 27, 1993 (52 Weeks)	February 29, 1992 (53 Weeks)
	Fiscal years ended		
Revenues:			
Net sales	**$ 1,738,746**	$ 1,682,854	$ 1,648,427
Licensed department rentals and other income	**11,859**	11,462	11,627
	1,750,605	1,694,316	1,660,054
Costs and expenses:			
Cost of sales	**1,289,259**	1,228,431	1,198,726
Selling, general and administrative expenses	**387,040**	366,158	362,870
Interest expense	**21,417**	18,274	17,212
	1,697,716	1,612,863	1,578,808
Earnings before income taxes	**52,889**	81,453	81,246
Provision for income taxes	**20,767**	31,394	31,657
Net earnings	**$ 32,122**	$ 50,059	$ 49,589
Net earnings per common share	**$ 1.00**	$ 1.56	$ 2.35
Weighted average number of common shares outstanding	**32,001**	32,000	21,120
Supplemental net earnings per common share			$ 1.55
Supplemental number of common shares outstanding			32,000

See notes to consolidated financial statements.

CONSOLIDATED BALANCE SHEETS

ShopKo Stores, Inc. and Subsidiaries

(In thousands)	**February 26, 1994**	February 27, 1993
Assets		
Current Assets:		
Cash	**$ 2,570**	$ 2,792
Receivables, less allowance for losses of $2,133 and $1,578, respectively	**30,324**	21,070
Merchandise inventories	**328,854**	263,333
Other current assets	**8,759**	9,133
Total current assets	**370,507**	296,328
Other assets and deferred charges	**4,361**	2,329
Property and equipment – net	**578,181**	493,068
Total assets	**$ 953,049**	$ 791,725
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable – trade	**$ 147,152**	$ 125,783
Accrued compensation and related taxes	**21,851**	21,830
Accrued other liabilities	**42,812**	37,683
Accrued income and other taxes	**12,849**	13,409
Short-term debt	**26,200**	15,025
Current portion of long-term obligations	**879**	822
Total current liabilities	**251,743**	214,552
Long-term obligations	**309,604**	208,922
Deferred income taxes	**17,996**	12,771
Shareholders' equity:		
Preferred stock; none outstanding		
Common stock; Shares outstanding, 32,016 in 1994 and 32,000 in 1993	**320**	320
Additional paid-in capital	**242,978**	242,793
Retained earnings	**130,408**	112,367
Total shareholders' equity	**373,706**	355,480
Total liabilities and shareholders' equity	**$ 953,049**	$ 791,725

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

ShopKo Stores, Inc. and Subsidiaries

(In thousands)	Fiscal years ended February 26, 1994 (52 Weeks)	February 27, 1993 (52 Weeks)	February 29, 1992 (53 Weeks)
Cash flows from operating activities:			
Net earnings	**$ 32,122**	$ 50,059	$ 49,589
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Depreciation and amortization	**47,336**	43,275	40,372
Provision for losses on receivables	**63**	143	139
Gain on the sale of property and equipment	**(1,410)**	(240)	(120)
Deferred income taxes	**5,995**	(68)	(3,899)
Change in assets and liabilities:			
Receivables	**(9,317)**	(3,926)	(430)
Merchandise inventories	**(65,521)**	(30,122)	2,016
Other current assets	**(397)**	(1,213)	(1,031)
Other assets	**(1,025)**	(558)	
Accounts payable	**21,369**	9,258	(13,859)
Accrued liabilities	**4,590**	8,649	3,675
Net cash provided by operating activities	**33,805**	75,257	76,452
Cash flows from investing activities:			
Payments for property and equipment	**(133,842)**	(91,060)	(53,391)
Proceeds from the sale of property and equipment	**4,644**	408	1,327
Net cash (used in) investing activities	**(129,198)**	(90,652)	(52,064)
Cash flows from financing activities:			
Net proceeds from long-term obligations	**98,714**	197,112	
Proceeds from short-term debt	**11,175**	15,025	
Issuance of common stock	**185**		240,830
Dividends paid	**(14,080)**	(14,080)	(240,830)
Reduction in capital lease obligations	**(823)**	(784)	(1,446)
Payments to related party		(181,167)	(22,867)
Net cash provided by (used in) financing activities	**95,171**	16,106	(24,313)
Net (decrease) increase in cash	**(222)**	711	75
Cash at beginning of year	**2,792**	2,081	2,006
Cash at end of year	**$ 2,570**	$ 2,792	$ 2,081
Supplemental cash flow information:			
Noncash investing and financial activities –			
Capital lease obligations incurred	**$ 1,769**	$ —	$ 1,871
Cash paid during the period for:			
Interest	**$ 23,248**	$ 15,642	$ 18,339
Income taxes	**$ 15,467**	$ 31,879	$ 42,430

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

ShopKo Stores, Inc. and Subsidiaries

(In thousands, except per share data)	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Retained Earnings
Balances at February 23, 1991	14,750	$ 1	2,282	$271,149
Net earnings				49,589
Stock split effected in the form of stock dividend		147	(147)	
Cash dividend paid to parent prior to initial public offering				(240,830)
Cash dividends declared on common stock – $0.11 per share				(3,520)
Sale of common stock	17,250	172	240,658	
Balances at February 29, 1992	32,000	320	242,793	76,388
Net earnings				50,059
Cash dividends declared on common stock – $0.44 per share				(14,080)
Balances at February 27, 1993	32,000	320	242,793	$112,367
Net earnings				32,122
Issuance of common stock	16		185	
Cash dividends declared on common stock – $0.44 per share				(14,081)
Balances at February 26, 1994	32,016	$320	$242,978	$130,408

See notes to consolidated financial statements.

ShopKo Stores, Inc. and Subsidiaries

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Basis of Presentation:

The consolidated financial statements include the accounts of ShopKo Stores, Inc. and its wholly owned subsidiaries ("ShopKo" or the "Company"). All significant intercompany accounts and transactions have been eliminated. The Company, which is a Minnesota corporation, was incorporated in 1961. On October 16, 1991, the Company sold 17,250,000 common shares or 54% of equity ownership in an initial public offering. Prior to completion of the offering, the Company was a wholly owned subsidiary of Supermarket Operators of America, Inc., ("SOA") which, in turn, is wholly owned by SUPERVALU INC. ("SUPERVALU"). As of February 26, 1994, 46% of the Company's common stock was owned by SUPERVALU.

Accounting Changes:

In fiscal 1994, the Company adopted Statement of Financial Accounting Standards ("SFAS") No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions" and SFAS No. 109, "Accounting for Income Taxes." See Notes D and F.

Accounts Receivable:

Accounts Receivable consist of amounts collectible from merchandise vendors for promotional and advertising allowances, from third party pharmacy insurance carriers, and from store customers for optical, main store layaway, and pharmacy purchases. 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 $39.0 million at February 26, 1994, $35.3 million at February 27, 1993, and $33.5 million at February 29, 1992.

Property and Equipment:

Property and equipment are carried at cost. The cost of buildings and equipment is depreciated over the estimated useful lives of the assets. Buildings and certain equipment (principally computer and retail store equipment) are depreciated using the straight-line method. Remaining properties are depreciated on an accelerated basis. Useful lives generally assigned are: buildings-25 to 40 years; retail store equipment-8 years; warehouse, transportation and other equipment-3 to 10 years. Costs of leasehold improvements are amortized over the period of the lease or the estimated useful life of the asset, whichever is shorter, using the straight-line method. Property under capital leases is amortized over the related lease term using the straight-line method. Interest on property under construction of $2.1, $1.1 and $1.1 million was capitalized in fiscal years 1994, 1993, and 1992, respectively.

The components of property and equipment are (in thousands):

	Feb. 26, 1994	Feb. 27, 1993
Property and equipment at cost:		
Land	**$111,149**	$ 102,394
Buildings	**400,185**	352,426
Property under construction	**26,495**	8,664
Leasehold improvements	**41,836**	40,914
Equipment	**262,604**	221,454
Property under capital leases	**14,599**	14,216
	856,868	740,068
Less accumulated depreciation and amortization:		
Property and equipment	**271,626**	239,344
Property under capital leases	**7,061**	7,656
Net property and equipment	**$578,181**	$ 493,068

Accounts Payable:

Accounts payable include $10.7 and $5.4 million at February 26, 1994 and February 27, 1993, respectively, of issued checks which had not cleared the Company's bank accounts, reduced by deposits in transit and cash on deposit in the Company's depository banks.

Pre-opening Costs:

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

Income Taxes:

In fiscal 1994, 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, in accordance with the Statement of Financial Accounting Standards ("SFAS") No. 109, "Accounting for Income Taxes." Prior to fiscal 1994, the provision for income taxes was calculated in accordance with SFAS No. 96, "Accounting for Income Taxes." In fiscal 1992, the Company's results were included in SUPERVALU's consolidated U.S. federal income tax return for the period through completion of the Company's initial public offering on October 16, 1991. All income tax payments were made by SUPERVALU on behalf of its subsidiaries, a portion of which were allocated to the Company as a charge through the payable to related party account. In effect, the income tax provision was computed on a separate return basis.

Net Earnings Per Share:

Net earnings per share are computed by dividing net earnings by the weighted average number of common shares outstanding. Outstanding stock options do not have a significant dilutive effect on earnings per share.

Supplemental Net Earnings Per Share:

Supplemental net earnings per share are computed by dividing net earnings by 32,000,000 common shares which represent the actual number of shares outstanding after completion of the offering of common stock.

B. SHORT-TERM DEBT

On October 4, 1993, the Company replaced its $107.5 million revolving credit agreement with a $175.0 million revolving line of credit. This revolving line of credit is with a consortium of banks, is unsecured and will expire in three years subject to an extension for an additional year. The Company pays an annual facility and commitment fee of 1/4 of one percent. As of February 26, 1994, the Company had outstanding $26.2 million under this agreement. The weighted average interest rate on borrowings under the credit agreements for fiscal 1994 was 3.4%.

C. LONG-TERM OBLIGATIONS AND LEASES

(In thousands)	Feb. 26, 1994	Feb. 27, 1993
Senior Unsecured Notes, 8.5% due March 15, 2002, less unamortized discount of $295 and $332 respectively	**$ 99,705**	$ 99,668
Senior Unsecured Notes, 9.25% due March 15, 2022, less unamortized discount of $537 and $556 respectively	**99,463**	99,444
Senior Unsecured Notes, 6.5% due August 15, 2003, less unamortized discount of $263	**99,737**	
Industrial Revenue Bond, 6.4% due May 1, 2008	**1,000**	1,000
Capital lease obligations	**10,578**	9,632
	310,483	209,744
Less current portion	**879**	822
Long-term obligations	**$309,604**	$208,922

On August 25, 1993, the Company issued $100 million 6.5% senior unsecured notes due August 15, 2003 in the public bond market. The notes provide for semi-annual interest payments payable on August 15 and February 15 of each year. There is no sinking fund requirement and the notes are not redeemable prior to maturity. The net proceeds of $98.7 million, after underwriting and issuance costs, were used to reduce the Company's short-term debt, for working capital needs and for other general corporate purposes.

On March 12, 1992, the Company issued $100 million 8.5% senior unsecured notes due March 15, 2002 and $100 million 9.25% senior unsecured notes due March 15, 2022 in the public bond market. The notes provide for semi-annual interest payments payable on June 15 and December 15 of each year. There is no sinking fund requirement and the notes are not redeemable prior to maturity. The net proceeds of $197.1 million, after underwriting and issuance costs, were used to repay the outstanding borrowings under the Company's credit agreement with SUPERVALU of $181.2 million with the remainder being used for working capital and other general corporate purposes.

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

The underwriting and issuance costs of all the long-term obligations are being amortized over the terms of the notes using the straight-line method. At February 26, 1994 and February 27, 1993, $2.6 million and $1.8 million remained to be amortized over future periods. Amortized expense for these costs was $0.2 million and $0.1 million for 1994 and 1993, respectively.

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

Amortization of property under capital leases was $0.8, $0.9 and $1.4 million in fiscal years 1994, 1993, and 1992, respectively. Minimum future obligations under capital leases in effect at February 26, 1994 are as follows (in thousands):

Year	Lease Obligations
1995	$ 1,955
1996	1,735
1997	1,705
1998	1,612
1999	1,615
Later	10,215
Total minimum future obligations	18,837
Less interest	8,259
Present value of minimum future obligations	$10,578

The present values of minimum future obligations shown above are calculated based on interest rates ranging from 7.4% to 13.4%, with a weighted average of

10.1%, determined to be applicable at the inception of the leases.

Interest expense on the outstanding obligations under capital leases was $1.0, $1.1 and $1.1 million in 1994, 1993, and 1992, respectively.

Contingent rent expense, based primarily on sales performance, for capital and operating leases was $0.5, $0.6 and $0.7 million in 1994, 1993, and 1992, respectively.

In addition to its capital leases, the Company is obligated under operating leases, primarily for land and buildings. Minimum future obligations under operating leases in effect at February 26, 1994 are as follows (in thousands):

Year	Lease Obligations
1995	$ 3,204
1996	3,151
1997	3,000
1998	2,890
1999	2,446
Later	50,309
Total minimum obligations	$ 65,000

Total minimum rental expense, net of sublease income, related to all operating leases with terms greater than one year was $2.7, $2.6, and $3.1 million in 1994, 1993, and 1992, respectively.

Certain operating leases require payments to be made on an escalating basis. The accompanying consolidated statements of earnings reflect rent expense on a straight-line basis over the term of the leases. An obligation of $0.8 million and $0.4 million, representing pro rata future payments, is reflected in the accompanying consolidated balance sheets at February 26, 1994, and February 27, 1993, respectively.

D. INCOME TAXES

Effective at the beginning of fiscal 1994, the Company adopted Statement of Financial Accounting Standards ("SFAS") No. 109, "Accounting for Income Taxes". This statement supersedes SFAS No. 96, "Accounting for Income Taxes". SFAS No. 109, which requires the Company to use the liability method of computing deferred income taxes, had no effect on reported net earnings or financial position.

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. Significant components of the Company's net deferred tax liability are as follows (in thousands):

	1994
Deferred tax liabilities:	
Tax over book depreciation	**$ 20,901**
LIFO inventory valuation	**6,580**
Other	**1,575**
Total deferred tax liabilities	**29,056**
Deferred tax assets:	
Reserves and allowances	**(9,902)**
Capital leases	**(1,416)**
Total deferred tax assets	**(11,318)**
Net deferred tax liability	**$17,738**

The provision for federal and state income taxes included the following (in thousands):

	1994	1993	1992
Current			
Federal	**$12,562**	$26,269	$29,497
State	**2,560**	5,343	6,207
General business and other tax credits	**(350)**	(150)	(148)
Deferred	**5,995**	(68)	(3,899)
Total provision	**$20,767**	$31,394	$31,657

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

	1994	1993	1992
Statutory income tax rate	**35.0%**	34.0%	34.0%
State income taxes, net of federal tax benefits	**4.1**	4.4	4.5
Other	**0.2**	0.1	0.5
Effective income tax rate	**39.3%**	38.5%	39.0%

During fiscal 1994, enacted changes in the federal income tax laws increased the Company's income tax rate. The liability method of accounting for income taxes requires the effect of a tax rate increase on current and accumulated deferred income taxes to be reflected in the period in which the rate increase was enacted. Accordingly, in fiscal 1994, the Company recorded an additional tax expense of $0.8 million or $0.03 per share.

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

	1994	1993	1992
Excess tax (book) depreciation	**$1,398**	$ 254	$ (540)
LIFO inventory valuation	**5,370**	(75)	(539)
Bad debt and return reserves	**22**	291	(1,001)
Other	**(795)**	(538)	(1,819)
Total Deferred Tax Expense (Benefit)	**$5,995**	$ (68)	$(3,899)

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

E. 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 with 32,016,000 issued and outstanding at February 26, 1994 and 32,000,000 issued and outstanding at February 27, 1993. The Board of Directors approved a 5,900-for-1 common stock split in the form of a stock dividend for shareholders of record on October 15, 1991. Applicable share and per share data have been adjusted for the stock split.

The Company's Stock Option Plan allows the granting of stock options to various officers, directors and other employees of the Company at prices not less than 100 percent of fair market value, determined by the closing price on the date of grant. The Company has reserved 2,400,000 shares for issuance under the plan. These options vest at the rate of 40% on the second anniversary of the grant date and 20% annually thereafter for officers and employees and at the rate of 60% on the second anniversary of the date of grant and 20% annually thereafter for non-employee directors. Changes in the options were as follows (shares in thousands):

	Shares	Price Range
Granted	1,557	$ 15.00
Canceled and forfeited	(18)	15.00
Outstanding, February 29, 1992	1,539	15.00
Granted	56	15.00 - 16.25
Canceled and forfeited	(90)	15.00
Outstanding, February 27, 1993	1,505	15.00 - 16.25
Granted	627	10.13 - 15.00
Canceled and forfeited	(208)	10.88 - 16.25
Outstanding, February 26, 1994	1,924	10.13 - 16.25
Exercisable at February 26, 1994	531	15.00

In fiscal 1994, the Company adopted a Restricted Stock Plan, subject to shareholder approval, 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. During fiscal year 1994, 16,000 shares of restricted stock were issued under this plan.

F. EMPLOYEE BENEFITS

Substantially all employees of the Company are covered by a defined contribution profit sharing plan. In fiscal 1994, the plan provided for two types of company contributions; an amount determined annually by the Board of Directors and an employer matching contribution, in shares of Company stock, equal to one-half of the first 6% of compensation contributed by participating employees. Previous year's contributions were determined by the discretion of the Board of Directors. Contributions were $5.6, $4.4 and $8.3 million for fiscal years' 1994, 1993, and 1992 respectively.

The Company also has a change of control severance agreement with certain key officers. Under this agreement, the officers are entitled to a lump-sum cash payment equal to a multiple of one, two, or three times their annual salary plus a multiple of one, two, or three times their average annual bonus for the three fiscal years immediately preceding the date of termination.

In fiscal 1994, the Company adopted Statement of Financial Accounting Standards ("SFAS") No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions." SFAS No. 106 requires the Company to accrue the estimated cost of retiree benefits, other than pensions, during employees' active service period. The cost of these benefits, which are principally health care, was previously expensed as claims were incurred. The Company elected to immediately recognize the accumulated postretirement benefit obligation, resulting in a charge to earnings of $0.6 million or $0.02 per share.

The net periodic cost for postretirement benefits during fiscal 1994 includes the following (in thousands):

	1994
Service cost for benefits accumulated during the year	$ 77
Interest cost on accumulated benefit obligation	60
Net periodic postretirement benefit cost	$137

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

	February 26, 1994
Retirees	**$ 367**
Active plan participants	**770**
Total accumulated postretirement obligation	**$1,137**

The assumed discount rate used in determining the accumulated postretirement benefit obligation was 7%.

The assumed health care cost trend rate used in measuring the accumulated postretirement benefit obligation was 15% for fiscal 1994 decreasing one percent each successive year until it reaches 6% in fiscal 2003 after which it remains constant. A 1% increase in the health care trend rate would have an immaterial effect on the accumulated postretirement benefit obligation as of February 26, 1994 and on the net periodic cost for the fiscal year then ended.

G. RELATED PARTY TRANSACTIONS

In accordance with service agreements entered into in connection with the initial public offering, general, administrative and other services were allocated to the Company from SUPERVALU. The Company also provided services and allocated general, administrative and other expenses to two wholly owned subsidiaries of SUPERVALU. In such cases, allocations were made using procedures deemed appropriate to the nature of the services involved. Management believes the allocations were made on a reasonable basis. Although these allocations do not necessarily equal the costs which would have been or may be incurred by the Company on a stand-alone basis, management believes that any variance in costs would not be material. The service agreements between ShopKo and SUPERVALU expired in early fiscal 1994.

Selling, general and administrative expenses include the following allocations (in thousands):

	1994	1993	1992
From SUPERVALU to ShopKo	**$ 96**	$1,584	$3,259
From ShopKo to wholly owned subsidiaries of SUPERVALU	**$ 323**	$2,507	$2,036

Purchases of inventory from SUPERVALU were \$9.7, \$15.4, and \$27.5 million for the fiscal years 1994, 1993, and 1992, respectively.

Also, as a result of the initial public offering, the Company and SUPERVALU entered into certain other agreements of which the following are still in effect:

A food products supply agreement under which the Company has agreed to purchase from SUPERVALU, through October 16, 1998, all of the Company's requirements for certain products sold in any food store owned or operated by the Company and located within the geographic areas serviced by SUPERVALU.

A registration rights agreement under which SOA (and certain affiliates of SUPERVALU) has the right to require the Company to file up to three registration statements under the Securities Act.

H. FAIR VALUES OF FINANCIAL INSTRUMENTS

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

Cash, accounts receivable and accounts payable: The carrying amounts of these items are a reasonable estimate of their fair value.

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

The carrying amounts and fair values of the Company's financial instruments at February 26, 1994 are as follows (amounts in thousands):

	Carrying Amount	Fair Value
Short-term debt	$ 26,200	$ 26,200
Long-term obligations:		
Senior Unsecured Notes, due March 15, 2002	99,705	110,422
Senior Unsecured Notes, due March 15, 2022	99,463	118,176
Senior Unsecured Notes, due August 15, 2003	99,737	98,033
Industrial Revenue Bond, due May 1, 2008	1,000	1,000

I. UNAUDITED QUARTERLY FINANCIAL INFORMATION

Unaudited quarterly financial information is as follows:

	Fiscal Year (52 Weeks) Ended February 26, 1994				
(In thousands, except per share data)	First (16 wks)	Second (12 wks)	Third (12 wks)	Fourth (12 wks)	Year (52 wks)
Net sales	$474,599	$355,297	$446,286	$462,564	$1,738,746
Gross margins	125,924	91,463	120,830	111,270	449,487
Net earnings	5,719	2,126	14,061	10,216	32,122
Net earnings per common share	0.18	0.07	0.44	0.32	1.00
Weighted average shares	32,000	32,000	32,000	32,001	32,001
Dividends declared per common share	0.11	0.11	0.11	0.11	0.44
Price range per common share*	15 7/8-12 1/2	13 1/8-10 5/8	11 1/2-9 3/4	12-10	15 7/8-9 3/4

	Fiscal Year (52 Weeks) Ended February 27, 1993				
(In thousands, except per share data)	First (16 wks)	Second (12 wks)	Third (12 wks)	Fourth (12 wks)	Year (52 wks)
Net sales	$468,358	$354,187	$431,527	$428,782	$1,682,854
Gross margins	128,184	90,080	119,618	116,541	454,423
Net earnings	10,928	4,399	17,280	17,452	50,059
Net earnings per common share	0.34	0.14	0.54	0.55	1.56
Weighted average shares	32,000	32,000	32,000	32,000	32,000
Dividends declared per common share	0.11	0.11	0.11	0.11	0.44
Price range per common share*	16 3/4-14 1/8	15 1/4-13	16 3/4-14 3/8	16 1/8-14 1/8	16 3/4-13

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

INDEPENDENT AUDITORS' REPORT

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

We have audited the consolidated balance sheets of ShopKo Stores, Inc. and Subsidiaries as of February 26, 1994 and February 27, 1993 and the related consolidated statements of earnings, shareholders' equity and cash flows for each of the three years (52 weeks, 52 weeks and 53 weeks) in the period ended February 26, 1994. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of ShopKo Stores, Inc. and Subsidiaries as of February 26, 1994 and February 27, 1993, and the results of their operations and their cash flows for each of the three years (52 weeks, 52 weeks and 53 weeks) in the period ended February 26, 1994 in conformity with generally accepted accounting principles.

DELOITTE & TOUCHE
Milwaukee, Wisconsin
March 31, 1994

people are our strength

SHAREHOLDERS' INFORMATION

ShopKo Stores, Inc. common shares are listed on the New York Stock Exchange under the symbol "SKO" and in the newspapers as "ShopKo." As of April 15, 1994, ShopKo's common shares were held by 1,793 record owners.

Transfer Agent and Registrar

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

1994 Annual Meeting

The annual meeting of shareholders will be held June 15, 1994 at 10 a.m. at the Regency Conference Center, 333 Main Street, Green Bay, Wisconsin.

Investor Relations

A copy of the company's 1994 Form 10-K annual report to the Securities and Exchange Commission will be furnished without charge to any shareholder upon writtten request.

Quarterly reports are furnished to shareholders of record by the company's stock transfer agent. Any shareholder whose stock is not registered in the shareholder's name will be furnished quarterly reports without charge upon written request.

All written requests should be directed to:

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

PEOPLE ARE THE DRIVING FORCE AT SHOPKO

From store sales associates to our buyers, from distribution materials handlers to our management and office teams, everyone at ShopKo shares the enthusiasm, commitment, and vision that has kept us at the forefront in our industry. Throughout our organization, our people are our most precious resource, and the source of our strength.

BOARD OF DIRECTORS

Pictured from left to right:
Jack W. Eugster, Michael W. Wright, Jeffrey C. Girard, Bruce G. Allbright, Dale P. Kramer, William J. Tyrrell

Michael W. Wright
Chairman of the Board
Chairman, President
and Chief Executive Officer
of SUPERVALU

Bruce G. Allbright
Former President of
Dayton Hudson Corporation
and former Chairman and
Chief Executive Officer
of Target Stores

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

Jeffrey C. Girard
Executive Vice President and
Chief Financial Officer
of SUPERVALU

Dale P. Kramer
President and
Chief Executive Officer of ShopKo

William J. Tyrrell
Vice Chairman of the Board
Former President of ShopKo

OFFICERS

Dale P. Kramer
President and Chief Executive Officer

Michael J. Bettiga
Vice President, Health Services

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

Lawrence J. Clark
Vice President, Finance

Richard W. Cooper
Vice President,
Distribution, Transportation

C. Scott Copeland
Vice President,
Store Operations, Loss Prevention

Gary B. Hammond
Vice President, Store Operations,
Merchandise Presentation

Steven T. Harig
Senior Vice President,
Replenishment, Distribution

Thomas D. Hendra
Senior Vice President, General
Merchandise Manager, Hardlines/Home

Jeffrey A. Jones
Senior Vice President and
Chief Financial Officer

Mark R. Kennedy
Senior Executive Vice President

Richard S. Lamberg
Vice President, Divisional Merchandise
Manager, Hardlines

Richard T. Laucks
Vice President, Loss Prevention

David A. Liebergen
Senior Vice President,
Human Resources and Secretary

Peter R. Lynn
Vice President, Marketing

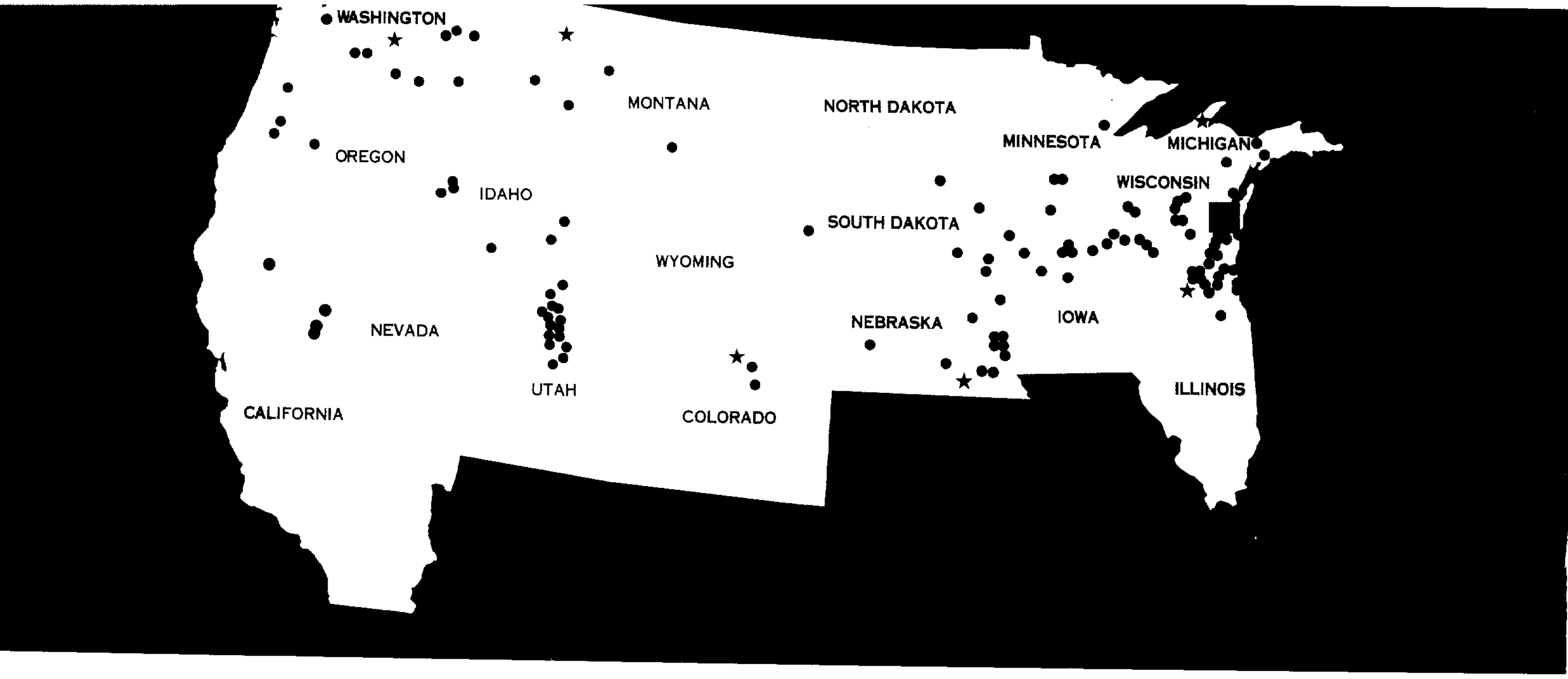
Steve C. Peters
Vice President, Replenishment

Randy L. Roiko
Vice President, Merchandise Operations

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

Walter B. Sandlin
Vice President, Divisional Merchandise
Manager, Hardlines

James F. Tucker
Vice President,
Management Information Systems



STORE LOCATIONS

● SHOPKO STORES

■ GENERAL OFFICE
GREEN BAY, WISCONSIN

△ DISTRIBUTION CENTERS
BOISE, IDAHO
DE PERE, WISCONSIN
OMAHA, NEBRASKA

★ FISCAL 1995 NEW SHOPKO STORE LOCATIONS
MONROE, WISCONSIN
RIVER FALLS, WISCONSIN
HOUGHTON, MICHIGAN
HASTINGS, NEBRASKA
FORT COLLINS, COLORADO
KALISPELL, MONTANA
WENATCHEE, WASHINGTON

California (1)
Redding

Colorado (3)
Fort Collins
Longmont
Loveland

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

Illinois (1)
Dixon

Iowa (3)
Mason City
Sioux City
Spencer

Michigan (4)
Escanaba
Houghton
Kingsford
Marquette

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

Montana (5)
Billings
Great Falls
Helena
Kalispell
Missoula

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

Nevada (3)
Reno (2)
Sparks

Oregon (4)
Bend
Eugene (2)
Salem

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

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

Washington (8)
Kennewick
Lacey
Spokane (2)
Union Gap
Walla Walla
Wenatchee
Yakima

Wisconsin (39)
Appleton
Ashwaubenon
Beaver Dam
Beloit
Chippewa Falls
De Pere
Eau Claire
Fond du Lac
Fort Atkinson
Grafton
Green Bay (2)
Janesville
Kenosha
Kimberly
La Crosse (2)
Madison (3)
Manitowoc
Marinette
Marshfield
Menasha
Monona
Monroe
Neenah
Onalaska
Oshkosh
Racine
River Falls
Rothschild
Sheboygan
Stevens Point (2)
Watertown
Wausau
West Bend
Wisconsin Rapids

ShopKo STORES INC.
700 Pilgrim Way
P.O. Box 19060
Green Bay, WI 54307-9060
414-497-2211