UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

[XX] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 (FEE REQUIRED)

For the fiscal year (52 weeks) ended February 25, 1995

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES ACT OF 1934 (NO FEE REQUIRED)

For the transition period from ____________ to ____________

Commission file number 1-10876

SHOPKO STORES, INC.

(Exact name of registrant as specified in its Charter)

Minnesota	41-0985054
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
700 Pilgrim Way, Green Bay, Wisconsin	54304
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code (414) 497-2211

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, par value $0.01 per share	New York Stock Exchange

Securities registered pursuant to Section 12 (g) of the Act: None.

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

Exhibit Index on Page 24

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

The aggregate market value of the voting stock held by non-affiliates of the Registrant as of April 18, 1995 was approximately $189,407,000 (based upon the closing price of Registrant's Common Stock on the New York Stock Exchange on such date).

Number of shares of $0.01 par value Common Stock outstanding as of April 18, 1995: 32,005,000.

DOCUMENTS INCORPORATED BY REFERENCE

1. Portions of Registrant's Annual Report to Shareholders for the fiscal year ended February 25, 1995 are incorporated into Parts II and IV, as specifically set forth in said Parts II and IV.

2. Portions of Registrant's definitive Proxy Statement filed for Registrant's 1995 Annual Meeting of Shareholders are incorporated into Part III, as specifically set forth in said Part III.

Item 1 Business

General

ShopKo Stores, Inc., a Minnesota corporation, ("ShopKo" or the "Company"), is a leading regional retailer operating 128 retail stores in 15 Upper Midwest, Mountain and Pacific Northwest states as of May 1, 1995. The Company was founded in 1961 and was acquired by SUPERVALU INC. ("SUPERVALU") in 1971. In October 1991, the Company completed the initial public offering of its common stock. The Company's principal executive offices are located at 700 Pilgrim Way, Green Bay, Wisconsin 54304, and its telephone number is (414) 497-2211. As used herein, unless otherwise indicated, the terms "ShopKo" and the "Company" include ShopKo Stores, Inc. and its consolidated subsidiaries.

In fiscal 1995, the Company elected to report segment information about its operations in the general merchandise and health services businesses. General merchandise is the sale of softline and hardline goods in retail stores. Health services include professional pharmacy and optical services provided in the retail stores and prescription benefit management services, pharmacy mail service and claims processing activities, which are generally provided through other facilities. Financial information about these segments is included in Note K of the Notes to Consolidated Financial Statements of the Company's Annual Report to Shareholders for fiscal year 1995.

The Company's net sales derived from sales of softline goods were approximately 26% in fiscal years 1995 and 1994 and approximately 28% in fiscal 1993. Net sales derived from sales of hardline goods were approximately 54%, 55% and 55% in fiscal years 1995, 1994 and 1993, respectively. The Company's net sales derived from health services were approximately 20%, 19% and 17% in fiscal years 1995, 1994 and 1993, respectively.

The Company's fiscal year ends on the last Saturday of February. For example, fiscal 1995 is the period from February 27, 1994 to February 25, 1995.

Merchandising and Services - General Merchandise

The Company carries a wide selection of branded and private label "softline" goods such as women's, men's and children's apparel, shoes, jewelry, accessories and home textiles and "hardline" goods such as housewares, small appliances, furniture, music/videos, toys, sporting goods, cosmetics, seasonal and everyday basic categories. The Company's stores carry a broad assortment of merchandise, thus providing customers with a convenient one-stop shopping source for everyday items. The Company's accommodating customer service policies provide customers with a pleasant shopping experience.

The Company believes that it offers leading brand names in its merchandise lines, concentrating on brands which have wide customer acceptance and provide quality and value. In addition, ShopKo has well-developed private label programs. Virtually all of ShopKo's private label merchandise and direct imports are subjected to independent testing and certification for quality and safety. In addition, the Company has brought in house the capabilities needed to analyze and develop the quality of its fashion offerings. This allows the Company to deliver a better and more consistent product, with greater control and efficiency.

Merchandising and Services - Health Services

The Company also provides professional health care services in most of its stores. Of the Company's 128 stores as of May 1, 1995, 127 include pharmacy centers and 123 include optical centers. In addition to generating store traffic and building customer loyalty, these services contribute significantly to the Company's overall profitability and provide the opportunity for additional growth. Each store with pharmacy and optical centers employs or contracts with an average of approximately three licensed pharmacists, one licensed optometrist and six opticians. The Company's optometrists perform in-store eye exams and prescribe correctional lenses, most of which are fabricated in the Company's 10,000 square foot centralized optical laboratory and in approximately 60 in-store finishing labs. The in-store finishing labs typically service other stores in the vicinity and provide some customers with one-hour or same day optical service.

As an expansion of its traditional retail pharmacy services, in fiscal 1994 the Company launched its prescription benefit management division by forming ProVantage Mail Service, a prescription management and mail service pharmacy that is offered to companies across the country. In January 1995, the Company completed the acquisition of 97% of the outstanding common stock of Bravell, Inc. ("Bravell"). Bravell is a pharmacy benefit management firm that provides custom prescription benefit plan design, a network of approximately 40,000 retail pharmacies, program administration and claims and benefit processing services to insurance companies and self-funded medical plan sponsors. As companies face pressure to reduce rising health care costs, they are increasingly directing employees to participate in managed care pharmacy benefit programs. Prescription benefit management programs control pharmacy costs by supervising decisions regarding which drugs are dispensed and whether they are dispensed by retail or mail service pharmacies. Thus, management believes the Company is positioned to provide employee groups and insurance companies with prescription benefit plans that substantially reduce prescription costs, ultimately reducing the overall cost of health care programs.

Marketing and Advertising

ShopKo markets its general merchandise and professional pharmacy and optical services via weekly newspaper circulars to reach a broad based customer segment consisting largely of middle income families. These full-color circulars average 24 pages and feature values in all departments of the stores and have a circulation of more than 3.0 million. Direct mail vehicles are used selectively at key promotional periods and have a circulation of more than 4.0 million. Virtually all printed advertising materials are designed by the Company's in-house graphic design team and photographed in the Company's own photography studio. In addition to the newspaper circulars, the Company uses television and radio advertising to support the image that ShopKo stores offer quality merchandise and service to meet the customer's lifestyle requirements for casual apparel, home, family and health needs with style, at prices that communicate real value.

ShopKo prices its merchandise so as to be competitive with its discount retail competitors. In general, the Company utilizes its frequent advertising of a large group of specially priced high demand items to reinforce its competitive price image and to generate store traffic, rather than attempting to meet the lowest available price on every item. With its Vision 2000 strategy, the Company believes it has provided its customers with better product quality, greater variety, timely fashion and a more attractive upscale shopping environment at generally competitive prices.

The Company's prescription benefit management division focuses its marketing efforts on self-funded medical plan sponsors and insurance companies. The Company markets its services through an internal sales force and independent brokers. This marketing team customizes each program to meet each client's needs and cost containment goals.

Store Layout and Design

ShopKo stores are designed for customer convenience and for effective merchandise presentation. The Vision 2000 format features a fashion stage at the store entrance to create the upscale image of the store and features casual apparel, home and family goods and professional pharmacy and optical services. As of February 25, 1995, approximately two-thirds of the stores utilized this concept, and by the end of fiscal 1996, 75% of the stores will feature the Vision 2000 format. The previous store layout reserves areas adjacent to the store entrances for the Company's seasonal promotions. Under both designs, the optical and pharmacy centers are placed near the front of the store with the remainder of the store being laid out in a "racetrack" configuration which takes customers between and around departments. The Company's current promotionally priced items are prominently displayed.

In 1991, the Company began remodeling the existing stores in the Vision 2000 format. In fiscal 1995, the Company opened seven new stores and remodeled 32 stores under this format. The Company expects to continue to explore and test alternative store layout and display techniques and merchandise mixes. Depending on the cost of land acquisition, size of store and site preparation work, the Company expects that a typical new store's cost for land acquisition, site preparation, building and fixturing will approximate \$6.0 to \$11.0 million. Remodels, which generally take place approximately every seven to ten years, usually cost from \$0.4 to \$1.5 million per store. A store renovation, where the square footage is expanded or more intensive remodeling is needed, usually costs from \$1.6 to \$3.0 million per store.

The Company's average store size is approximately 90,000 square feet with approximately 84% of the stores greater than 74,000 square feet. The Company continues to open new stores based on one of three standard prototypes; a 99,000 square foot store, an 88,000 square foot store or a 74,000 square foot store. The prototype selected depends on the community and the retail competition in the immediate area. In comparison to old versions, the Company's current prototypes feature a greater portion of store square footage dedicated to selling space and less space dedicated to the storage of inventory.

Store Operations and Management

The Company's policies of promoting store management personnel from within and providing ongoing management training programs provide the Company with a pool of store management talent available to manage new stores as they are opened. The Company's present store managers have been employed by ShopKo in various positions on an average of more than 14 years, and its assistant managers on an average of 8.5 years.

During fiscal 1995, the Company focused on revamping the sales floor, stocking and backroom functions. These initiatives reduced operating costs, improved customer service and provided better in-stock conditions. A new management structure was developed during fiscal 1995 that increases management productivity and effectiveness while reducing the number of managers in each store. The program will be rolled out in nearly one-third of the stores by the end of the third quarter of fiscal 1996.

The Company believes that a very important element in its strategy to differentiate ShopKo is a strong emphasis on customer service. The Company's "Gallup Customer Satisfaction Monitors" measure and quantify customer service in all stores. The results have shown that nearly 85% of the customers surveyed gave ShopKo top ratings for overall satisfaction.

ShopKo maintains an extensive loss prevention program. The Company believes that this program, which incorporates a consistently firm stance in dealing with shoplifting and other forms of theft, has been effective in minimizing its losses.

Purchasing and Distribution

ShopKo purchases merchandise from more than 4,100 vendors with its ten largest vendors accounting for approximately 24% of the Company's purchases during fiscal 1995. The Company believes that most merchandise, other than branded goods, is available from a variety of sources. Approximately 700 vendors were linked to the Company's EDI purchase order systems as of February 25, 1995. Vendors will continue to be added over the next several years. A number of vendors are now electronically receiving point-of-sale information, allowing them to respond to changing inventory levels in the stores. The Company has also implemented the use of electronic purchase order acknowledgments issued by vendors based on the sales information they have received.

The Company continues to upgrade its merchandise planning, allocation and control systems. In addition, SKU level physical inventories were completed for the entire chain during fiscal 1995 which has significantly improved perpetual inventory accuracy. Management believes these upgrades and improvements in the physical inventory process will allow the Company to more effectively manage in-stock positions and better manage merchandise assortment.

Direct imports accounted for approximately 5% of the Company's purchases during fiscal 1995. The Company buys its imported goods, principally in the Far East, and ships the goods to its distribution centers for distribution to the stores.

The expansion of the three distribution centers which was completed in fiscal 1993 has enabled the Company to increase the proportion of its merchandise purchased directly from manufacturers (thus reducing its cost of goods), to reduce direct vendor-to-store deliveries (thus reducing freight charges and cost of goods through consolidated volume purchasing) and to increase the pick and pull capabilities allowing the Company to increase its deal buying (thus reducing its cost of goods). The Company anticipates that these cost reductions will help it remain price competitive. During fiscal 1995, approximately 80% of the merchandise sold by the Company (excluding optical and pharmaceutical drugs) flowed through its distribution centers.

ShopKo's shoe department (other than athletic shoes) is in every store and is the principal department operated by a third party under license. The Company retains a percentage of the gross proceeds collected as rent.

Management Information Systems

ShopKo uses information technology to improve customer service, reduce operating costs and provide information for management decision support. The Company utilizes modern point-of-sale terminal systems for electronic price lookup and tracking sales information at store and SKU level. Integrated earth satellite communications systems are used to provide on-line credit card and check authorization. Portable radio-frequency terminals are used extensively in the stores for merchandise receiving, putaway, replenishment, pricing and label printing. The Company also makes extensive use of automated labor scheduling systems within the stores.

The Company's new pharmacy and optical systems have enhanced business and recordkeeping efficiencies and improved the Company's ability to pursue third party contracts. The Company's prescription benefits management division operates an electronic network tying in approximately 40,000 retail pharmacies to process third-party claims.

ShopKo's warehouse management and financial systems are state-of-the-art software packages. The warehouse management systems operate in a distributed processing environment, providing complete warehouse functionality such as conveyor control and direction of picking and putaway processes via portable radio-frequency terminals. The warehouse management systems communicate back to the central computers over the earth satellite network to update perpetual inventory records and accounting systems. The financial systems provide complete retail general ledger, accounts payable, asset management and payroll functions.

During fiscal 1995, the Company moved from a purely mainframe computer environment to a networked client/server architecture in the general office. The fiber optic network now connects over 700 personal computer workstations to a collection of server computers. An extension of the network into all stores and distribution centers is under development to provide multi-media training and electronic mail capabilities to all sites.

The Company is in the process of replacing its merchandise applications with an open architecture, client/server system running on a massively parallel processor. This new application will become the centerpiece of a large retail systems integration strategy. The Company has also begun a project to re-engineer its advertising systems to integrate planning, production and analysis of advertising activities.

Expansion

The Company opened seven new stores and remodeled 32 stores in fiscal 1995. So far during fiscal 1996, the Company has opened four new stores, and present plans are to open one additional store and remodel 13 stores during the remainder of fiscal 1996. New store and remodeling plans for fiscal 1997 are under review. Furthermore, the Company may consider the acquisition of existing stores (either at single sites or in groups as part of an existing business) which may be in addition to the new store openings in fiscal 1996 and which may replace, in whole or in part, new store construction in years after 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 is intensifying its prescription benefit management marketing efforts in several states and metropolitan areas that it believes represent the greatest opportunity for growth. The Company currently has over 600,000 plan participants. Plan participants are persons who are enrolled in or are entitled to benefits under a health plan. The Company anticipates significant growth by the end of fiscal 1996.

Competition

The discount general merchandise business is very competitive. ShopKo competes in most of its markets with a variety of national, regional and local discount stores. In addition, department stores compete in some branded merchandise lines, discount specialty retail chains compete in some merchandise lines such as electronics and toys, and drug and optical operations compete with some of ShopKo's pharmacy and optical centers. The Company believes that the principal competitive factors in its markets include store location; pricing; breadth and quality of product selection; attractiveness and cleanliness; responsiveness to changing customer tastes and regional and local trends; customer service; in-stock availability of merchandise; and advertising.

The Company's principal national general merchandise discount chain competitors are Wal-Mart, Kmart and Target, each of which is substantially larger than, and has greater resources than, the Company. Kmart stores directly compete with virtually all of the Company's stores, Wal-Mart stores directly compete with approximately 62% of its stores and Target stores directly compete with approximately 50% of its stores. In addition, some of the Company's stores are impacted by the presence of a Wal-Mart store in the general market even though the Company does not believe those stores to be in direct competition with its stores. The Company estimates that at the end of fiscal 1995, approximately 80% of its stores were either in direct competition with or indirectly impacted by the presence of a Wal-Mart store. The Company also competes with regional chains in some markets in the Midwest and the Pacific Northwest. The Company expects Wal-Mart and Target to continue to open stores competing with stores operated by the Company. Historically, the entry of one of these chains into an area served by one of the Company's stores generally has had an adverse effect on the affected ShopKo store's sales growth for approximately 12 months, after which time the ShopKo store generally has resumed a positive growth trend, and such entry often has resulted in permanently intensified price competition. The Company's efficiency measures and distribution center expenditures are important aspects of its efforts to maintain or improve operating margins and market share in these markets. However, Kmart's decision to close some of its stores resulted in six Kmart stores closing that were located in ShopKo's markets.

The prescription benefit management industry is a dynamic growing field and very competitive. The Company believes that its primary competitive factors are advanced technologies which allow it to be a low cost operator able to offer flexibility in plan design while delivering an extremely high quality of service. The Company competes for health care clients with a number of prescription benefit management companies including PCS, Inc. (a subsidiary of Eli Lilly and Co.), Medco Containment Services, Inc. (a subsidiary of Merck & Co., Inc.), Express Scripts, Inc., Caremark International, Inc., TDI, Inc. (a subsidiary of Thrift Drug Company, Inc.) and Diversified Pharmaceutical Services, Inc. (a subsidiary of Smith Kline Beecham), each of which is substantially larger than, and has greater resources than, the Company with respect to prescription benefit management.

Seasonality

The general merchandise operations of the Company are highly seasonal, with the third and fourth fiscal quarters contributing a significant part of the Company's earnings due to the Christmas selling season. Because the Company's fiscal year ends on the last Saturday in February, the Christmas selling season impacts both the third and fourth fiscal quarters.

Employees

As of February 25, 1995, the Company employed approximately 19,500 persons, of whom approximately 9,200 were full-time employees and 10,300 were part-time employees. During the Christmas shopping season, the Company typically employs approximately 2,000 additional persons on a temporary basis. None of the Company's employees are covered by collective bargaining agreements.

Government Regulation

The Company's health services business is subject to extensive federal and state laws and regulations governing, among other things, licensure and operation of retail optical centers; licensure and operation of retail and mail service pharmacies; dispensation of controlled substances; restrictions, controls and licensure requirements pertaining to prescription benefit managers; and restrictions and guidelines on referral payments and reimbursement under federal and state medical assistance programs. Additionally, legislative and regulatory initiatives pertaining to such health care related issues as reimbursement policies, payment practices, and other health care cost containment issues are frequently introduced at both the state and federal level. The Company is unable to predict accurately whether or when legislation may be enacted or regulations may be adopted relating to the Company's health services operations or what the effect of such legislation or regulation may be.

The Company's management believes the Company is in substantial compliance with, or is in the process of complying with, all existing statutes and regulations material to the operation of the Company's health services business and, to date, no state or federal agency has taken enforcement action against the Company for any material non-compliance, and to the Company's knowledge no such enforcement against the Company is presently contemplated.

Item 2 PROPERTIES

As of May 1, 1995, the Company operated 128 retail stores located in 15 Upper Midwest, Mountain and Pacific Northwest states. The following table sets forth the geographic distribution of the Company's present stores:

STATE	# OF STORES	STATE	# OF STORES
California	1	Montana	5
Colorado	3	Nebraska	11
Idaho	8	Nevada	3
Illinois	2	Oregon	4
Iowa	3	South Dakota	6
Michigan	4	Utah	15
Minnesota	13	Washington	9
		Wisconsin	41
		TOTAL	128

Of the Company's 128 stores, ShopKo Stores, Inc. owns the land and building outright with respect to 81 stores, owns the building subject to a ground lease with respect to five stores and leases the land and building with respect to 11 stores. The Company's wholly-owned subsidiary, ShopKo Properties, Inc., owns the land and building outright with respect to 27 stores, owns the building subject to a ground lease with respect to three stores and leases the land and building with respect to one store. The ground leases expire at various dates ranging from 2012 through 2038 and the other leases expire at various dates ranging from 1995 through 2020.

The Company's other principal properties are as follows:

Location	Use	Sq. Ft of Building Space	Title
Green Bay, WI	Corporate Headquarters	228,000	Owned
Green Bay, WI	Corporate Headquarters - Annex	21,000	Leased
Wisconsin Rapids, WI	Information Services Dept. Satellite Office	1,300	Leased
De Pere, WI	Distribution Center	265,000	Owned
Boise, ID	Distribution Center	210,000	Owned
Omaha, NE	Distribution Center	50,000	Owned
Green Bay, WI	Return Center	68,500	Owned
Green Bay, WI	ProVantage Mail Service	10,000	Leased
Brookfield, WI	Bravell Claims Management	6,900	Leased

Item 3 LEGAL PROCEEDINGS

The Company is involved in various litigation matters arising in the ordinary course of its business. Management believes that none of this litigation will have a material adverse effect on the Company's financial condition or results of operations.

Item 4 SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

There was no matter submitted during the fourth quarter of fiscal year 1995 to a vote of the security holders of Registrant.

EXECUTIVE OFFICERS OF THE REGISTRANT

Name	Age	Position	Served in Current Position Since	Employed by the Company Since
Dale P. Kramer	56	President, Chief Executive Officer & Director	1991	1971
William J. Podany	48	Executive Vice President, Merchandising and Marketing	1994	1994
Jeffrey A. Jones	48	Senior Vice President/Chief Financial Officer	1993	1993
Thomas D. Hendra	49	Senior Vice President, General Merchandise Manager, Hardlines/Home	1991	1970
Steven T. Harig	40	Senior Vice President, Planning, Replenishment and Analysis, Distribution	1993	1989
David A. Liebergen	48	Senior Vice President, Human Resources and Secretary	1993	1973
Roger J. Chustz	45	Senior Vice President, General Merchandise Manager, Apparel	1993	1993
Lawrence J. Clark	47	Vice President, Finance	1992	1970
Michael J. Bettiga	41	Senior Vice President, Health Services	1995	1977
C. Scott Copeland	47	Senior Vice President, Store Marketing	1995	1970
Gary B. Hammond	46	Senior Vice President, Stores	1995	1970
Peter R. Lynn	36	Senior Vice President, Planning & Research	1995	1993
L. Terry McDonald	52	Senior Vice President, Advertising	1994	1994
James F. Tucker	50	Senior Vice President/Chief Information Officer	1995	1994

There are no family relationships between or among any of the executive officers of the Company.

The term of office of each executive officer is from one annual meeting of the directors until the next annual meeting of directors or until a successor for each is selected.

There are no arrangements or understandings between any of the executive officers of the Registrant and any other person (not an officer or director of the Registrant acting as such) pursuant to which any of the executive officers were selected as an officer of the Registrant.

Each of the executive officers of the Company has been in the employ of the Company for more than five years, except for William J. Podany, Jeffrey A. Jones, Roger J. Chustz, Peter R. Lynn, L. Terry McDonald and James F. Tucker.

Mr. Podany has been Executive Vice President of ShopKo since November 1994. He has held senior merchandising executive officer positions with Allied Stores, May Department Stores and Carter Hawley Hale since 1978. From 1992 to 1994, Mr. Podany was Executive Vice President-Merchandising of Carter Hawley Hale, a federation of four department store chains. From 1987 to 1992, he was Senior Vice President and General Merchandise Manager of Thalhimer's and Sibley's, both divisions of May Department Stores. Mr. Podany has held a broad range of other retail merchandising positions since beginning his career in 1969.

Mr. Jones has been Senior Vice President and Chief Financial Officer of the Company since November 1993. Mr. Jones was Senior Vice President and Chief Financial Officer for Trans World Music Corporation from 1990 through 1993. Mr. Jones also held various executive positions at Household Merchandising, Inc. and Lane Bryant, Inc., a subsidiary of The Limited, Inc.

Mr. Chustz has been Senior Vice President, General Merchandise Manager, Apparel of ShopKo since October 1993. Mr. Chustz also served as Vice President, General Merchandise Manager, Apparel from March 1993 to October 1993. Mr. Chustz was employed by Maison Blanche in various positions from 1975 through 1992, most recently as Senior Vice President, General Merchandising Manager. Mr. Chustz also served as President of Brocato immediately prior to joining the Company.

Mr. Lynn has been Senior Vice President, Planning and Research of the Company since February 1995. Mr. Lynn also served as Vice President, Marketing from February 1994 to February 1995 and Director of Strategic Planning from February 1993 to February 1994. Mr. Lynn was previously in the management consulting practice of Deloitte and Touche LLP.

Mr. McDonald has been Senior Vice President, Advertising of the Company since July 1994. Mr. McDonald was Senior Vice President, Marketing with Payless Shoe Source from 1988 to 1994 and Senior Vice President Advertising & Sales Promotion with M. O'Neil Co., from 1986 to 1988. Payless Shoe Source and M. O'Neil Co. are both divisions of May Department Stores. Mr. McDonald also held various merchandising and marketing positions with Cain-Sloan Co., an Allied Stores Division, including Vice President, General Merchandise Manager, Home and Vice President Advertising and Sales Promotion.

Mr. Tucker has been Senior Vice President-Chief Information Officer of the Company since February 1995 and served as Vice President, Management Information Services from January 1994 to February 1995. Mr. Tucker was Vice President of Management Information Services with Trans World Music Corporation from 1991 through 1993. Mr. Tucker was also Vice President of Management Information Services with Chess King, Division of Melville Corporation, from 1984 until 1991.

PART II

Item 5 MARKET FOR THE REGISTRANT'S COMMON EQUITY AND RELATED SHAREHOLDER MATTERS

The information called for by Item 5 as to the principal market upon which the Registrant's Common Stock is traded and as to the approximate record number of shareholders of the Registrant is hereby incorporated by reference to the Registrant's Annual Report to the Shareholders for fiscal year 1995 (Exhibit 13) page 24.

The information called for by Item 5 as to the Registrant's quarterly dividends and quarterly stock price ranges for the last two fiscal years is hereby incorporated by reference to Note J of the Notes to Consolidated Financial Statements of the Registrant's Annual Report to the Shareholders for fiscal year 1995 (Exhibit 13) page 23.

The Registrant'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 February 25, 1995, the Company was in compliance with this covenant; having a net worth balance of $397.3 million compared to a required balance of $350.0 million.

Item 6 SELECTED FINANCIAL DATA

The information called for by Item 6 is incorporated by reference to the Registrant's Annual Report to the Shareholders for fiscal year 1995 (Exhibit 13) page 13.

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

The information called for by Item 7 is incorporated by reference to the Registrant's Annual Report to the Shareholders for fiscal year 1995 (Exhibit 13) pages 10, 11 and 12.

Item 8 FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The information called for by Item 8 is incorporated by reference to the Registrant's Annual Report to the Shareholders for fiscal year 1995 (Exhibit 13) pages 14 through 23.

Item 9 CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

PART III

Item 10 DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information called for by Item 10, as to Directors of the Registrant and the information required by Item 401 of Regulation S-K, is incorporated by reference to the Registrant's definitive Proxy Statement dated May 9, 1995 filed with the Securities and Exchange Commission pursuant to Regulation 14A in connection with the Registrant's 1995 Annual Meeting of Shareholders. Information regarding executive officers is included in Part I above.

Item 11 EXECUTIVE COMPENSATION

The information called for by Item 11 is incorporated by reference to the Registrant's definitive Proxy Statement dated May 9, 1995 filed with the Securities and Exchange Commission pursuant to Regulation 14A in connection with the Registrant's 1995 Annual Meeting of Shareholders.

Item 12 SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information called for by Item 12 is incorporated by reference to the Registrant's definitive Proxy Statement dated May 9, 1995 filed with the Securities and Exchange Commission pursuant to Regulation 14A in connection with the Registrant's 1995 Annual Meeting of Shareholders.

Item 13 CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information called for by Item 13 is incorporated by reference to the Registrant's definitive Proxy Statement dated May 9, 1995 filed with the Securities and Exchange Commission pursuant to Regulation 14A in connection with the Registrant's 1995 Annual Meeting of Shareholders.

PART IV

Item 14		EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K	
			Page on this Form 10-K
(a)	1.	Financial Statements:	
		The following consolidated financial statements of ShopKo Stores, Inc. and Subsidiaries are included in Part II, Item 8 (which incorporates information by reference to the Registrant's 1995 Annual Report to Shareholders (Exhibit 13)):	17
		Independent Auditors' Report	
		Consolidated balance sheets as of February 25, 1995 and February 26, 1994	
		Consolidated statements of earnings for each of the three years in the period ended February 25, 1995	
		Consolidated statements of cash flows for each of the three years in the period ended February 25, 1995	
		Consolidated statements of shareholders' equity for each of the three years in the period ended February 25, 1995	
		Notes to consolidated financial statements	
	2.	Consolidated Financial Statement Schedules for ShopKo Stores, Inc. and Subsidiaries:	
		Selected Quarterly Financial Data - for the two years ended February 25, 1995 - included in Part II, Item 8 (which incorporates information by reference to the Registrant's 1995 Annual Report to Shareholders (Exhibit 13))	17

All other schedules are omitted because they are not applicable or not required.

3. Exhibits

See Exhibit Index on pages 24 to 28.

Pursuant to Regulation S-K, Item 601(b) (4) (iii), the Registrant hereby agrees to furnish to the Commission, upon request, a copy of each instrument and agreement with respect to long-term debt of the Registrant and its consolidated subsidiaries which does not exceed 10 percent of the total assets of the Registrant and its subsidiaries on a consolidated basis.

(b) Reports on Form 8-K:

No report on Form 8-K was filed during the fourth fiscal quarter of fiscal year 1995 ended February 25, 1995. A Form 8-K was filed during the third fiscal quarter with respect to the resignation of Mr. Mark Kennedy, Senior Executive Vice President.

SIGNATURES

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

SHOPKO STORES, INC. (Registrant)

Date: May 23, 1995

By: [signature]
Dale P. Kramer
Chief Executive Officer and Director

Pursuant to the requirements of the Securities Exchange Act of 1934, this report to be signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated:

Signature	Title	Date
Michael W. Wright	Chairman of the Board of Directors	May 23, 1995
William J. Tyrrell	Vice Chairman of the Board of Directors	May 23, 1995
Dale P. Kramer	President, Chief Executive Officer and Director	May 23, 1995
Jeffrey A. Jones	Senior Vice President/Chief Financial Officer	May 23, 1995
Jeffrey C. Girard	Director	May 23, 1995
Jack W. Eugster	Director	May 23, 1995

INDEPENDENT AUDITORS' REPORT

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

We have audited the consolidated financial statements of ShopKo Stores, Inc. and Subsidiaries as of February 25, 1995 and February 26, 1994 and for each of the three years (52 weeks) in the period ended February 25, 1995 and have issued our report thereon dated March 31, 1995; such consolidated financial statements and report are included in your 1995 Annual Report to Shareholders and are incorporated herein by reference. Our audits also included the consolidated financial statement schedule of ShopKo Stores, Inc. and Subsidiaries, listed in Item 14. This consolidated financial statement schedule is the responsibility of the Company's management. Our responsibility is to express an opinion based on our audits. In our opinion, such consolidated financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

Deloitte & Touche LLP

DELOITTE & TOUCHE LLP
Milwaukee, Wisconsin
March 31, 1995

ShopKo Stores, Inc. and Subsidiaries
Schedule VIII–Valuation and Qualifying Accounts
(In thousands)

	Balance at beginning of year	Charged to costs and expenses	Deductions (Additions)	Balance at end of year
Year (52 weeks) ended February 27, 1993:				
Allowance for losses	$ 2,378	$ 143	$ 943 *	$ 1,578
Year (52 weeks) ended February 26, 1994:				
Allowance for losses	$ 1,578	$ 63	$ (492)*	$ 2,133
Year (52 weeks) ended February 25, 1995:				
Allowance for losses	$ 2,133	$ 287	$ (1,170)*	$ 3,590
Inventory valuation reserves	0		(5,500)	5,500
Total	$ 2,133	$ 287	$ (6,670)	$ 9,090

*Net of charges to accounts other than bad debt expense, primarily promotion and advertising.

EXHIBIT INDEX
SHOPKO STORES, INC.
10-K REPORT

Exhibit Number	Exhibit	Sequential Page Number In Manually Signed Original
3.1	Restated Articles of Incorporation of the Company, incorporated by reference to the Registrant's Registration Statement on Form S-1 (Registration No. 33-42283).	
3.2	Bylaws of the Company, as amended, incorporated by reference to the Registrant's Registration Statement on Form S-1 (Registration No. 33-42283).	
4.1.1	Indenture dated as of March 12, 1992 between the Company and First Trust National Association, as trustee, with respect to senior notes due March 15, 2002, incorporated by reference from the Registrant's Form 10-K, Annual Report to the Securities and Exchange Commission for the 53 weeks ended February 29, 1992.	
4.1.2	Indenture dated as of March 12, 1992 between the Company and First Trust National Association, as trustee, with respect to senior notes due March 15, 2022, incorporated by reference from the Registrant's Form 10-K, Annual Report to the Securities and Exchange Commission for the 53 weeks ended February 29, 1992.	
4.1.3	Indenture dated as of July 15, 1993 between the Company and First Trust National Association, as trustee, incorporated by reference from the Registrant's Form 10-K, Annual Report to the Securities and Exchange Commission for the 52 weeks ended February 26, 1994.	

Exhibit Number	Exhibit	Sequential Page Number In Manually Signed Original
4.2	Form of Rights Agreement between the Company and Norwest Bank Minnesota, National Association (including form of preferred stock designation), incorporated by reference from the Registrant's Form 10-Q, Quarterly Report to the Securities and Exchange Commission for the 16 weeks ended June 20, 1992.	
4.3	Credit Agreement dated as of October 4, 1993, among the Company, the banks listed there in and Morgan Guaranty Trust Company of New York, as agent, incorporated by reference from the Registrant's Form 10-Q, Quarterly Report to the Securities and Exchange Commission for the 12 weeks ended September 11, 1993.	
10.1.1	ShopKo Stores, Inc. 1991 Stock Option Plan, incorporated by reference to the Registrant's Registration Statement on Form S-1 (Registration No. 33-42283). (1)	
10.1.2	Amendment of Section 11 to ShopKo Stores, Inc. 1991 Stock Option Plan (pending shareholder approval at the June 14, 1995 Annual Meeting of Shareholders), incorporated by reference to the Registrant's definitive Proxy Statement dated May 9, 1995 filed in connection with the Registrant's 1995 Annual Meeting of Shareholders. (1)	
10.1.3*	Form of Stock Option Agreement and First Amendment thereto between the Company and certain Officers and Employees of the Company pursuant to the ShopKo Stores, Inc. 1991 Stock Option Plan. (1)	

Exhibit Number	Exhibit	Sequential Page Number In Manually Signed Original
10.1.4*	Alternative Form Stock Option Agreement between the Company and certain Officers and Employees of the Company pursuant to the ShopKo Stores, Inc. 1991 Stock Option Plan. (1)	
10.3	ShopKo Stores, Inc. Profit Sharing and Super Saver Plan Trust Agreement (1989 Restatement), as amended, incorporated by reference to the Registrant's Registration Statement on Form S-1 (Registration No. 33-42283). (1)	
10.4	First and second amendments to ShopKo Stores, Inc. Profit Sharing and Super Saver Plan Trust Agreement, incorporated by reference from the Registrant's Form 10-K, Annual Report to the Securities and Exchange Commission for the 52 weeks ended February 27, 1993. (1)	
10.5*	Form of Change of Control Severance Agreement between the Company and Certain Officers and Employees of the Company. (1)	
10.12	Registration Rights Agreement dated as of October 8, 1991 between the Company and Supermarket Operators of America, Inc., incorporated by reference to the Registrant's Registration Statement on Form S-1 (Registration No. 33-45833).	
10.16	Supply Agreement (Food Products) dated as of October 8, 1991 between the Company and SUPERVALU INC., incorporated by reference to the Registrant's Registration Statement on Form S-1 (Registration No. 33-45833).	

Exhibit Number	Exhibit	Sequential Page Number In Manually Signed Original
10.17	Indemnification, Tax Matters and Guarantee Fee Agreement dated as of October 8, 1991 between the Company and SUPERVALU INC., incorporated by reference to the Registrant's Registration Statement on Form S-1 (Registration No. 33-45833).	
10.19	Insurance Matters Agreement dated as of October 8, 1991 between the Company and SUPERVALU INC., incorporated by reference to the Registrant's Registration Statement on Form S-1 (Registration No. 33-45833).	
10.20	Form of Indemnification Agreement between the Company and directors and certain officers of the Company, incorporated by reference to the Registrant's Registration Statement on Form S-1 (Registration No. 33-42283). (1)	
10.21	ShopKo Senior Officers Deferred Compensation Plan, incorporated by reference from the Registrant's Form 10-K, Annual Report to the Securities and Exchange Commission for the 53 weeks ended February 29, 1992. (1)	
10.22	ShopKo Directors Deferred Compensation Plan, incorporated by reference to the Registrant's Registration Statement on Form S-1 (Registration No. 33-45833). (1)	

Exhibit Number	Exhibit	Sequential Page Number In Manually Signed Original
10.23	ShopKo Stores, Inc. Executive Incentive Plan, incorporated by reference from the Registrant's Form 10-Q, Quarterly Report to the Securities and Exchange Commission for the 12 weeks ended September 10, 1994. (1)	
10.24	ShopKo Stores, Inc. 1993 Restricted Stock Plan, as amended, incorporated by reference to the Registrant's definitive Proxy Statement dated May 19, 1994 filed in connection with the Registrant's 1994 Annual Meeting of Shareholders. (1)	
11*	Computation of Earnings Per Common and Common Equivalent Share.	
12*	Statements Re Computation of Ratios.	
13*	1995 Annual Report to Shareholders of Registrant.	
21.1*	Subsidiaries of the Registrant.	
23.1*	Consent of Deloitte & Touche LLP.	

*Filed herewith

(1) A management contract or compensatory plan or arrangement.

0 28

EXHIBIT 10.1.3

STOCK OPTION AGREEMENT

SHOPKO STORES, INC.
1991 STOCK OPTION PLAN

NON-QUALIFIED STOCK OPTION

Option Agreement made effective as of ______________, 199__, between ShopKo Stores, Inc., a Minnesota corporation (hereinafter called the "Company"), and ______________________________, who is an employee, Director, consultant or advisor of the Company or one of its subsidiaries (hereinafter called "Employee").

WITNESSETH:

WHEREAS, the Company desires, by affording the Employee an opportunity to purchase shares of its common stock, par value $.01 each (hereinafter called "Common Stock"), as hereinafter provided, to carry out the purpose of the 1991 Stock Option Plan, as amended, of the Company (hereinafter called the "Plan").

NOW, THEREFORE, the parties agree as follows:

1. The Company irrevocably grants to the Employee as a matter of separate agreement and not in lieu of salary or any other compensation for services, the right and option (hereinafter called the "Option") to purchase __ ____________________ shares of Common Stock, on the terms and conditions herein set forth and subject to all provisions of the Plan. The Directors of the Company intend that the Option granted hereunder shall not be an Incentive Stock Option governed by the provisions of Section 422 of the Internal Revenue Code of 1986, as amended.

2. The purchase price of the Common Stock subject to the Option shall be $_______ per share.

3. The term of the Option shall be for a period of ten years from the date hereof, terminating at the close of business on ______________, ______. The Option becomes exercisable, subject to the provisions of paragraphs 4, 6 and 8 hereof, only in installments as follows: ______________________________ ____ ______________. Such installments shall be cumulative, and if in any year the full amount purchasable in such year is not purchased, the shares not purchased shall be purchasable in any subsequent year or years during the term of the Option in addition to the shares becoming purchasable during such subsequent year or years. The Option may be exercised at any time, or from time to time during the year as to any or all full shares which are then purchasable. Except as provided in paragraphs 6 and 8 hereof, the Option may not be exercised unless the Employee shall, at the time of exercise, be an Employee of the Company or one of its subsidiaries. The Employee shall not have any of the rights of a shareholder with respect to any of the Common Stock subject to the Option until such shares shall be duly issued to him upon

exercise of the Option and full payment of the appropriate purchase price.

4. Notwithstanding the provisions of paragraph 3 hereof, from and after a Change of Control (as hereinafter defined) the Option shall become immediately exercisable in full. As used herein, "Change of Control" shall mean any of the following events:

(i) The acquisition by any person, entity or "group," within the meaning of Section 13(d)(3) or 14(d)(2) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), other than the Company or any of its wholly owned subsidiaries, or any employee benefit plan of the Company and/or one or more of its wholly owned subsidiaries, directly or indirectly, of beneficial ownership (within the meaning of Rule 13d-3 promulgated under the Exchange Act) of 20% or more of either the then outstanding shares of Common Stock or the combined voting power of the Company's then outstanding voting securities in a transaction or series of transactions not approved in advance by a vote of at least three-quarters of the Continuing Directors (as hereinafter defined); or

(ii) Individuals who, as of September 30, 1991, constitute the Board of Directors of the Company (generally the "Directors" and as of September 30, 1991 the "Continuing Directors") cease for any reason to constitute at least a majority thereof, provided that any person becoming a Director subsequent to September 30, 1991 whose nomination for election was approved in advance by a vote of at least three-quarters of the Continuing Directors (other than a nomination of an individual whose initial assumption of office is in connection with an actual or threatened solicitation with respect to the election or removal of the Directors of the Company, as such terms are used in Rule 14a-11 of Regulation 14A under the Exchange Act) shall be deemed to be a Continuing Director; or

(iii) The approval by the stockholders of the Company of a reorganization, merger, consolidation, liquidation or dissolution of the Company or of the sale (in one transaction or a series of related transactions) of all or substantially all of the assets of the Company other than a reorganization, merger, consolidation, liquidation, dissolution or sale approved in advance by a vote of at least three-quarters of the Continuing Directors; or

(iv) The first purchase under any tender offer or exchange offer (other than an offer by the Company or any of its subsidiaries) pursuant to which shares of Common Stock are purchased.

Notwithstanding anything herein to the contrary, a pro rata distribution or an exchange offer by Super Valu Stores, Inc. to its stockholders of its interest in such voting securities of the Corporation, or the sale of voting securities of the Corporation in a registered public offering, shall not constitute a Change of Control hereunder.

Following the occurrence of an event which does not constitute a Change of Control whereby there is a successor holding company to the Corporation, or, if there is no successor, whereby the Corporation is not the surviving corporation in a merger or consolidation, the surviving corporation or successor holding company (as the case may be), for purposes of this definition, shall thereafter be referred to as the Corporation.

5. The Option shall not be transferable otherwise than by will or the laws of descent and distribution, and the Option may be exercised during the lifetime of the Employee only by him. More particularly (but without limiting the generality of the foregoing), the Option may not be assigned, transferred (except as aforesaid), pledged or hypothecated in any way (whether by operation of law or otherwise) and shall not be subject to execution, attachment or similar process. Any attempted assignment, transfer, pledge, hypothecation, or other disposition of the Option contrary to the provisions hereof and the levy of an execution, attachment or similar process upon the Option shall be void.

6. In the event the Employee ceases to be an employee, Director, consultant or advisor of the Company or its subsidiaries, otherwise than by reason of death, he may exercise the Option at any time within three (3) months after such cessation but not thereafter; <u>provided</u>, <u>however</u>, that the Option may not be exercised after ten years from the date hereof and may be exercised only to the extent of the number of shares the Employee was entitled to purchase under the Option on the date of such cessation; <u>provided</u>, <u>further</u>, that if such cessation is for any reason following a Change of Control, any Options held by the Employee may be exercised by him until the earlier of one year after such cessation or the expiration of such Options in accordance with their terms. Notwithstanding the foregoing provisions of this paragraph 6, in the event the Employee retires at or after age 55 with ten or more years of service with the Company or any subsidiary of the Company, he may exercise the Option at any time within two years following the date of such retirement; <u>provided</u>, <u>however</u>, that the Option may not be exercised after ten years from the date hereof and may be exercised only to the extent of the number of shares Employee was entitled to purchase under the Option on the date of such retirement.

7. The Option shall not be affected by any change of duties or position (or by a temporary leave of absence approved by the Company) so long as the Employee continues to be an employee, Director, consultant or advisor of the Company or of a subsidiary. Nothing herein contained shall confer on the Employee any right to be employed by or associated with the Company or any subsidiary or affect in any way the right of the Company or any subsidiary to terminate the employment of the Employee at any time; and the grant of this Option shall be no guarantee that the Employee will be renominated, reelected or reappointed as a Director.

8. In the event of the death of the Employee while he is an employee, Director, consultant or advisor of the Company or a subsidiary, or within three (3) months after the Employee ceases to be an employee, Director, consultant or advisor of the Company or its subsidiaries, the Option may be exercised by a legatee or legatees of the Employee under his last will or by his personal representatives or distributees at any time within a period of one year after the death of the Employee, but not after ten years from the

date hereof, to the full extent of the Common Stock covered by the Option not previously purchased, whether or not such shares had become purchasable by the Employee at the date of his death.

9. If any of the shares covered by this Option Agreement are not registered under the Securities Act of 1933 at the time of their issuance hereunder, the Employee represents and agrees that all such shares purchased under the Option will be acquired for investment and not for resale.

10. Unless otherwise determined by the Company's Board of Directors, or the Committee, if any portion of the Option is exercised subsequent to any stock dividend, split-up, recapitalization, merger, consolidation, combination or exchange of shares or the like occurring after the date hereof as a result of which shares of any class shall be issued in respect of the outstanding Common Stock, or Common Stock shall be changed into the same or a different number of shares of the same or another class or classes, the person or persons exercising the Option shall receive for the aggregate price paid upon such exercise the aggregate number of shares which, if Common Stock (as authorized at the date hereof) had been purchased at the date hereof for the same aggregate price (on the basis of the price per share set forth in paragraph 2 hereof) and had not been disposed of, such person or persons would be holding at the time of such exercise as a result of such purchase and any and all such stock dividends, split-ups, recapitalizations, mergers, consolidations, combinations or exchanges of shares, or the like; provided, however, that no fractional share shall be issued upon any such exercise, and the aggregate price paid shall be appropriately reduced on account of any fractional share not issued.

11. The Option may be exercised by written notice to the Company at its principal office, attention: Corporate Secretary. The notice shall state the number of shares with respect to which the Option is being exercised. The notice shall be accompanied by payment of the full purchase price and the Company shall (except as provided in paragraph 15) issue and deliver a certificate representing such shares as soon as practicable after the notice is received. Payment of the purchase price shall, unless otherwise consented to by the Company, be made by a certified or bank cashier's check payable to the order of the Company, or by tender of shares of the Company's Common Stock previously owned by the Employee having a fair market value equal to the option price, or a combination of cash in the form of a certified or bank cashier's check and shares of the Company's Common Stock equal to the exercise price of the Option. Certificates for the shares purchased shall be registered in the name of the person exercising the Option (or if the Option shall be exercised by the Employee and if the Employee shall so request in the notice exercising the Option, shall be registered in the name of the Employee and another person as joint tenants) and shall be delivered to the person exercising the Option. In the event the Option shall be exercised pursuant to paragraph 8 hereof by any person other than the Employee, the notice shall be accompanied by appropriate proof of such person's right to exercise the Option. All shares issued upon the exercise of the Option shall be fully paid and non-assessable.

12. The Company shall reserve and keep available such number of shares

of Common Stock as will be sufficient to satisfy the requirements of this Agreement.

13. As used in this Agreement, the term "subsidiary" shall mean any present or future subsidiary corporation of the Company, and the term "Common Stock" shall mean the Common Stock of the Company as authorized at the date hereof.

14. This Option is granted pursuant to the Plan and is subject to all the terms and conditions contained therein. A copy of the Plan is available to the Employee upon request.

15. Employee acknowledges that he will consult with his personal tax advisor regarding the income tax consequences of his exercising the Option or any other matters related to the Option or this agreement. In order to provide the Company or a subsidiary with the opportunity to claim the benefit of any income tax deduction which may be available to it upon exercise of this option, and in order to comply with all applicable income tax laws or regulations, the Company may take such action as it deems appropriate to insure that, if necessary, all applicable federal or state payroll, withholding, income or other taxes are withheld or collected from Employee; and the Company may defer making delivery with respect to shares of Common Stock payable hereunder until arrangements satisfactory to the Company have been made with respect to such withholding obligations. In accordance with the terms of the Plan, and such rules as the Company may adopt, Employee may elect to satisfy Employee's federal and state income tax withholding obligations upon exercise of this option by having the Company withhold a portion of the shares of Common Stock otherwise to be delivered upon exercise of such option having a fair market value equal to the amount of federal and state income tax required to be withheld upon such exercise.

16. If Employee is an "officer" or "director" of the Company, as such terms are used in Section 16(b) of the Exchange Act, Employee agrees that if Employee exercises any portion of the Option granted hereby within six (6) months from the date of grant, no shares acquired upon such exercise will be sold within six (6) months from the date of grant.

SHOPKO STORES, INC.

By:

Its:__________________________

____

Employee

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FIRST AMENDMENT OF STOCK OPTION AGREEMENTS

THIS FIRST AMENDMENT OF STOCK OPTION AGREEMENTS (the "Amendment") is made and executed as of the 10th day of April, 1995, between ShopKo Stores, Inc., a Minnesota corporation (the "Company"), and ______________________________ who is an employee, director, consultant or advisor of the Company or one of the Company's subsidiaries ("Employee").

W I T N E S S E T H

WHEREAS, pursuant to the Company's 1991 Stock Option Plan, as amended, (the "Plan"), the Company and Employee have entered into one or more Stock Option Agreements with respect to those Company stock option grants referenced on **Exhibit A** attached hereto and incorporated herein (the "Option Agreements"); and

WHEREAS, the Company and Employee have agreed to amend the Option Agreements as set forth below;

NOW, THEREFORE, for good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the Company and Employee agree as follows:

1. Paragraph 4 of the Option Agreements is hereby amended to read in full as follows:

> "4. Notwithstanding the provisions of Paragraph 3 hereof, from and after a Change of Control (as hereinafter defined) the Option shall become immediately exercisable in full. As used herein, "Change of Control" shall mean any of the following events:
>
> a) the acquisition by an individual, entity or group (within the meaning of Section 13(d)(3) or 14(d)(2) of the Securities Exchange Act of 1934, as amended (the "Exchange Act") (a "Person") of beneficial ownership (within the meaning of Rule 13d-3 promulgated under the Exchange Act) of 20% or more of either (i) the then outstanding shares of common stock of the Company (the "Outstanding Company Common Stock") or (ii) the combined voting power of the then outstanding voting securities of the Company entitled to vote generally in the election of directors (the "Outstanding Company Voting Securities"); provided, however, that for purposes of this subsection (a), the following acquisitions shall not constitute a Change of Control: (i) any acquisition directly from the Company, (ii) any acquisition by the Company, (iii) any acquisition by any employee benefit plan (or related trust) sponsored or maintained by the Company or any corporation controlled by the Company or (iv) any acquisition by any corporation pursuant to a transaction which complies with clauses (i), (ii) and (iii) of subsection (c) of this Paragraph 4; or

b) individuals who, as of the date hereof, constitute the Board (the "Incumbent Board") cease for any reason to constitute at least a majority of the Board; provided, however, that any individual becoming a director subsequent to the date hereof whose election, or nomination for election by the Company's shareholders, was approved by a vote of at least a majority of the directors then constituting the Incumbent Board shall be considered as though such individual were a member of the Incumbent Board, but excluding, for this purpose, any such individual whose initial assumption of office occurs as a result of an actual or threatened election contest with respect to the election or removal of directors or other actual or threatened solicitation of proxies or consents by or on behalf of a person other than the Board; or

c) consummation of a reorganization, merger or consolidation or sale or other disposition of all or substantially all of the assets of the Company for which approval of the shareholders of the Company is required (a "Business Combination"), in each case, unless, immediately following such Business Combination, (i) all or substantially all of the individuals and entities who were the beneficial owners, respectively, of the Outstanding Company Common Stock and Outstanding Company Voting Securities immediately prior to such Business Combination beneficially own, directly or indirectly, more than 60% of, respectively, the then outstanding shares of common stock and the combined voting power of the then outstanding voting securities entitled to vote generally in the election of directors, as the case may be, of the corporation resulting from such Business Combination (including, without limitation, a corporation which as a result of such transaction owns the Company or all or substantially all of the Company's assets either directly or through one or more subsidiaries) in substantially the same proportions as their ownership, immediately prior to such Business Combination of the Outstanding Company Common Stock and Outstanding Company Voting Securities, as the case may be, (ii) no Person (excluding any employee benefit plan (or related trust) of the Company or such corporation resulting from such Business Combination) beneficially owns, directly or indirectly, 20% or more of, respectively, the then outstanding Common Stock of the Corporation resulting from such Business Combination or the combined voting power of the then outstanding voting securities of such corporation except to the extent that such ownership existed prior to the Business Combination and (iii) at least a majority of the members of the Board of Directors of the corporation resulting from such Business Combination were members of the Incumbent Board at the time of the execution of the initial agreement, or of the action of the Board, providing for such Business Combination; or

(d) approval by the shareholders of the Company of a complete liquidation or dissolution of the Company."

2. Any capitalized term not defined in this Amendment shall have the definition given to it in the Option Agreements.

3. Except as provided in this Amendment, the Option Agreements remain unmodified and in full force and effect.

4. Notwithstanding anything herein to the contrary, a pro rata distribution or an exchange offer by SUPERVALU, Inc., to its stockholders of its interest in such voting securities of the Corporation, or the sale of voting securities of the Corporation in a registered public offering, shall not constitute a Change of Control hereunder.

5. Following the occurrence of an event which does not constitute a Change of Control whereby there is a successor holding company to the Corporation, or, if there is no successor, whereby the Corporation is not the surviving corporation in a merger or consolidation, the surviving corporation or successor holding company (as the case may be), for purposes of this definition, shall thereafter be referred to as the Corporation.

IN WITNESS WHEREOF, the Company and Employee have executed this Amendment as of the date first set forth above.

SHOPKO STORES, INC.

By: ______________________________
Dale P. Kramer, President

Employee: ______________________________

EXHIBIT 10.1.4

STOCK OPTION AGREEMENT*

SHOPKO STORES, INC.
1991 STOCK OPTION PLAN

NON-QUALIFIED STOCK OPTION

Option Agreement made effective as of ________________ between ShopKo Stores, Inc., a Minnesota corporation (hereinafter called the "Company"), and a Director, employee, consultant or advisor of the Company or one of its subsidiaries (hereinafter called "Employee").

WITNESSETH:

WHEREAS, the Company desires, by affording the Employee an opportunity to purchase shares of its common stock, par value $.01 each (hereinafter called "Common Stock"), as hereinafter provided, to carry out the purpose of the 1991 Stock Option Plan, as amended, of the Company (hereinafter called the "Plan").

NOW, THEREFORE, the parties agree as follows:

1. The Company irrevocably grants to the Employee as a matter of separate agreement and not in lieu of salary or any other compensation for services, the right and option (hereinafter called the "Option") to purchase shares of Common Stock, on the terms and conditions herein set forth and subject to all provisions of the Plan. The Directors of the Company intend that the Option granted hereunder shall not be an Incentive Stock Option governed by the provisions of Section 422 of the Internal Revenue Code of 1986, as amended.

2. The purchase price of the Common Stock subject to the Option shall be $_____ per share.

3. The term of the Option shall be for a period of ten years from the date hereof, terminating at the close of business on __________. The Option becomes exercisable, subject to the provisions of paragraphs 4, 6 and 8 hereof, only in installments as follows: 40% on the second anniversary (______________), and 20% annually thereafter. Such installments shall be cumulative, and if in any year the full amount purchasable in such year is not purchased, the shares not purchased shall be purchasable in any subsequent year or years during the term of the Option in addition to the shares becoming purchasable during such subsequent year or years. The Option may be exercised at any time, or from time to time during the year as to any or all full shares which are then purchasable. Except as provided in paragraphs 6 and 8 hereof, the Option may not be exercised unless the Employee shall, at the time of exercise, be an Employee of the Company or one of its subsidiaries. The Employee shall not have any of the rights of a shareholder with respect to any of the Common Stock subject to the Option until such shares shall be duly issued to him upon exercise of the Option and full payment of the appropriate purchase price.

4. Notwithstanding the provisions of Paragraph 3 hereof, from and after a Change of Control (as hereinafter defined) the Option shall become immediately exercisable in full. As used herein, "Change of Control" shall mean any of the following events:

a) the acquisition by an individual, entity or group (within the meaning of Section 13(d)(3) or 14(d)(2) of the Securities Exchange Act of 1934, as amended (the "Exchange Act") (a "Person") of beneficial ownership (within the meaning of Rule 13d-3 promulgated under the Exchange Act) of 20% or more of either (i) the then outstanding shares of common stock of the Company (the "Outstanding Company Common Stock") or (ii) the combined voting power of the then outstanding voting securities of the Company entitled to vote generally in the election of directors (the "Outstanding Company Voting Securities"); provided, however, that for purposes of this subsection (a), the following acquisitions shall not constitute a Change of Control: (i) any acquisition directly from the Company, (ii) any acquisition by the Company, (iii) any acquisition by any employee benefit plan (or related trust) sponsored or maintained by the Company or any corporation controlled by the Company or (iv) any acquisition by any corporation pursuant to a transaction which complies with clauses (i), (ii) and (iii) of subsection (c) of this Paragraph 4; or

b) individuals who, as of the date hereof, constitute the Board (the "Incumbent Board") cease for any reason to constitute at least a majority of the Board; provided, however, that any individual becoming a director subsequent to the date hereof whose election, or nomination for election by the Company's shareholders, was approved by a vote of at least a majority of the directors then constituting the Incumbent Board shall be considered as though such individual were a member of the Incumbent Board, but excluding, for this purpose, any such individual whose initial assumption of office occurs as a result of an actual or threatened election contest with respect to the election or removal of directors or other actual or threatened solicitation of proxies or consents by or on behalf of a person other than the Board; or

c) consummation of a reorganization, merger or consolidation or sale or other disposition of all or substantially all of the assets of the Company for which approval of the shareholders of the Company is required (a "Business Combination"), in each case, unless, immediately following such Business Combination, (i) all or substantially all of the individuals and entities who were the beneficial owners, respectively, of the Outstanding Company Common Stock and Outstanding Company Voting Securities immediately prior to such Business Combination beneficially own, directly or indirectly, more than 60% of, respectively, the then outstanding shares of common stock and the combined voting power of the then outstanding voting securities entitled to vote generally in the election of directors, as the case may be, of the corporation resulting from such Business Combination (including, without limitation, a corporation which as a result of such transaction owns the Company or all or substantially all of the Company's assets either directly or through one or more subsidiaries) in substantially the same proportions as their ownership, immediately prior to such Business Combination of the Outstanding Company Common Stock and Outstanding Company Voting Securities, as the case may be, (ii) no Person (excluding any employee benefit plan (or related trust) of the Company or such corporation resulting from such Business Combination) beneficially owns, directly or indirectly, 20% or more of, respectively, the then outstanding Common Stock of the Corporation resulting from such Business Combination or the combined voting power of the then outstanding voting securities of such corporation except to the extent that such ownership existed prior to the Business Combination and (iii) at least a majority of the members of the Board of Directors of the corporation resulting from such Business Combination were members of the Incumbent Board at the time of the execution of the initial agreement, or of the action of the Board, providing for such Business Combination; or

(d) approval by the shareholders of the Company of a complete liquidation or dissolution of the Company.

Notwithstanding anything herein to the contrary, a pro rata distribution or an exchange offer by SUPERVALU, Inc., to its stockholders of its interest in such voting securities of the Corporation, or the sale of voting securities of the Corporation in a registered public offering, shall not constitute a Change of Control hereunder.

Following the occurrence of an event which does not constitute a Change of Control whereby there is a successor holding company to the Corporation, or, if there is no successor, whereby the Corporation is not the surviving corporation in a merger or consolidation, the surviving corporation or successor holding company (as the case may be), for purposes of this definition, shall thereafter be referred to as the Corporation.

5. The Option shall not be transferable otherwise than by will or the laws of descent and distribution, and the Option may be exercised during the lifetime of the Employee only by him. More particularly (but without limiting the generality of the foregoing), the Option may not be assigned, transferred (except as aforesaid), pledged or hypothecated in any way (whether by operation of law or otherwise) and shall not be subject to execution, attachment or similar process. Any attempted assignment, transfer, pledge, hypothecation, or other disposition of the Option contrary to the provisions hereof and the levy of an execution, attachment or similar process upon the Option shall be void.

6. In the event the Employee ceases to be an employee, Director, consultant or advisor of the Company or its subsidiaries, otherwise than by reason of death, he may exercise the Option at any time within three (3) months after such cessation but not thereafter; provided, however, that the Option may not be exercised after ten years from the date hereof and may

be exercised only to the extent of the number of shares the Employee was entitled to purchase under the Option on the date of such cessation; provided, further, that if such cessation is for any reason following a Change of Control, any Options held by the Employee may be exercised by him until the earlier of one year after such cessation or the expiration of such Options in accordance with their terms. Notwithstanding the foregoing provisions of this paragraph 6, in the event the Employee retires at or after age 55 with ten or more years of service with the Company or any subsidiary of the Company, he may exercise the Option at any time within two years following the date of such retirement; provided, however, that the Option may not be exercised after ten years from the date hereof and may be exercised only to the extent of the number of shares Employee was entitled to purchase under the Option on the date of such retirement.

7. The Option shall not be affected by any change of duties or position (or by a temporary leave of absence approved by the Company) so long as the Employee continues to be an employee, Director, consultant or advisor of the Company or of a subsidiary. Nothing herein contained shall confer on the Employee any right to be employed by or associated with the Company or any subsidiary or affect in any way the right of the Company or any subsidiary to terminate the employment of the Employee at any time; and the grant of this Option shall be no guarantee that the Employee will be renominated, reelected or reappointed as a Director.

8. In the event of the death of the Employee while he is an employee, Director, consultant or advisor of the Company or a subsidiary, or within three (3) months after the Employee ceases to be an employee, Director, consultant or advisor of the Company or its subsidiaries, the Option may be exercised by a legatee or legatees of the Employee under his last will or by his personal representatives or distributees at any time within a period of one year after the death of the Employee, but not after ten years from the date hereof, to the full extent of the Common Stock covered by the Option not previously purchased, whether or not such shares had become purchasable by the Employee at the date of his death.

9. If any of the shares covered by this Option Agreement are not registered under the Securities Act of 1933 at the time of their issuance hereunder, the Employee represents and agrees that all such shares purchased under the Option will be acquired for investment and not for resale.

10. Unless otherwise determined by the Company's Board of Directors, or the Committee, if any portion of the Option is exercised subsequent to any stock dividend, split-up, recapitalization, merger, consolidation, combination or exchange of shares or the like occurring after the date hereof as a result of which shares of any class shall be issued in respect of the outstanding Common Stock, or Common Stock shall be changed into the same or a different number of shares of the same or another class or classes, the person or persons exercising the Option shall receive for the aggregate price paid upon such exercise the

aggregate number of shares which, if Common Stock (as authorized at the date hereof) had been purchased at the date hereof for the same aggregate price (on the basis of the price per share set forth in paragraph 2 hereof) and had not been disposed of, such person or persons would be holding at the time of such exercise as a result of such purchase and any and all such stock dividends, split-ups, recapitalizations, mergers, consolidations, combinations or exchanges of shares, or the like; provided, however, that no fractional share shall be issued upon any such exercise, and the aggregate price paid shall be appropriately reduced on account of any fractional share not issued.

11. The Option may be exercised by written notice to the Company at its principal office, attention: Corporate Secretary. The notice shall state the number of shares with respect to which the Option is being exercised. The notice shall be accompanied by payment of the full purchase price and the Company shall (except as provided in paragraph 15) issue and deliver a certificate representing such shares as soon as practicable after the notice is received. Payment of the purchase price shall, unless otherwise consented to by the Company, be made by a certified or bank cashier's check payable to the order of the Company, or by tender of shares of the Company's Common Stock previously owned by the Employee having a fair market value equal to the option price, or a combination of cash in the form of a certified or bank cashier's check and shares of the Company's Common Stock equal to the exercise price of the Option. Certificates for the shares purchased shall be registered in the name of the person exercising the Option (or if the Option shall be exercised by the Employee and if the Employee shall so request in the notice exercising the Option, shall be registered in the name of the Employee and another person as joint tenants) and shall be delivered to the person exercising the Option. In the event the Option shall be exercised pursuant to paragraph 8 hereof by any person other than the Employee, the notice shall be accompanied by appropriate proof of such person's right to exercise the Option. All shares issued upon the exercise of the Option shall be fully paid and non-assessable.

12. The Company shall reserve and keep available such number of shares of Common Stock as will be sufficient to satisfy the requirements of this Agreement.

13. As used in this Agreement, the term "subsidiary" shall mean any present or future subsidiary corporation of the Company, and the term "Common Stock" shall mean the Common Stock of the Company as authorized at the date hereof.

14. This Option is granted pursuant to the Plan and is subject to all the terms and conditions contained therein. A copy of the Plan is available to the Employee upon request.

15. Employee acknowledges that he will consult with his personal tax advisor regarding the income tax consequences of his exercising the Option or any other matters related to the Option or this agreement. In order to provide the Company or a subsidiary with the opportunity to claim the benefit of any income tax deduction which may be available to it upon exercise

of this option, and in order to comply with all applicable income tax laws or regulations, the Company may take such action as it deems appropriate to insure that, if necessary, all applicable federal or state payroll, withholding, income or other taxes are withheld or collected from Employee; and the Company may defer making delivery with respect to shares of Common Stock payable hereunder until arrangements satisfactory to the Company have been made with respect to such withholding obligations. In accordance with the terms of the Plan, and such rules as the Company may adopt, Employee may elect to satisfy Employee's federal and state income tax withholding obligations upon exercise of this option by having the Company withhold a portion of the shares of Common Stock otherwise to be delivered upon exercise of such option having a fair market value equal to the amount of federal and state income tax required to be withheld upon such exercise.

16. If Employee is an "officer" or "director" of the Company, as such terms are used in Section 16(b) of the Exchange Act, Employee agrees that if Employee exercises any portion of the Option granted hereby within six (6) months from the date of grant, no shares acquired upon such exercise will be sold within six (6) months from the date of grant.

SHOPKO STORES, INC.

By:__________________________
David A. Liebergen
Its: Secretary

Employee:____________________

EXHIBIT 10.5

CHANGE OF CONTROL SEVERANCE AGREEMENT

AGREEMENT by and between **SHOPKO STORES, INC.**, a Minnesota corporation (the "Company"), and ______________________________ (the "Executive"), on this 10th day of April, 1995.

The Company, on behalf of itself and its shareholders, wishes to assure that the Company will have the continued dedication of the Executive, notwithstanding the possibility, threat, or occurrence of a Change of Control (as defined below). The Board of Directors of the Company (the "Board") believes it is imperative to diminish the inevitable distraction of the Executive by virtue of the personal uncertainties and risks created by a pending or threatened Change of Control, to encourage the Executive's full attention and dedication to the Company currently and in the event of any threatened or pending Change of Control, and to provide the Executive with compensation arrangements upon a Change of Control which provide the Executive with individual financial security and which are competitive with those of other corporations and, in order to accomplish these objectives, the Board has caused the Company to enter into this Agreement.

NOW, THEREFORE, IT IS HEREBY AGREED AS FOLLOWS:

1. Certain Definitions.

(a) The "Effective Date" shall be the first date during the "Change of Control Period" (as defined in Section 1(b)) on which a Change of Control occurs. Anything in this Agreement to the contrary notwithstanding, if the Executive's employment with the Company is terminated by the Company prior to the date on which a Change of Control occurs, and the Executive can reasonably demonstrate that such termination (i) was at the request of a third party who has taken steps reasonably calculated to effect a Change of Control, or (ii) otherwise arose in connection with or in anticipation of a Change of Control then for all purposes of this Agreement the "Effective Date" shall mean the date immediately prior to the date of such termination.

(b) The "Change of Control Period" is the period commencing on the date hereof and ending on the earlier to occur of (i) the third anniversary of such date or (ii) the first day of the month next following the Executive's voluntary retirement under the Company's retirement plan or policy ("Retirement"); provided however that commencing on the date one year after the date hereof, and on each annual anniversary of such date (such date and each annual anniversary thereof are hereinafter referred to as the "Renewal Dates"), the Change of Control Period shall be automatically extended so as to terminate on the earlier of (x) two years from such Renewal Date or (y) the first day of the month coinciding with or next following the Executive's Retirement, unless at least 60 days prior to the Renewal Date the Company shall give notice that the Change of Control Period shall not be so extended.

2. Change of Control. For the purpose of this Agreement, a "Change of Control" shall mean:

(a) the acquisition by an individual, entity or group (within the meaning of Section 13(d)(3) or 14(d)(2) of the Securities Exchange Act of 1934, as amended (the "Exchange Act") (a "Person") of beneficial ownership (within the meaning of Rule 13d-3 promulgated under the Exchange Act) of 20% or more of either (i) the then outstanding shares of common stock of the Company (the "Outstanding Company Common Stock") or (ii) the combined voting power of the then outstanding voting securities of the Company entitled to vote generally in the election of directors (the "Outstanding Company Voting Securities"); provided, however, that for purposes of this subsection (a), the following acquisitions shall not constitute a Change of Control: (i) any acquisition directly from the Company, (ii) any acquisition by the Company, (iii) any acquisition by any employee benefit plan (or related trust) sponsored or maintained by the Company or any corporation controlled by the Company or (iv) any acquisition by any corporation pursuant to a transaction which complies with clauses (i), (ii) and (iii) of subsection (c) of this Section 2; or

(b) individuals who, as of the date hereof, constitute the Board (the "Incumbent Board") cease for any reason to constitute at least a majority of the Board; provided, however, that any individual becoming a director subsequent to the date hereof whose election, or nomination for election by the Company's shareholders, was approved by a vote of at least a majority of the directors then constituting the Incumbent Board shall be considered as though such individual were a member of the Incumbent Board, but excluding, for this purpose, any such individual whose initial assumption of office occurs as a result of an actual or threatened election contest with respect to the election or removal of directors or other actual or threatened solicitation of proxies or consents by or on behalf of a person other than the Board; or

(c) consummation of a reorganization, merger or consolidation or sale or other disposition of all or substantially all of the assets of the Company for which approval of the shareholders of the Company is required (a "Business Combination"), in each case, unless, immediately following such Business Combination, (i) all or substantially all of the individuals and entities who were the beneficial owners, respectively, of the Outstanding Company Common Stock and Outstanding Company Voting Securities immediately prior to such Business Combination beneficially own, directly or indirectly, more than 60% of, respectively, the then outstanding shares of common stock and the combined voting power of the then outstanding voting securities entitled to vote generally in the election of directors, as the case may be, of the corporation resulting from such Business Combination (including, without limitation, a corporation which as a result of such transaction owns the Company or all or substantially all of the Company's assets either directly or through one or more subsidiaries) in substantially the same proportions as their ownership, immediately prior to such Business Combination of the Outstanding Company Common Stock and Outstanding Company Voting Securities, as the case may be, (ii) no Person (excluding any employee benefit plan (or related trust) of the Company or such corporation resulting from such Business Combination) beneficially owns, directly or indirectly, 20% or more of, respectively, the then outstanding Common Stock of the Corporation resulting from such Business Combination or the combined voting power of the then outstanding voting securities of such corporation except to the extent that such ownership existed prior to the Business Combination and (iii) at least a majority of the members of the Board of Directors of the corporation resulting from such Business

Combination were members of the Incumbent Board at the time of the execution of the initial agreement, or of the action of the Board, providing for such Business Combination; or

(d) approval by the shareholders of the Company of a complete liquidation or dissolution of the Company.

3. Agreement Period. The Company hereby agrees to provide to the Executive the benefits and protections described herein, in consideration of the services provided to the Company by the Executive after the date of this Agreement and of the agreements of the Executive herein, for the period commencing on the Effective Date and ending on the earlier to occur of (a) the - ________ anniversary of such date or (b) the first day of the month coinciding with or next following the Executive's Retirement (the "Agreement Period").

4. Terms of Employment.

(a) Position and Duties.

(i) During the Agreement Period, (A) the Executive's position (including status, offices, titles and reporting requirements), authority, duties and responsibilities shall be at least commensurate in all material respects with the most significant of those held, exercised and assigned at any time during the 90 day period immediately preceding the Effective Date and (B) except when travelling in the normal course of business, the Executive's services shall be performed at the location where the Executive was employed immediately preceding the Effective Date or any office or location less than thirty-five (35) miles from such location.

(ii) During the Agreement Period, and excluding any periods of vacation and sick leave to which the Executive is entitled, the Executive agrees to devote reasonable attention and time during normal business hours to the business and affairs of the Company and, to the extent necessary to discharge the responsibilities assigned to the Executive hereunder, to use the Executive's reasonable best efforts to perform faithfully and efficiently such responsibilities. During the Agreement Period it shall not be a violation of this Agreement for the

Executive to (A) serve on corporate, civic or charitable boards or committees, (B) deliver lectures, fulfill speaking engagements or teach at educational institutions and (C) manage personal investments, so long as such activities do not significantly interfere with the performance of the Executive's responsibilities as an employee of the Company in accordance with this Agreement. It is expressly understood and agreed that to the extent that any such activities have been conducted by the Executive prior to the Effective Date, the continued conduct of such activities (or the conduct of activities similar in nature and scope thereto) subsequent to the Effective Date shall not thereafter be deemed to interfere with the performance of the Executive's responsibilities to the Company.

(b) Compensation.

(i) Base Salary. During the Agreement Period, the Executive shall receive a base salary ("Base Salary") at a monthly rate at least equal to the highest monthly base salary paid to the Executive by the Company during the twelve-month period immediately preceding the month in which the Effective Date occurs. During the Agreement Period, the Base Salary shall be reviewed at least annually and shall be increased at any time and from time to time as shall be consistent with increases in base salary awarded in the ordinary course of business to other key executives of the Company. Any increase in Base Salary shall not serve to limit or reduce any other obligation to the Executive under this Agreement. During the Agreement Period, Base Salary shall not be reduced after any such increase.

(ii) Annual Bonus. In addition to Base Salary, the Executive shall be awarded, for each fiscal year during the Agreement Period, an annual bonus (an "Annual Bonus") (either pursuant to any Company bonus plan or otherwise) in cash determined by a formula at least as advantageous to the Executive, taking into account any changes in the capital structure and business organization of the Company taking place after the Effective Date (and any other significant changes in the fairness or applicability of such formula), as the formula in use immediately prior to the Effective Date.

(iii) Incentive Savings and Retirement Plans. In addition to Base Salary and Annual Bonus payable as hereinabove provided, the Executive shall be entitled to participate during the Agreement Period in all incentive, savings and retirement plans and programs applicable to other key executives of the Company. Such plans and programs, in the aggregate, shall provide the Executive with compensation, benefits and reward opportunities at least as favorable as the most favorable such compensation, benefits and reward opportunities provided by the Company for the Executive under such plans and programs as in effect at any time during the 90-day period immediately preceding the Effective Date or, if more favorable to the Executive, as provided at any time thereafter with respect to other key executives.

(iv) Welfare Benefit Plans. During the Agreement Period, the Executive and/or the Executive's family, as the case may be, shall be eligible for participation in and shall receive all benefits under welfare benefit plans provided by the Company (including, without limitation, medical, prescription, dental, disability, salary continuance, executive life, group life, accidental death and travel accident insurance plans and programs), at least comparable to those in effect at any time during the 90 day period immediately preceding the Effective Date which would be most favorable to the Executive or, if more favorable to the Executive, as in effect at any time thereafter with respect to other key executives.

(v) Expenses. During the Agreement Period, the Executive shall be entitled to receive prompt reimbursement for all reasonable expenses incurred by the Executive in accordance with the most favorable policies and procedures of the Company in effect at any time during the 90 day period immediately preceding the Effective Date or, if more favorable to the Executive, as in effect at any time thereafter with respect to other key executives.

(vi) Fringe Benefits. During the Agreement Period, the Executive shall be entitled to fringe benefits, including use of an automobile and payment of related expenses, in accordance with the most favorable policies of the Company in effect at any time during the 90 day period immediately preceding the Effective Date or, if more favorable to the Executive, as in effect at any time thereafter with respect to other key executives.

(vii) Office and Support Staff. During the Agreement Period, the Executive shall be entitled to an office or offices of a size and with furnishings and other appointments, and to secretarial and other assistance, at least equal to those provided to the Executive at any time during the 90-day period immediately preceding the Effective Date which would be most favorable to the Executive or, if more favorable to the Executive, as provided at any time thereafter with respect to other key executives.

(viii) Vacation. During the Agreement Period, the Executive shall be entitled to paid vacation in accordance with the most favorable policies of the Company as in effect at any time during the 90 day period immediately preceding the Effective Date or, if more favorable to the Executive, as in effect at any time thereafter with respect to other key executives.

5. Termination. Prior to the Effective Date, the Employee's employment with the Company may be terminated at any time by either the Company or the Employee in accordance with any other applicable policy or agreement of the Company and the Employee. During the Agreement Period, the following provisions shall apply:

(a) Death or Disability. This Agreement shall terminate automatically upon the Executive's death. The Company may terminate this Agreement, after having established the Executive's Disability (pursuant to the definition of "Disability" set forth below), by giving to the Executive written notice of its intention to terminate the Executive's employment. In such a case, the Executive's employment with the Company shall terminate effective on the 30th day after receipt of such notice (the "Disability Effective Date"), provided that, within the 30 days after such receipt, the Executive shall not have returned to full-time performance of the Executive's duties. For purposes of this Agreement, "Disability" means disability which, at least 26 weeks after its commencement, is determined to be total and permanent by a physician selected by the Company or its insurers and acceptable to the Executive or the Executive's legal representative (such agreement as to acceptability not to be withheld unreasonably).

(b) Cause. The Company may terminate the Executive's employment for "Cause." For purposes of this Agreement, "Cause" means (i) an act or acts of personal dishonesty taken by the Executive and intended to result in substantial personal enrichment of the Executive at the expense of the Company, (ii) repeated violations by the Executive of the Executive's obligations under Section 4(a) of this Agreement which are demonstrably willful and deliberate on the Executive's part and which are not remedied after receipt of notice from the Company or (iii) the conviction of the Executive of a felony.

(c) Good Reason. The Executive's employment may be terminated by the Executive for Good Reason. For purposes of this Agreement, "Good Reason" means:

(i) the assignment to the Executive of any duties inconsistent in any respect with the Executive's position (including status, offices, titles and reporting requirements), authority, duties or responsibilities as contemplated by Section 4(a) of this Agreement, or any other action by the Company which results in a diminution in such position, authority, duties or responsibilities, excluding for this purpose an isolated, insubstantial and inadvertent action not taken in bad faith and which is remedied by the Company promptly after receipt of notice thereof given by the Executive;

(ii) any failure by the Company to comply with any of the provisions of Section 4(b) of this Agreement, other than an isolated, insubstantial and inadvertent failure not occurring in bad faith and which is remedied by the Company promptly after receipt of notice thereof given by the Executive;

(iii) the Company's requiring the Executive to be based at any office or location other than that described in Section 4(a)(i)(B) hereof, except for travel reasonably required in the performance of the Executive's responsibilities;

(iv) any purported termination by the Company of the Executive's employment otherwise than as permitted by this Agreement; or

(v) any failure by the Company to comply with and satisfy Section 13(c) of this Agreement.

For purposes of this Section 5(c), any good faith determination of "Good Reason" made by the Executive shall be conclusive.

(d) Notice of Termination. Any termination by the Company for Cause or by the Executive for Good Reason shall be communicated by Notice of Termination to the other party hereto given in accordance with Section 14(b) of this Agreement. For purposes of this Agreement, a notice of Termination" means a written notice which (i) indicates the specific termination provision in this Agreement relied upon, (ii) sets forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of the Executive's employment under the provision so indicated and (iii) if the termination date is other than the date of receipt of such notice, specifies the termination date (which date shall be not more than fifteen (15) days after the giving of such notice).

(e) Date of Termination. "Date of Termination" means the date of receipt of the Notice of Termination or any later date specified therein, as the case may be. If the Executive's employment is terminated by the Company other than for Cause or Disability, the Date of Termination shall be the date on which the Company notifies the Executive of such termination. If the Executive's employment is terminated by reason of death or Disability, the Date of Termination shall be the date of death of the Executive or the Disability Effective Date, as the case may be.

6. Obligations of the Company upon Termination.

(a) Death. If, during the Agreement Period, the Executive's employment is terminated by reason of the Executive's death, this Agreement shall terminate without further obligations to the Executive's legal representatives under this Agreement, other than those obligations accrued or earned by the Executive hereunder as of the Date of Termination, including, for this purpose (i) the Executive's full Base Salary through the Date of Termination at the rate in effect on the Date of Termination or, if higher, at the highest rate in effect at any time from the 90 day period preceding the Effective Date through the Date of Termination (the "Highest Base Salary"), (ii) any accrued vacation pay not yet paid by the Company and (iii) any other amounts or benefits owing to the Executive under the then applicable employee benefit plans or policies of the Company (such amounts specified in clauses (i), (ii) and (iii) are herein after referred to as "Accrued Obligations"). The Company shall pay the amounts specified in clauses (i) and (ii) promptly after the Date of Termination (and in no case later than 30 days after the Date of Termination) and shall pay the amounts in clause (iii) promptly when due. Anything in this Agreement to the contrary notwithstanding, after the Effective Date, the Executive's family shall be entitled to receive benefits at least equal to the most favorable benefits provided by the Company to surviving families of executives of the Company under such plans, programs and policies relating to family death benefits, if any, as in effect at any time during the 90-day period immediately preceding the Effective Date or, if more favorable to the Executive and/or the Executive's family, as in effect on the date of the Executive's death with respect to other key executives and their families.

(b) Disability. If, during the Agreement Period, the Executive's employment is terminated by reason of the Executive's Disability, this Agreement shall terminate without further obligations to the Executive, other than those obligations accrued or earned by the Executive hereunder as of the Date of Termination, including for this purpose, all Accrued Obligations. Anything in this Agreement to the contrary notwithstanding, after the Effective Date, the Executive shall be entitled after the Disability Effective Date to receive disability and other benefits at least equal to the most favorable of those provided by the Company to disabled employees and/or their families in accordance with such plans, programs and policies relating to disability, if any, as in effect at any time during the 90 day period immediately preceding the Effective Date or, if more favorable to the Executive and/or the Executive's family, as in effect at any time thereafter with respect to other key executives and their families.

(c) Cause: Other Than for Good Reason. If, during the Agreement Period, the Executive's employment shall be terminated for Cause, this Agreement shall terminate without further obligations to the Executive other than the obligation to pay to the Executive the Highest Base Salary through the Date of Termination plus any continuing obligations related to any compensation previously deferred by the Executive. If the Executive terminates employment other than for Good Reason, this Agreement shall terminate without further obligations to the Executive, other than those obligations accrued or earned by the Executive through the Date of Termination, including for this purpose, all Accrued Obligations.

(d) Good Reason: Other Than for Cause or Disability. If, during the Agreement Period, the Company shall terminate the Executive's employment other than for Cause or Disability, or the employment of the Executive shall be terminated by the Executive for Good Reason:

(i) the Company shall pay to the Executive in a lump sum in cash within 30 days after the Date of Termination the aggregate of the following amounts:

A. to the extent not theretofore paid, the Executive's Highest Base Salary through the Date of Termination; and

B. ___ times the average of the Annual Bonuses payable to the Executive in respect of the three years preceding the fiscal year in which the Effective Date occurs; and

C. ___ times the Highest Base Salary; and

D. all other amounts accrued or earned by the Executive through the Date of Termination and amounts otherwise owing under the then existing plans and policies of the Company; and

(ii) for ___ years after the Date of Termination the Company shall continue benefits to the Executive and/or the Executive's family at least equal to those which would have been provided to them in accordance with the health and dental plans, programs and policies provided by the Company to employees and/or their families if the Executive's employment had not been terminated, including health insurance and dental insurance, if and as in effect at any time during the 90-day period immediately preceding the Effective Date or, if more favorable to the Executive, as in effect at any time thereafter with respect to other key executives and their families; provided, however, that such benefit continuation shall cease when and to the extent the Executive obtains coverage through a new employer.

7. Non-exclusivity of Rights. Nothing in this Agreement shall prevent or limit the Executive's continuing or future participation in any benefit, bonus, incentive or other plan or

program provided by the Company or any of its affiliated companies and for which the Executive may qualify, nor shall anything herein limit or otherwise affect such rights as the Executive may have under any stock option or other agreements with the Company or any of its affiliated companies. Amounts which are vested benefits or which the Executive is otherwise entitled to receive under any plan or program of the Company or any of its affiliated companies at or subsequent to the Date of Termination shall be payable in accordance with such plan or program.

8. Full Settlement. The Company's obligation to make the payments provided for in this Agreement and otherwise to perform its obligations hereunder shall not be affected by any set-off, counterclaim, recoupment, defense or other claim, right or action which the Company may have against the Executive or others. In no event shall the Executive be obligated to seek other employment or take any other action by way of mitigation of the amounts payable to the Executive under any of the provisions of this Agreement. The Company agrees to pay, to the full extent permitted by law, all legal fees and expenses which the Executive may reasonably incur as a result of any contest (regardless of the outcome thereof) by the Company or others of the validity or enforceability of, or liability under, any provision of this Agreement or any guarantee of performance thereof or as a result of any contest by the Executive about the amount of any payment pursuant to Section 9 of this Agreement, plus in each case interest at the applicable Federal rate provided for in Section 7872(f)(2) of the Internal Revenue Code of 1986, as amended (the "Code").

9. Certain Reduction of Payments by the Company.

(a) For purposes of this section, (i) "Payment" shall mean any payment or distribution in the nature of compensation to or for the benefit of Executive, whether paid or payable pursuant to this Agreement or otherwise; (ii) "Agreement Payment" shall mean a Payment paid or payable pursuant to this Agreement (disregarding this Section 9); (iii) "Net After Tax Receipt" shall mean the Present Value of a Payment net of all taxes imposed on Executive with respect thereto under Sections 1 and 4999 of the Code, determined by applying the highest marginal rate under Section 1 of the Code which applied to the Executive's taxable income for the immediately preceding taxable year; (iv) "Present Value" shall mean such value determined in accordance with Section 280G(d)(4) of the Code; and (v) "Reduced Amount" shall mean the smallest aggregate amount of Payments which (a) is less than the sum of all Payments and (b) results in aggregate Net After Tax Receipts which are equal to or greater than the Net After Tax Receipts which would result if the aggregate Payments were any other amount less than the sum of all Payments.

(b) Anything in this Agreement to the contrary notwithstanding, in the event Deloitte & Touche (the "Accounting Firm") shall determine that receipt of all Payments would subject Executive to tax under Section 4999 of the Code, it shall determine whether some amount of Payments would meet the definition of a "Reduced Amount." If the Accounting Firm determines that there is a Reduced Amount, the aggregate Agreement Payments shall be reduced to such Reduced Amount; provided, however, that if the Reduced Amount exceeds the aggregate Agreement Payments, the aggregate Payments shall, after the reduction of all Agreement Payments, be reduced (but not below zero) in the amount of such excess.

(c) If the Accounting Firm determines that aggregate Agreement Payments or Payments, as the case may be, should be reduced to the Reduced Amount, the Company shall promptly give Executive notice to that effect and a copy of the detailed calculation thereof, and the Executive may then elect, in his sole discretion, which and how much of the Payments shall be eliminated or reduced (as long as after such election the present value of the aggregate Payments equals the Reduced Amount) and shall advise the Company in writing of his election within ten days of his receipt of notice. If no such election is made by the Executive within such ten-day period, the Company may elect which of the Agreement Payments or Payments, as the case may be, shall be eliminated or reduced (as long as after such election the present value of the aggregate Agreement Payments or Payments, as the case may be, equals the Reduced Amount) and shall notify the Executive promptly of such election. All determinations made by the Accounting Firm under this Section shall be binding upon the Company and Executive and shall be made within 60 days of a termination of employment of the Executive. As promptly as practicable following such determination, the Company shall pay to or distribute for the benefit of Executive such Payments as are then due to Executive under this Agreement and shall promptly pay to or distribute for the benefit of Executive in the future such Payments as become due to Executive under this Agreement.

(d) While it is the intention of the Company and the Executive to reduce the amounts payable or distributable to Executive hereunder only if the aggregate Net After Tax Receipts to Executive would thereby be increased, as a result of the uncertainty in the application of Section 4999 of the Code at the time of the initial determination by the Accounting Firm hereunder, it is possible that amounts will have been paid or distributed by the Company to or for the benefit of Executive pursuant to this Agreement which should not have been so paid or distributed ("Overpayment") or that additional amounts which will have not been paid or distributed by the Company to or for the benefit of Executive pursuant to this Agreement could have been so paid or distributed ("Underpayment"), in each case, consistent with the calculation of the Reduced Amount hereunder. In the event that the Accounting Firm, based either upon the assertion of a deficiency by the Internal Revenue Service against the Company or Executive which the Accounting Firm believes has a high probability of success or controlling precedent or other substantial authority, determines that an Overpayment has been made, any such Overpayment paid or distributed by the Company to or for the benefit of Executive shall be treated for all purposes as a loan ab initio to Executive which Executive shall repay to the Company together with interest at the applicable federal rate provided for in Section 7872(f)(2) of the Code; provided, however, that no such loan shall be deemed to have been made and no amount shall be payable by Executive to the Company if and to the extent such deemed loan and payment would not either reduce the amount on which the Executive is subject to tax under Section 1 and Section 4999 of the Code or generate a refund of such taxes. In the event that the Accounting Firm, based upon controlling precedent or other substantial authority, determines that an Underpayment has occurred, any such Underpayment shall be promptly paid by the Company to or for the benefit of the Executive together with interest at the applicable federal rate provided for in Section 7872(f)(2) of the Code.

10. Confidential Information. The Executive shall hold in a fiduciary capacity for the benefit of the Company all secret or confidential information, knowledge or data relating to the Company or any of its affiliated companies, and their respective businesses, which shall have been obtained by the Executive during the Executive's employment by the Company or any of its affiliated companies and which shall not be public knowledge (other than by acts by the Executive or his representatives in violation of this Agreement). After termination of the Executive's employment with the Company, the Executive shall not, without the prior written consent of the Company, communicate or divulge any such information, knowledge or data to anyone other than the Company and those designated by it. In no event shall an asserted violation of the provisions of this Section 10 constitute a basis for deferring or withholding any amounts otherwise payable to the Executive under this Agreement.

11. Exclusive Remedy. During the Agreement Period, the payments, severance benefits and severance protections provided to the Executive pursuant to this Agreement are to be paid and provided in lieu of any severance payments, severance benefits and severance protections provided in any other plan or policy of the Company, except as expressly provided in writing under the terms of any plan or policy of the Company, or in a written agreement between the Company and the Executive entered into after the date of this Agreement.

12. Statement of Intention. It is the intention of the parties hereto that prior to the Effective Date, this Agreement shall not create any rights or obligations in the Executive or the Company, or require any payments by the Company to the Executive, except as expressly provided herein.

13. Successors.

(a) This Agreement is personal to the Executive and without the prior written consent of the Company shall not be assignable by the Executive otherwise than by will or the laws of descent and distribution. This Agreement shall inure to the benefit of and be enforceable by the Executive's legal representatives.

(b) This Agreement shall inure to the benefit of and be binding upon the Company and its successors.

(c) The Company will require any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business and/or assets of the Company to expressly assume and agree to perform this Agreement in the same manner and to the same extent that the Company would be required to perform it if no such succession had taken place. As used in this Agreement, "Company" shall mean the Company as hereinbefore defined and any successor to its business and/or assets as aforesaid which assumes and agrees to perform this Agreement by operation of law, or otherwise.

14. Miscellaneous.

(a) This Agreement shall be governed by and construed in accordance with the laws of the State of Minnesota, without reference to principles of conflict of laws. The captions of this Agreement are not part of the provisions hereof and shall have no force or effect. This Agreement may not be amended or modified otherwise than by a written agreement executed by the parties hereto or their respective successors and legal representatives.

(b) All notices and other communications hereunder shall be in writing and shall be given by hand delivery to the other party or by registered or certified mail, return receipt requested, postage prepaid, addressed as follows:

If to the Executive:	c/o ShopKo Stores, Inc. 700 Pilgrim Way Green Bay, WI 54307-9060
If to the Company:	ShopKo Stores, Inc. 700 Pilgrim Way P.O. Box 19060 Green Bay, WI 54307-9060 Attention: Secretary

or to such other address as either party shall have furnished to the other in writing in accordance herewith. Notice and communications shall be effective when actually received by the addressee.

(c) The invalidity or unenforceability of any provision of this Agreement shall not affect the validity or enforceability of any other provision of this Agreement.

(d) The Company may withhold from any amounts payable under this Agreement such Federal, state or local taxes as shall be required to be withheld pursuant to any applicable law or regulation.

(e) The Executive's failure to insist upon strict compliance with any provision hereof shall not be deemed to be a waiver of such provision or any other provision thereof.

(f) This Agreement contains the entire understanding of the Company and the Executive with respect to the subject matter hereof. It is expressly agreed that this Agreement supersedes and replaces any other form of Change of Control Severance Agreement which may have previously been entered into between Company and Executive.

(g) The Executive and the Company acknowledge that the employment of the Executive by the Company is "at will", and, prior to the Effective Date, may be terminated by either the Executive or the Company at any time. Upon a termination of the Executive's employment or upon the Executive's ceasing to be an officer of the Company, in each case, prior to the Effective Date, there shall be no further rights under this Agreement.

WITNESS WHEREOF, the Executive has hereunto set his hand and, pursuant to the authorization from its Board of Directors, the Company has caused these presents to be executed in its name on its behalf, all as of the day and year first above written.

SHOPKO STORES, INC.

By: ______________________________

Dale P. Kramer, President

EXECUTIVE

____

EXHIBIT 11

Shopko Stores, Inc. and Subsidiaries
Exhibit 11 – Computation of Earnings Per Common and Common Equivalent Share
(In Thousands, Except Per Share Data)

	Fiscal Years Ended		
	February 25, 1995 (52 Weeks)	February 26, 1994 (52 Weeks)	February 27, 1993 (52 Weeks)
PRIMARY:			
Net earnings	$ 37,790	$ 32,122	$ 50,059
Weighted average number of outstanding common shares	32,014	32,001	32,000
Number of common shares issuable assuming exercise of stock options	4		
Weighted average number of outstanding common and common equivalent shares – assuming primary	32,018	32,001	32,000
Net earnings per common share – primary (1)	$ 1.18	$ 1.00	$ 1.56
FULLY DILUTED:			
Net earnings	$ 37,790	$ 32,122	$ 50,059
Weighted average number of outstanding common shares	32,014	32,001	32,000
Number of common shares issuable assuming exercise of stock options	4	8	
Weighted average number of outstanding common and common equivalent shares – assuming full dilution	32,018	32,009	32,000
Net earnings per common share – assuming full dilution (1)	$ 1.18	$ 1.00	$ 1.56

(1) Earnings per share are computed by dividing net earnings by the weighted average number of outstanding common and common equivalent shares.

EXHIBIT 12

Shopko Stores, Inc. and Subsidiaries
Exhibit 12 – Statements Re Computation of Ratios
(In Thousands, Except Per Share Data)

	February 25, 1995 (52 Weeks)	February 26, 1994 (52 Weeks)	February 27, 1993 (52 Weeks)	February 29, 1992 (53 Weeks)	February 23, 1991 (52 Weeks)
Ratio of Earnings to Fixed Charges					
Computation of Earnings					
1 Pretax income	$ 62,418	$ 52,889	$ 81,453	$ 81,246	$ 73,539
2 Add previously capitalized interest amortized during the period	503	418	338	283	230
3 Less interest capitalized during the period	1,309	2,140	1,061	1,149	1,000
4 Total earnings (sum of lines 1 to 3)	61,612	51,167	80,730	80,380	72,769
Computation of Fixed Charges					
5 Interest (1)	30,351	23,557	19,335	18,361	22,337
6 Interest factor in rental expense	2,403	1,908	1,838	2,191	2,050
7 Total fixed charges (sum of lines 5 and 6)	32,754	25,465	21,173	20,552	24,387
8 **TOTAL EARNINGS AND FIXED CHARGES (line 4 plus line 7)**	$ 94,366	$ 76,632	$ 101,903	$ 100,932	$ 97,156
9 Ratio (line 8 divided by line 7)	2.9	3.0	4.8	4.9	4.0

(1) Includes capitalized interest

EXHIBIT 13

The strategy sound, the progress measurable...
we are solidly positioned to achieve our vision.

1995 Annual Report

Fiscal Year Ended February 25, 1995

ShopKo STORES INC.

Financial Highlights
ShopKo Stores, Inc. and Subsidiaries

(Dollars in thousands, except per share data)	Fiscal years ended February 25, 1995	Fiscal years ended February 26, 1994
Net Sales	**$1,852,929**	$ 1,738,746
Net Earnings	**37,790**	32,122
Net Earnings Per Common Share	**1.18**	1.00
Dividends Per Common Share	**0.44**	0.44
Shareholders' Equity	**$ 397,275**	$ 373,706
Stores Open at Year End	**124**	117

VISION 2000

The mission of ShopKo is to be a "specialty discount retailer" that is continuously committed to differentiating ourselves to the mass and middle American family in small and mid-sized markets across ShopKo, U.S.A.

Our vision is to offer quality merchandise and service to meet our customers' lifestyle requirements for casual apparel, home, family and health needs with style—at prices that communicate real value.

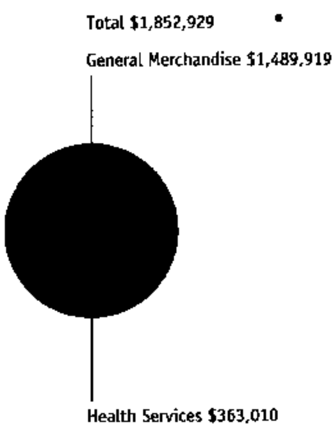
We will be a true alternative to national discount chains and department stores. Our regional focus allows us to be flexible and adapt to serve our customers and their changing needs.

Our Goal is to Satisfy Every Customer, Every Time.

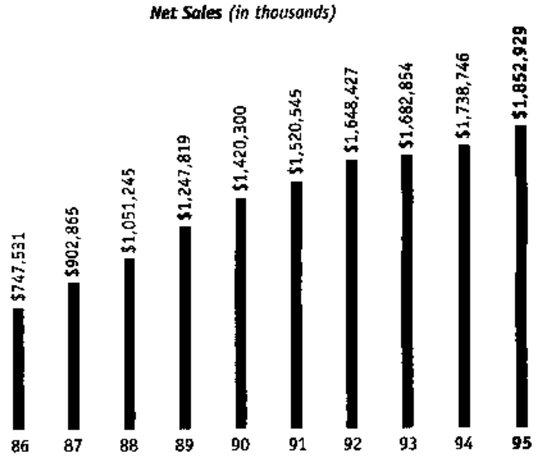
Business Segment Information

(In thousands)	Fiscal years ended February 25, 1995	Fiscal years ended February 26, 1994
Net Sales		
General Merchandise	**$1,489,919**	$1,411,781
Health Services	**363,010**	326,965
Total Net Sales	**$1,852,929**	$1,738,746
Operating Earnings Before Interest and Income Taxes		
General Merchandise	**$ 67,638**	$ 59,151
Health Services	**36,547**	29,854
Corporate Expenses	**(12,725)**	(14,699)
Income from Operations	**91,460**	74,306
Interest Expense	**(29,042)**	(21,417)
Provision for Income Taxes	**(24,628)**	(20,767)
Net Earnings	**$ 37,790**	$ 32,122

Net Sales (in thousands)



Net Sales (in thousands)



To our Shareholders:

I am pleased to report that in our sales performance, in our strategic accomplishments and in our progress toward achieving outstanding financial success, we have just completed a very good year.

For the past few years, we have focused our attention, energy and resources on establishing VISION 2000, a comprehensive strategy for achieving dominance in our chosen market niche. Now we are turning the corner: VISION 2000 is no longer a promise, but a reality – and although we are still working on full implementation, there is evidence the payoff has begun.

Sales for fiscal 1995 (year ending February 25, 1995) were $1.85 billion, a 6.6 percent increase over last year's sales of $1.74 billion. Comparable store sales increased by 0.7 percent and net earnings were $37.8 million, compared to $32.1 million in the previous year. This translates to earnings per share of $1.18 compared to $1.00 in fiscal 1994. Although our comparable store sales gains were modest, they were achieved with significantly less clearance sales, and in a year when we scaled back or eliminated several less profitable departments. Moreover, our fourth quarter results showed an even sharper upward turn, yielding earnings per share of $0.59, an 83.6 percent increase over the previous year.

Growth and Achievement

To fully appreciate the significance of these results, we must put them in perspective. It was a very difficult year for retailers: many of our competitors experienced significant declines, with decreases in earnings per share exceeding 50 percent. For ShopKo to realize an 18 percent increase in this environment, and with continued competitive intrusion and aggressive promotional pricing pressure, a powerful factor was working in our favor. That factor was VISION 2000.

Still more evidence that VISION 2000 is working is the recognition that ShopKo is receiving. Our home furnishings division's **Retailer of the Year** award, our Gallup customer service measurements, and a leading consumer publication's survey, rating ShopKo favorably in customer satisfaction, indicate we are satisfying our customers. Customers have also spoken with their pocketbooks, leading to double-digit sales growth in several strategic merchandise categories.

Our success must also be measured by the progress we made in expanding VISION 2000. As promised, last year we opened seven new stores, bringing our total to 124 in 15 states. As promised, we also remodeled 32 stores, bringing 64 percent of our operations into the VISION 2000 format. Our remodeling and related costs will now decrease, opening the door to higher profits.

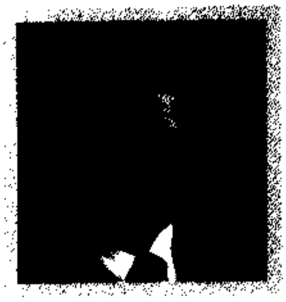
Another perspective on our success is our Earnings Before Interest, Taxes, Depreciation, and Amortization (EBITDA). VISION 2000 implementation has required substantial capital investment, which tends to blur our performance. By screening out such factors, the EBITDA measure is a valuable indicator of actual earnings power. In fiscal 1995 it was $144.9 million, which represents a record year. Thus, ShopKo has significantly increased its earnings power.

Moving Forward

To strengthen our management team, we have added top caliber professionals like William Podany, our new Executive Vice President. Bill comes to us with more than 16 years of department store experience as a senior merchandising executive for home furnishings, apparel, cosmetics and accessories. His expertise in trend analysis, marketing, buying, vendor partnerships and logistics gives us an enormous advantage as we move closer to our strategic objectives.

We continue to focus on healthcare, an area of core competency in which we have long been a market leader, and in which there is huge growth potential. This year, for the first time, we have broken out our health segment as a separate component of VISION 2000. Our development of ProVantage™ Health Services, initially a mail service pharmacy, has rapidly expanded to become a prescription benefit management division, allowing us to compete in the managed healthcare arena. This offers us an unparalleled opportunity for growth and profitability.

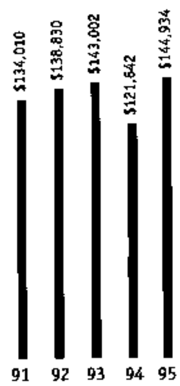
In short, we have returned to earnings growth. I take great pride in the important accomplishments of our associates. I thank each of them for their tenacious commitment, and their continued confidence in our vision. None of this would have been possible without their contribution to this great team effort. And I thank our shareholders for their patience and loyalty to ShopKo throughout our transition to VISION 2000. Implementation remains on schedule, and we are past the halfway point in the process. We still have much hard work ahead of us, but we have begun to realize the rewards, and can look forward to ever greater rewards in the future.



Dale P. Kramer
President and
Chief Executive Officer

Dale P. Kramer

Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA)
(in thousands)



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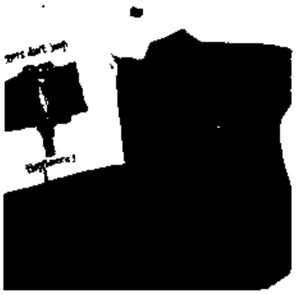
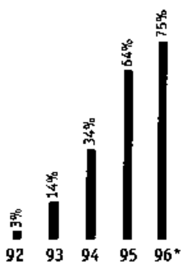
New store openings are festive occasions.



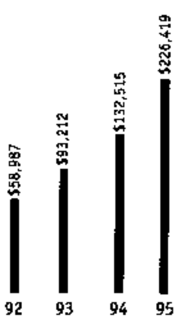
ShopKo is one of the first retailers to carry the popular Winnie the Pooh line of childrens' apparel.

Vision 2000 Rollout



* Based on projections

New Stores Sales *(in thousands)*



VISION 2000: A Solid Strategy with Solid Performance

Several years ago we charted a course to ensure continued growth and prosperity for ShopKo well into the future. Today we can say with confidence that our strategy is proving successful.

In the highly competitive retail environment of the 1990s, VISION 2000 differentiates ShopKo by offering a unique shopping experience. We meet the increasing demand for quality, variety and fashion – at prices that provide real value and in a pleasant retail setting. We have defined our niche by establishing a close match between our core competencies and a growing group of consumers: families with more than average education, good taste, busy schedules and keen attention to their budgets. We have improved our own strengths and profit potential in the key focus areas of casual apparel, home, family and health services.

Signs of Success

As a result, we experienced increases in sales and net earnings last year, especially in the merchandise categories our VISION 2000 strategy emphasizes. For example, in remodeled stores we had double-digit increases in infant basics, ladies' accessories, jewelry, intimate apparel, denim fashions and outdoor living. As always, performance in the health services area was stellar. Our solid results were achieved in a year when we scaled back categories that previously contributed over $100 million in sales such as automotive and hardware. These groups were de-emphasized under the VISION 2000 plan. The fact that we increased sales and profits despite the contraction of these categories is particularly convincing proof of the effectiveness of VISION 2000.

A very important element in our strategy to differentiate ShopKo is a strong emphasis on customer service. We believe we now provide a higher level of direct customer service in our stores than any of our competitors. Our Gallup Customer Satisfaction Monitors show consistently strong results: nearly 85 percent of the customers surveyed gave ShopKo top ratings for overall satisfaction. This bears out our belief that VISION 2000 has had a positive impact. In a recent survey by a leading consumer publication we were ranked very favorably in overall customer satisfaction.

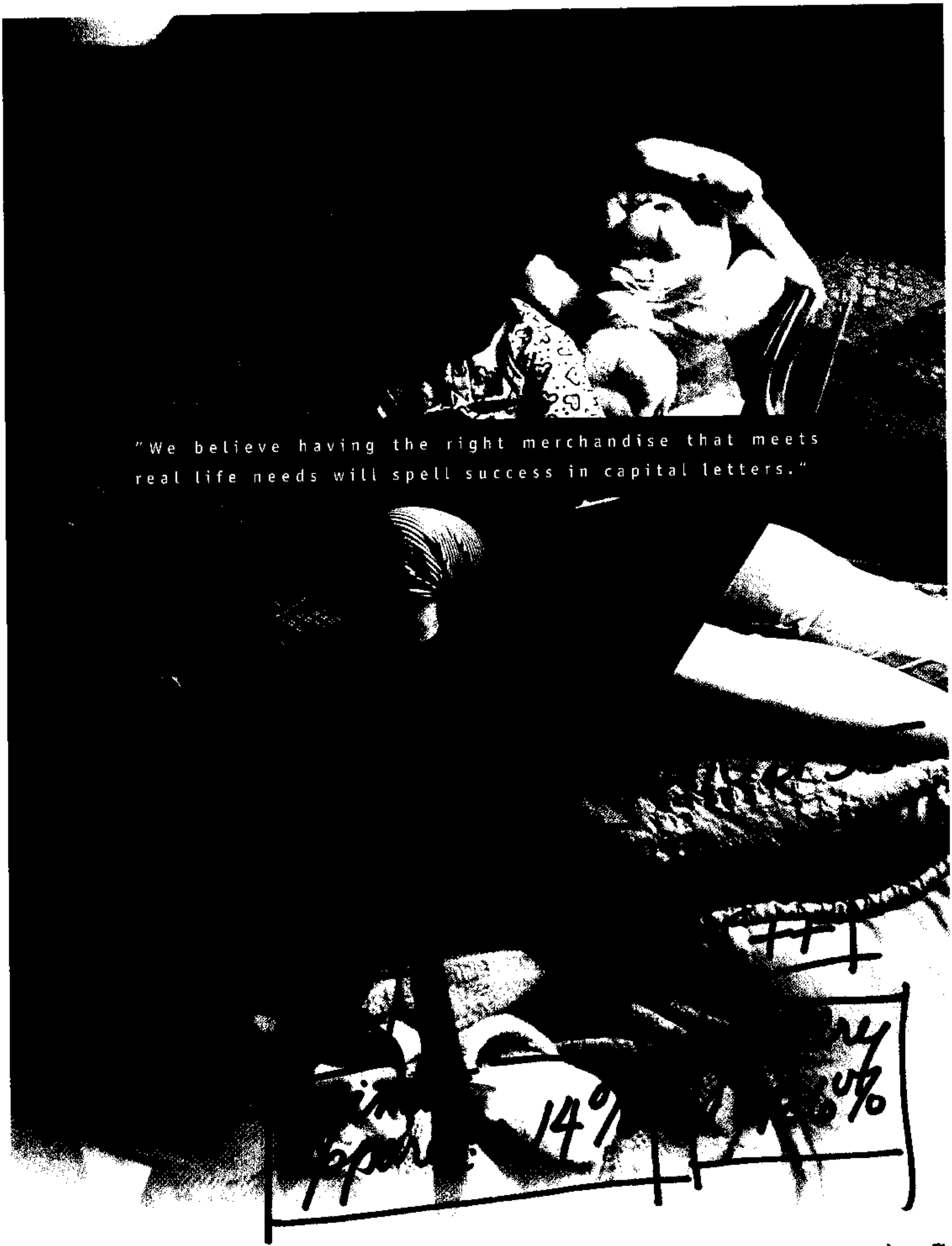
A Strong Foundation

Last year was also a turning point in the development of our infrastructure and information systems. VISION 2000 calls for the strategic centralization of merchandise planning and replenishment. We took a major step in this direction by consolidating our Merchandising and our Planning, Replenishment and Analysis functions into one team, operating in a dynamic partnership that includes our buyers. The result will be more accurate and timely planning, product selection and procurement, pricing and merchandising to meet customer needs by store.

We are committed to leveraging our investment in technology to the greatest extent possible to improve productivity. Several "state-of-the-industry" retail computer systems were installed during the last year to support our strategic centralization initiatives. These systems are expected to significantly improve the company's merchandise planning and inventory control capabilities. Our world-class local area network has been greatly expanded during the last year and now connects over 700 personal computers to deliver timely and useful information as needed throughout the company.

We also continued to implement new systems to increase our efficiency and control expenses. Selling, general and administrative expenses decreased 0.6 percent of sales to 19.2 percent, representing over $10.0 million in improvements. This is particularly meaningful in light of the high cost of operation associated with opening and remodeling a large number of stores. In the long term, such expense control can be translated into even more competitive pricing and improved bottom line profits.

In a difficult and extremely competitive environment, ShopKo has accepted the challenge, determined the necessary changes and is moving steadily forward. We are confident because we know our strengths. We understand the market, have a clearly defined path and have already confirmed the effectiveness of the VISION 2000 strategy in the most convincing language there is: our bottom line.


"We believe having the right merchandise that meets real life needs will spell success in capital letters."

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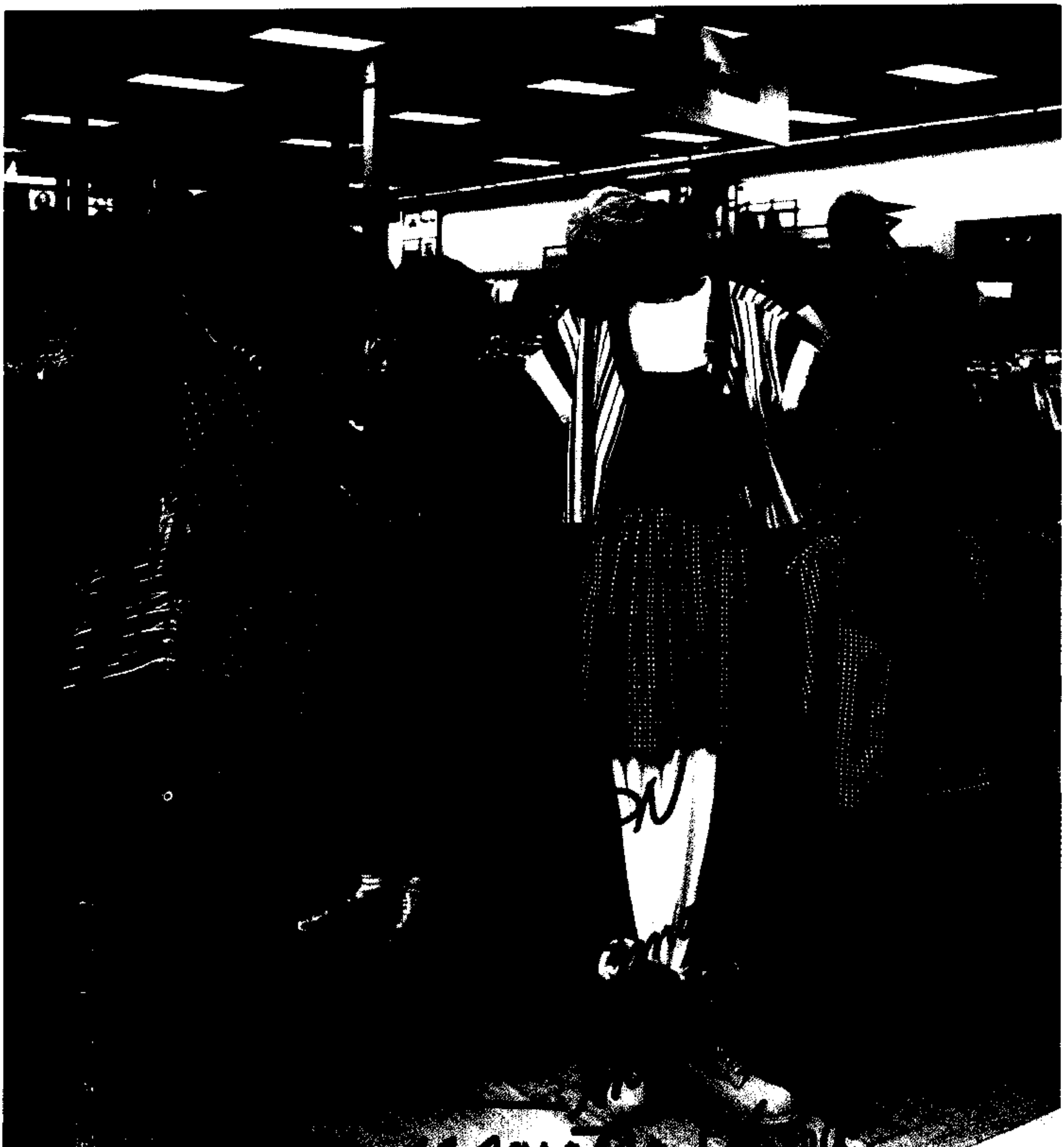


separates

updated fashion

strategy
vendor
alliances

GREAT MERCHANDISE IN A GREAT SHOPPING ENVIRONMENT

Merchandise and merchandising are critical components of our VISION 2000 strategy. They make maximum use of several of our core strengths such as the flexibility to respond quickly to evolving consumer tastes. At the same time, they permit us to address the needs of our defined market with precision, providing a new level of customer excitement.

Our strategic focus on the areas of casual apparel, home, family and health services accomplishes several important goals. By meeting the everyday needs of our customers, we give them a good reason to shop in our stores frequently and to visit a variety of departments. To encourage storewide shopping, we have placed a very high priority on offering consistent levels of quality and value across all areas. Our focus on lifestyle basics promotes a high sales volume; and in selecting our product categories we have emphasized those that generate consistent growth.

Knowing the Consumer

Central to the success of VISION 2000 is the merchandise planning and purchasing process. Our philosophy is to understand, monitor and address lifestyle megatrends. Today, for example, American consumers are leading more active, varied lives; as a result, they are dressing far more casually than in the past. In most social and leisure activities, and even in the workplace, they have moved away from formality, preferring comfort and versatility in everyday apparel. Our goal is to meet these basic needs better than anyone else – with emphasis on selection of styles, sizes, colors and choices. This approach has already proven extremely successful for ShopKo in basic and fashion basic categories such as denim, turtlenecks and similar items.

Wide choice, quality brand merchandise and appeal to contemporary tastes are found not only in apparel, but in every ShopKo department. Our home division has helped make us a destination store for home decorating, coordinated tabletop accessories, seasonal and patio furniture, and home holiday items. Customers come to us not only because we have the items they want, but also because we are a source of decorating ideas: our displays help them visualize the merchandise in their own homes. Our strategy has been validated by the industry. We recently received the prestigious **Retailer of the Year** award from the Home Fashion Products Association for our commitment to creatively and aggressively merchandising home textiles.

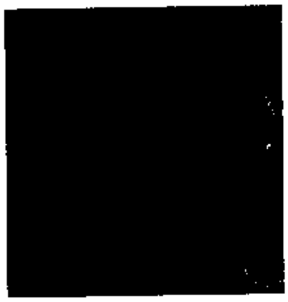
To remain the leader in this playing field, we are helping all of our buyers become lifestyle experts. With their fingers on the pulse of contemporary America, they are focused on understanding national and regional trends, and on discovering and developing new lifestyle opportunities for ShopKo. A very important resource for them in this effort is the strategic alliance we are building with seasoned vendors who offer great expertise in changing consumer preferences.

Making Our Stores Exciting

In addition to offering the merchandise customers want, we are presenting it with maximum appeal through our approach to merchandising. We display our products so they look great: customers receive an immediate impression of quality, variety, and size and color availability at prices that show real value. To generate immediate interest, a changing display of trend items greets customers as they enter the store. Our merchandise presentation also creates a relaxed, pleasant shopping environment. Departments are easy to locate, making customers feel comfortable and encouraging browsing. Accessories enhance merchandise displays by providing a more complete look. Attentive sales associates are available to answer questions and provide assistance.

We are committed to providing the right merchandise at the right time, offering it in a way that makes customers feel good about shopping in our stores. This strategy not only makes good sense: it is also delivering results.

Our customer service received national recognition.



Our emphasis on lifestyles basics keeps consumers coming back.

Coordinated home fashions is a key area in VISION 2000.

"The home textile industry's *Retailer of the Year* award validates a major component of the VISION 2000 strategy."

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ShopKo's optical labs provide fast, cost-efficient service.

Prescription benefit management is a major growth area.

Our historical strength in the health services area offers tremendous opportunity for maximizing our growth and earnings potential, and is a key part of our VISION 2000 strategy. As our merchandising strategy distinguishes ShopKo from other retailers, our proven expertise in healthcare clearly differentiates us and serves as a means of market dominance. We have now integrated our retail healthcare departments with additional services that open huge new possibilities.

With a quarter century of experience in the retail pharmacy business, ShopKo pioneered a strategy that has proven enormously successful over time in terms of customer satisfaction and profitability. Professionally operated by pharmacists who regard customers as patients, the ShopKo pharmacies filled 60 percent more prescriptions per day than the average competing national chain drugstore.

In 1978, ShopKo became the first discount retailer to enter the optical business, staffing our optical centers with doctors of optometry and offering eye exams in a professional office setting.

We fabricate eyeglasses in our centralized optical lab or in-store finishing labs, satisfying the demand many customers have for one-hour or same-day optical service. The value, service and professionalism found in these centers set ShopKo apart from the competition, which in smaller markets typically consists of independent optical offices.

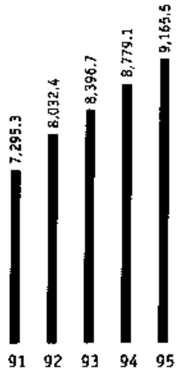
Having filled almost 540,000 eyeglass and contact lens prescriptions last year, ShopKo produces 34 percent more sales per store than the average mass merchant optical retailer.

The Future: Healthcare Cost Management

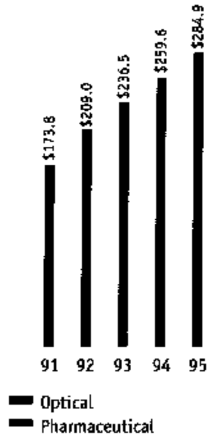
Our newest customers are more than 627,000 individuals represented by corporations, employee groups and insurance companies. We have achieved this through ProVantage™ Health Services, our prescription benefit management division launched in 1993. With initial sales and marketing efforts targeting growth-oriented Midwestern companies, ProVantage™ clients today include Briggs & Stratton, Harley Davidson, Schneider National and American Medical Security, one of the fastest growing insurance companies in the country. Our marketing has expanded to include several states and major metropolitan areas we believe represent the greatest opportunity for growth.

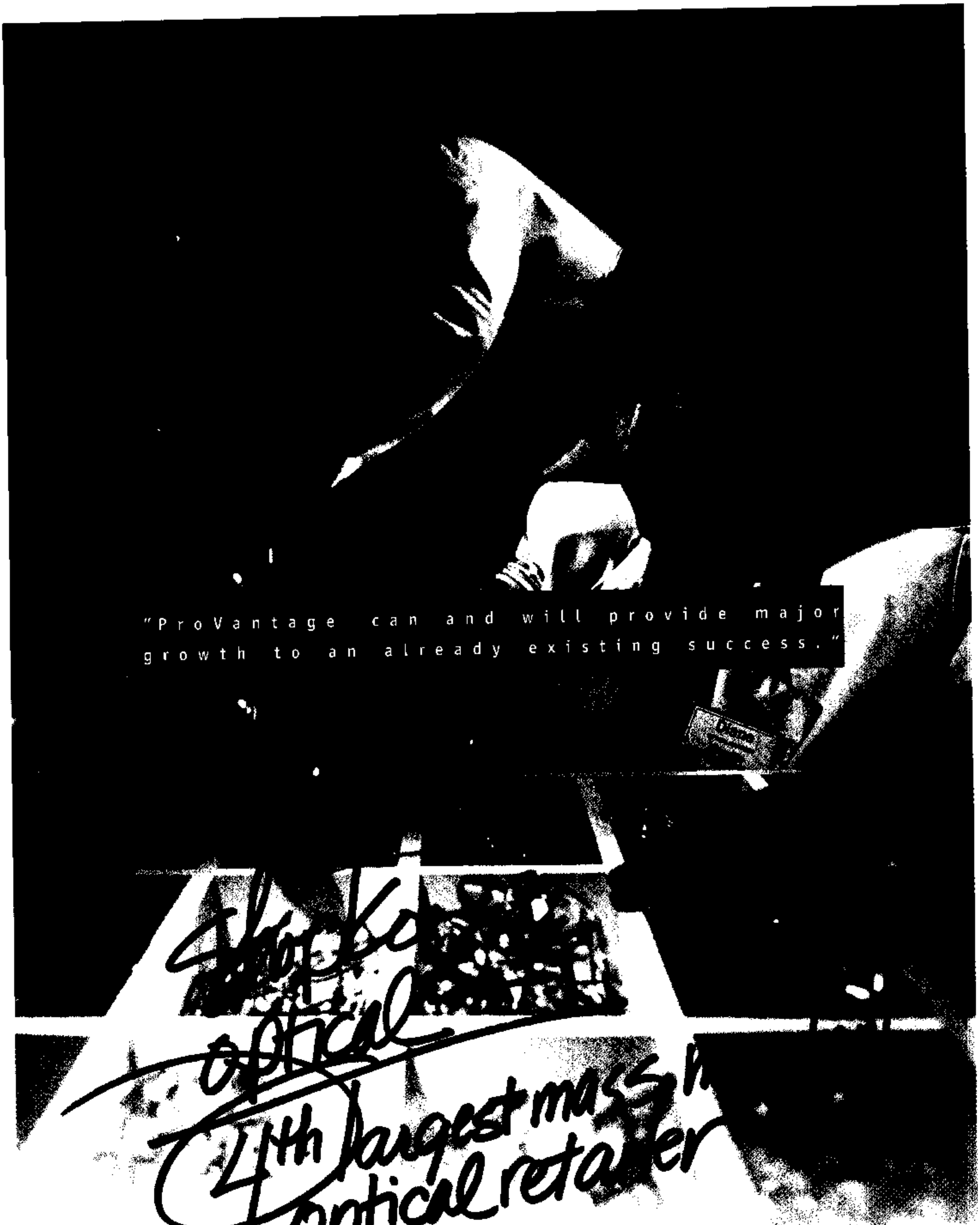
Today, corporations are paying more than 33 percent of escalating healthcare costs in the United States; benefit managers and insurance companies nationwide are seeking managed healthcare options to reduce this significant operating expense. Prescription drug benefits represent the fastest-growing component of these costs, having tripled in the past ten years, and with pharmacies and optical centers in nearly all ShopKo stores, we have expanded our healthcare strategy to capitalize on that demand – not only in ShopKo markets, but across the country. With our existing skills, technology, experience, infrastructure and resources, this strategy positions ShopKo to provide employee groups and insurance companies with prescription benefit plans that substantially reduce prescription costs, ultimately reducing the overall cost of healthcare.

ProVantage™ Health Services
Retail Prescriptions-Optical and Pharmacy
(in thousands)



ProVantage™ Health Services
Retail Sales
(in millions)




"ProVantage can and will provide major growth to an already existing success."
Shopko optical
4th largest mass m
optical retailer

0 73


double-digit
FY 96
CLAIMS MANAGEMENT
SERVICE
RETAIL

Growing Momentum

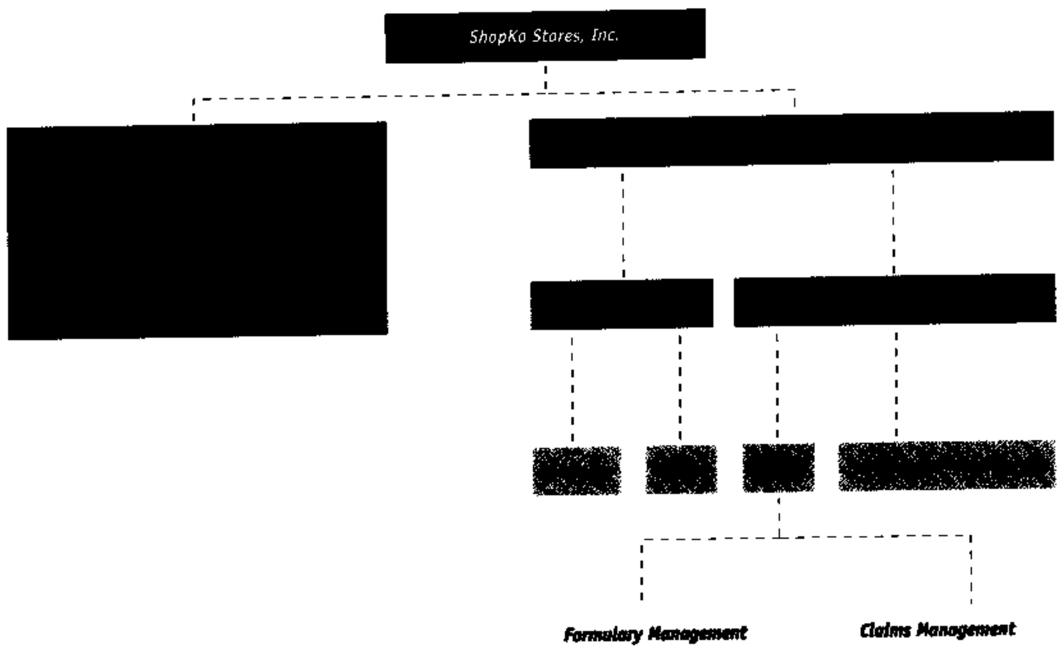
Enrollment in managed healthcare programs is expanding dramatically, and pharmacy benefits are increasingly part of the package. Twenty-five percent of all prescriptions are now dispensed with the participation of prescription benefit managers (PBMs) working to control pharmacy costs for their corporate clients. By supervising decisions regarding which drugs are dispensed and whether they are dispensed by retail or mail-service pharmacies, PBMs are becoming more and more influential in the pharmacy market.

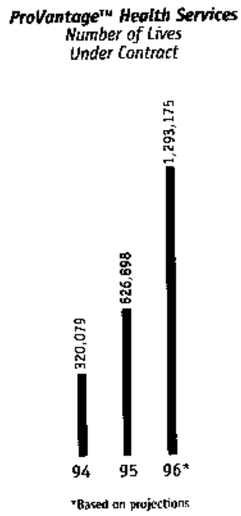
ShopKo's January 1995 acquisition of a national claims processor, Bravell, firmly established ProVantage™ Health Services as a PBM. Now ProVantage™ can offer its corporate customers custom prescription benefit plan design, a network of approximately 40,000 retail pharmacies, program administration, and claims and benefit processing. With this expanded network of pharmacies, ProVantage™ is able to provide prescription coverage to individuals living in virtually every city in America with a population greater than 5,000.

A key component of ProVantage™ Health Services' prescription benefit management is the establishment of a formulary: by encouraging generic substitutions whenever possible, and providing incentives and disincentives that persuade patients to utilize medications that are most effective therapeutically or economically, a formulary can maximize therapeutic outcomes and control costs.

The future for ProVantage™ lies in managing the overall costs of patients' healthcare with the help of an integrated patient information database. As we prepare to enter the 21st century, successfully tracking patient prescription usage and medical outcomes will lead to fewer trips to emergency rooms and physicians. We are now collecting the data that will lead to the development of clinical programs based on treatment effectiveness and outcomes analysis.

The seamless integration of retail optical centers, pharmacies, mail service pharmacy and pharmacy claims processing positions ShopKo and ProVantage™ Health Services to take advantage of the explosive growth predicted for the managed healthcare industry. Next year alone, we are likely to see a double-digit increase in health services sales, and we expect dramatic expansion to follow. The health services foundation ShopKo has built over the past quarter century thus promises significant opportunity for the future.





Patient consultation sets ShopKo pharmacies apart.

ShopKo's healthcare department offers convenience, choice and value.

ShopKo provides prescription coverage coast to coast.

0 71

ShopKo Stores, Inc. and Subsidiaries

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. 25, 1995 (52 Wks.)	Feb. 26, 1994 (52 Wks.)	Feb. 27, 1993 (52 Wks.)
Revenues:			
Net sales	**100.0%**	100.0%	100.0%
Licensed department rentals and other income	**.7**	.7	.7
	100.7	100.7	100.7
Costs and expenses:			
Cost of sales	**73.7**	73.9	72.8
Selling, general and administrative expenses	**19.2**	19.8	19.4
Depreciation and amortization expenses	**2.9**	2.8	2.6
	95.8	96.5	94.8
Income from operations	**4.9**	4.2	5.9
Interest expense	**1.6**	1.2	1.1
Earnings before income taxes	**3.3**	3.0	4.8
Provision for income taxes	**1.3**	1.2	1.8
Net earnings	**2.0%**	1.8%	3.0%

Depreciation and amortization expenses, which previously were a component of cost of sales and selling, general and administrative expenses, have been reclassified as a separate expense line item for all periods presented.

Fiscal 1995 Compared to Fiscal 1994

In fiscal 1995, the Company elected to report segment information about its operations in the general merchandise and health services businesses for all periods presented. General merchandise is conducted through retail stores. Health services include professional health care services provided in the retail stores and prescription benefit management services, pharmacy mail service and claims processing activities, which are generally provided through other facilities.

Net sales for fiscal 1995 (52 weeks) increased $114.2 million or 6.6% over fiscal 1994 (52 weeks). The Company opened seven new stores and remodeled 32 stores in fiscal 1995. Comparable store sales increased 0.7% for fiscal 1995 compared to 1.2% in fiscal 1994. Comparable store sales increases for a fiscal year are based upon those stores which were open for the entire preceding fiscal year.

General merchandise sales increased $78.1 million or 5.5% over fiscal 1994. Management attributes this sales increase to the opening of seven new stores. Comparable store general merchandise sales decreased 0.2%. Management believes general merchandise sales were negatively impacted by increased competition, reduced clearance sales this year compared to last year, the planned contraction of several departments and the disruption caused by the remodeling of 32 stores during fiscal 1995.

Health services sales increased $36.1 million or 11.0% over fiscal 1994. Management attributes this increase to increases in comparable store sales, expansion into claims processing activities, growth of the pharmacy mail service and the opening of seven new stores. Health services comparable store sales increased 4.5%, which is due to increased business in the Company's retail pharmacy and optical centers. Health services comparable store sales increases for a fiscal year are based upon sales generated from health care services provided in those retail stores which were open for the entire preceding fiscal year. Sales from prescription benefit management services, pharmacy mail service and claims processing activities are not included.

Gross margins as percentages of sales were 26.3% and 26.1% for fiscal 1995 and 1994, respectively. The gross margin for fiscal 1995 includes a LIFO credit of $2.0 million and a $5.5 million charge to reduce certain inventories to market value. The gross margin for fiscal 1994 includes a LIFO charge of $3.7 million. Gross margin, before LIFO expense, was 26.2% in fiscal 1995 as compared to 26.3% in fiscal 1994.

Selling, general and administrative expenses decreased 0.6% of net sales to 19.2% compared with 19.8% in fiscal 1994. The percentage decrease is primarily due to expense control initiatives, which were partially offset by increased costs associated with the operation of seven new stores and 32 store remodels during fiscal 1995.

Depreciation and amortization expenses as percentages of sales were 2.9% and 2.8% for fiscal 1995 and 1994, respectively. The increase is primarily due to the opening of new stores and the remodeling of existing stores to the Vision 2000 format.

The Company's operating earnings (earnings before interest and income taxes) increased 23.1% to $91.5 million in fiscal 1995 from $74.3 million in fiscal 1994. General merchandise operating earnings (earnings before corporate expenses, interest and income taxes) increased 14.3% to $67.6 million in fiscal 1995 compared to $59.2 million in fiscal 1994. This increase is primarily due to expense control initiatives. Health services operating earnings increased 22.4% in fiscal 1995 to $36.5 million compared to $29.9 million in fiscal 1994. This increase is primarily due to increased sales and increased gross margin percentage.

Interest expense in fiscal 1995 increased from the prior year by 0.4% of net sales to 1.6% of net sales. The increase is primarily due to long-term borrowing which principally funded new stores, the Company's remodeling program and additional related working capital.

The effective tax rate for fiscal 1995 was 39.4% as compared to 39.3% for fiscal 1994.

Fiscal 1994 Compared to Fiscal 1993

Net sales for fiscal 1994 increased $55.9 million, or 3.3%, over fiscal 1993. The Company opened eight new stores in fiscal 1994 (including two relocated stores). Comparable store sales increased 1.2% for fiscal 1994 compared to 1.5% in fiscal 1993.

General merchandise sales increased $26.5 million or 1.9% over fiscal 1993. Management attributes this sales increase to the opening of six additional stores. Comparable store general merchandise sales decreased 0.4%. Management believes general merchandise sales were negatively impacted by unfavorable economic conditions, increased competition, lower consumer confidence and unseasonable spring weather.

Health services sales increased $29.4 million or 9.9% over fiscal 1993. Management attributes this increase to increases in comparable store sales and the opening of six additional stores. Health services comparable store sales increased 8.6%. This is primarily due to increased business in the Company's retail pharmacy and optical centers.

Gross margins as percentages of sales were 26.1% and 27.2% 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 margin, before LIFO expense, was 26.3% in fiscal 1994 as compared to 27.3% 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 0.4% of net sales to 19.8% compared with 19.4% 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.

Depreciation and amortization expenses as percentages of sales were 2.8% and 2.6% for fiscal 1994 and 1993, respectively. The increase is primarily due to the opening of new stores and the remodeling of existing stores to the Vision 2000 format.

The Company's operating earnings (earnings before interest and income taxes) decreased 25.5% to $74.3 million in fiscal 1994 from $99.7 million in fiscal 1993. General merchandise operating earnings (earnings before corporate expenses, interest and income taxes) decreased 28.7% to $59.2 million in fiscal 1994 from $82.9 million in fiscal 1993. This decrease is primarily due to the decrease in gross margin percentage. Health services operating earnings increased 3.5% to $29.9 million in fiscal 1994 compared to $28.9 million in fiscal 1993. This increase is primarily due to increased sales which were partially offset by higher selling, general and administrative expenses.

Interest expense in fiscal 1994 increased from the prior year by 0.1% of net sales 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.

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' credited 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 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 $91.3 million, $79.5 million and $93.3 million in fiscal years 1995, 1994 and 1993, respectively. The Company's principal uses of cash are for increases in working capital and capital expenditures.

Working capital increased to $187.3 million at the end of fiscal 1995 from $118.8 million at the end of fiscal 1994 and $81.8 million at the end of fiscal 1993. The increase in working capital in fiscal 1995 resulted principally from increases in inventory as a result of additional inventory in basic categories and the opening of new stores.

On November 9, 1994, the Company issued $100 million 9.0% senior unsecured notes due November 15, 2004. The net proceeds of $98.9 million, after underwriting and issuance costs, were used to reduce the Company's short-term borrowings and to provide for working capital needs and other general corporate purposes.

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 25, 1995, the Company had $15.0 million outstanding under the revolving credit agreement. The weighted average interest rate on borrowings under the revolving credit agreement for fiscal 1995 was 4.8%.

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

Capital Expenditures

The Company spent $94.6 million on capital expenditures in fiscal 1995, compared to $133.8 million in fiscal 1994 and $91.1 million in fiscal 1993. The following table sets forth the components of the Company's capital expenditures (in millions):

	Fiscal Year		
	1995	1994	1993
New stores	**$ 31.3**	$ 82.4	$ 32.9
Remodeling and refixturing	**45.2**	29.4	24.7
Distribution centers	**2.8**	0.7	21.9
Management information and point-of-sale equipment and systems	**14.8**	20.1	10.5
Other	**0.5**	1.2	1.1
Total	**$ 94.6**	$ 133.8	$ 91.1

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 seven new stores and remodeled 32 stores in fiscal 1995. Present plans are to open five new stores and remodel 13 stores in fiscal 1996. New store and remodeling plans for fiscal 1997 are under review. Furthermore, the Company may consider the acquisition of existing stores (either at single sites or in groups as part of an existing business) which may be in addition to the new store openings in fiscal 1996 and which may replace, in whole or in part, new store construction in years after 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 $80.0 million in fiscal 1996.

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.

In addition to the above capital expenditures, the Company acquired 97% of the outstanding common stock of Bravell, Inc. for approximately $17.3 million. The Company may be required to make additional payments of up to $13.0 million, contingent upon future results of Bravell's operations. The acquisition, which was completed on January 3, 1995, was accounted for as a purchase. Bravell is a pharmacy benefit management firm that provides custom prescription benefit plan design, program administration and claims and benefit processing services to insurance companies and self-funded medical plan sponsors. The results of Bravell's operations since the date of acquisition have been included in the fiscal 1995 consolidated statements of earnings.

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 1996. However, if the Company were to make a large acquisition of multiple stores or a health care business, additional financing may be required.

Inflation

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

EIGHT YEAR FINANCIAL SUMMARY

ShopKo Stores, Inc. and Subsidiaries

	Fiscal years ended							
	Feb. 25, 1995 (52 Weeks)	Feb.26, 1994(1) (52 Weeks)	Feb. 27, 1993 (52 Weeks)	Feb. 29, 1992 (53 Weeks)	Feb. 23, 1991 (52 Weeks)	Feb. 24, 1990(2) (52 Weeks)	Feb. 25, 1989 (52 Weeks)	Feb. 27, 1988 (52 Weeks)
Summary of Operations (Millions) (7)								
Net sales	**$ 1,853**	$ 1,739	$ 1,683	$ 1,648	$ 1,521	$ 1,420	$ 1,248	$ 1,051
Licensed department rentals and other income	**12**	12	11	11	12	11	10	9
Gross margin	**488**	453	457	452	417	396	360	298
Selling, general and administrative expenses	**356**	344	326	325	296	282	262	221
Depreciation and amortization expenses	**53**	47	43	40	39	35	31	25
Interest expense	**29**	21	18	17	21	20	16	13
Earnings before income taxes	**62**	53	81	81	73	70	61	48
Net earnings	**38**	32	50	50	45	43	37	27
Per Share Data (Dollars)								
Net earnings per common share	**$ 1.18**	$ 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	0.44	0.11				
Financial Data (Millions)								
Working capital	**$ 187**	$ 119	$ 82	$ 79	$ 70	$ 59	$ 57	$ 37
Property and equipment-net	**618**	578	493	445	432	412	369	313
Total assets	**1,110**	953	792	706	692	648	576	485
Total debt (5)	**429**	337	225	193	215	237	231	193
Total shareholders' equity	**397**	374	355	320	273	228	186	149
Capital expenditures	**95**	134	91	53	59	80	91	88
Financial Ratios								
Current ratio	**1.7**	1.5	1.4	1.4	1.4	1.3	1.4	1.3
Return on beginning assets	**4.0%**	4.1%	7.1%	7.2%	7.0%	7.4%	7.6%	6.9%
Return on beginning shareholders' equity	**10.1%**	9.0%	15.7%	18.1%	19.7%	22.9%	24.8%	22.3%
Total debt as % of total capitalization (6)	**50.9%**	46.2%	37.9%	36.7%	42.8%	50.0%	53.9%	54.9%
Other Year End Data								
Stores open at year end	**124**	117	111	109	104	98	87	75
Average store size-square feet	**90,260**	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.

(7) Depreciation and amortization expenses, which previously were a component of cost of sales and selling, general and administrative expenses, have been reclassified as a separate expense line item for all periods presented.

76

CONSOLIDATED STATEMENTS OF EARNINGS

ShopKo Stores, Inc. and Subsidiaries

(In thousands, except per share data)	Fiscal years ended February 25, 1995 (52 Weeks)	February 26, 1994 (52 Weeks)	February 27, 1993 (52 Weeks)
Revenues:			
Net sales	**$1,852,929**	$1,738,746	$1,682,854
Licensed department rentals and other income	**12,433**	11,509	11,174
	1,865,362	1,750,255	1,694,028
Costs and expenses:			
Cost of sales	**1,364,913**	1,285,232	1,225,248
Selling, general and administrative expenses	**355,515**	343,381	325,778
Depreciation and amortization expenses	**53,474**	47,336	43,275
	1,773,902	1,675,949	1,594,301
Income from operations	**91,460**	74,306	99,727
Interest expense	**29,042**	21,417	18,274
Earnings before income taxes	**62,418**	52,889	81,453
Provision for income taxes	**24,628**	20,767	31,394
Net earnings	**$ 37,790**	$ 32,122	$ 50,059
Net earnings per common share	**$ 1.18**	$ 1.00	$ 1.56
Weighted average number of common shares outstanding	**32,014**	32,001	32,000

See notes to consolidated financial statements.

CONSOLIDATED BALANCE SHEETS

ShopKo Stores, Inc. and Subsidiaries

(In thousands)	February 25, 1995	February 26, 1994
Assets		
Current assets:		
Cash and cash equivalents	$ 12,598	$ 2,570
Receivables, less allowance for losses of $3,590 and $2,133, respectively	42,067	30,324
Merchandise inventories	400,623	328,854
Other current assets	13,456	8,759
Total current assets	468,744	370,507
Other assets and deferred charges	22,943	4,361
Property and equipment – net	618,064	578,181
Total assets	$1,109,751	$ 953,049

Liabilities and Shareholders' Equity		
Current liabilities:		
Short-term debt	$ 15,000	$ 26,200
Accounts payable – trade	149,293	147,152
Accrued compensation and related taxes	24,612	21,851
Accrued other liabilities	61,858	42,812
Accrued income and other taxes	29,955	12,849
Current portion of long-term obligations	755	879
Total current liabilities	281,473	251,743
Long-term obligations	413,580	309,604
Deferred income taxes	17,423	17,996
Shareholders' equity:		
Preferred stock; none outstanding		
Common stock; Shares outstanding, 32,005 in 1995 and 32,016 in 1994	320	320
Additional paid-in capital	242,843	242,978
Retained earnings	154,112	130,408
Total shareholders' equity	397,275	373,706
Total liabilities and shareholders' equity	$1,109,751	$ 953,049

See notes to consolidated financial statements.

0 77

Consolidated Statements of Cash Flows

ShopKo Stores, Inc. and Subsidiaries

(In thousands)	February 25, 1995 (52 Weeks)	February 26, 1994 (52 Weeks)	February 27, 1993 (52 Weeks)
	Fiscal years ended		
Cash flows from operating activities:			
Net earnings	$ 37,790	$ 32,122	$ 50,059
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Depreciation and amortization	53,474	47,336	43,275
Provision for losses on receivables	287	63	143
Loss (gain) on the sale of property and equipment	421	(1,410)	(240)
Deferred income taxes	(3,764)	5,995	(68)
Change in assets and liabilities:			
Receivables	(5,611)	(9,317)	(3,926)
Merchandise inventories	(71,769)	(65,521)	(30,122)
Other current assets	(1,504)	(397)	(1,213)
Other assets	(2,059)	(1,025)	(558)
Accounts payable	2,142	21,369	9,258
Accrued liabilities	31,486	4,590	8,649
Net cash provided by operating activities	40,893	33,805	75,257
Cash flows from investing activities:			
Payments for property and equipment	(94,600)	(133,842)	(91,060)
Proceeds from the sale of property and equipment	6,982	4,644	408
Business acquisition, net of cash acquired	(15,885)		
Net cash (used in) investing activities	(103,503)	(129,198)	(90,652)
Cash flows from financing activities:			
Net proceeds from long-term obligations	98,939	98,714	197,112
Change in short-term debt	(11,200)	11,175	15,025
Change in common stock	(135)	185	
Dividends paid	(14,087)	(14,080)	(14,080)
Reduction in capital lease obligations	(879)	(823)	(784)
Payments to related party			(181,167)
Net cash provided by financing activities	72,638	95,171	16,106
Net increase (decrease) in cash and cash equivalents	10,028	(222)	711
Cash and cash equivalents at beginning of year	2,570	2,792	2,081
Cash and cash equivalents at end of year	$ 12,598	$ 2,570	$ 2,792
Supplemental cash flow information:			
Noncash investing and financial activities –			
Capital lease obligations incurred	$ 4,992	$ 1,769	$ —
Cash paid during the period for:			
Interest	$ 27,734	$ 23,248	$ 15,642
Income taxes	$ 12,910	$ 15,467	$ 31,879

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 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
Net earnings				37,790
Cancellation of common stock	(16)		(185)	
Issuance of common stock	5		50	
Cash dividends declared on common stock – $0.44 per share				(14,086)
Balances at February 25, 1995	32,005	$ 320	$ 242,843	$ 154,112

See notes to consolidated financial statements.

0 78

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 all its subsidiaries ("ShopKo" or the "Company"). All significant intercompany accounts and transactions have been eliminated. The Company, which is a Minnesota corporation, was incorporated in 1961. 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 25, 1995, 46% of the Company's common stock was owned by SUPERVALU.

Accounting and Reporting 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 E and G.

In fiscal 1995, the Company elected to report segment information about its operations in the general merchandise and health services businesses. See Note K.

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 merchandise vendors for promotional and advertising allowances, from third party pharmacy insurance carriers, from drug manufacturers for formulary fees 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 $37.0 million at February 25, 1995, $39.0 million at February 26, 1994 and $35.3 million at February 27, 1993.

Property and Equipment:

Property and equipment are carried at cost. The cost of buildings and equipment is depreciated over the estimated useful lives of the assets. Buildings and certain equipment (principally computer and retail store equipment) are depreciated using the straight-line method. Remaining properties are depreciated on an accelerated basis. Useful lives generally assigned are: buildings-25 to 50 years; retail store equipment-8 to 10 years; warehouse, transportation and other equipment-3 to 10 years. Costs of leasehold improvements are amortized over the period of the lease or the estimated useful life of the asset, whichever is shorter, using the straight-line method. Property under capital leases is amortized over the related lease term using the straight-line method. Interest on property under construction of $1.3, $2.1 and $1.1 million was capitalized in fiscal years 1995, 1994 and 1993, respectively.

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

	Feb. 25, 1995	Feb. 26, 1994
Property and equipment at cost:		
Land	**$107,532**	$111,149
Buildings	**441,665**	400,185
Equipment	**278,391**	262,604
Leasehold improvements	**50,581**	41,836
Property under construction	**23,081**	26,495
Property under capital leases	**19,591**	14,599
	920,841	856,868
Less accumulated depreciation and amortization:		
Property and equipment	**294,798**	271,626
Property under capital leases	**7,979**	7,061
Net property and equipment	**$618,064**	$578,181

Accounts Payable:

Accounts payable include $10.7 million at February 26, 1994 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 1995 and 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 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."

Net Earnings Per Common Share:

Net earnings per common 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.

Reclassifications:

Certain reclassifications have been made to the fiscal 1994 and fiscal 1993 consolidated financial statements to conform to those used in fiscal 1995.

B. ACQUISITIONS

On January 3, 1995, the Company completed the acquisition of Bravell, Inc. ("Bravell"). The transaction was accounted for as a purchase, whereby the Company acquired 97% of the outstanding common stock of Bravell for approximately $17.3 million. The Company may be required to make additional payments of up to $13.0 million, contingent upon future results of Bravell's operations. Bravell is a pharmacy benefit management firm that provides custom prescription benefit plan design, program administration and claims and benefit processing services to insurance companies and self-funded medical plan sponsors.

The allocation of the purchase price of Bravell was based on fair values at the date of acquisition. The estimates are based on available information and are subject to change upon completion of the appraisal process. The excess of the purchase price over the fair value of the net assets acquired ("goodwill") of approximately $16.7 million is being amortized on a straight-line basis over 22 years. The results of Bravell's operations since the date of acquisition have been included in the consolidated statement of earnings.

Bravell records as sales the amounts billed to insurance companies and self-funded medical plan sponsors and the amounts billed to drug manufacturers for formulary fees. Cost of sales includes the amounts paid to network pharmacies and the amounts paid to plan sponsors for shared formulary fees.

C. SHORT-TERM DEBT

As of February 25, 1995, the Company had a $175.0 million revolving credit agreement with a consortium of banks. The credit agreement is unsecured and will expire October 4, 1996, 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 25, 1995, the Company had outstanding $15.0 million under this agreement. The weighted average interest rate on borrowings under the credit agreement for fiscal 1995 was 4.8%.

The Company also issues letters of credit during the ordinary course of business as required by foreign vendors. As of February 25, 1995, the Company had $56.4 million of unused letters of credit.

D. LONG-TERM OBLIGATIONS AND LEASES

(In thousands)	**Feb. 25, 1995**	Feb. 26, 1994
Senior Unsecured Notes, 9.0% due November 15, 2004, less unamortized discount of $287	**$ 99,713**	$ —
Senior Unsecured Notes, 8.5% due March 15, 2002, less unamortized discount of $258 and $295 respectively	**99,742**	99,705
Senior Unsecured Notes, 9.25% due March 15, 2022, less unamortized discount of $518 and $537 respectively	**99,482**	99,463
Senior Unsecured Notes, 6.5% due August 15, 2003, less unamortized discount of $236 and $263 respectively	**99,764**	99,737
Industrial Revenue Bond, 6.4% due May 1, 2008	**1,000**	1,000
Capital lease obligations	**14,634**	10,578
	414,335	310,483
Less current portion	**755**	879
Long-term obligations	**$413,580**	$309,604

On November 9, 1994, the Company issued $100 million 9.0% senior unsecured notes due November 15, 2004. The notes provide for semi-annual interest payments payable on May 15 and November 15 of each year. There is no sinking fund applicable to the notes and the notes are not redeemable prior to maturity. The net proceeds of $98.9 million, after underwriting and issuance costs, were used to reduce the Company's short-term borrowings and to provide for working capital needs and other general corporate purposes.

On August 25, 1993, the Company issued $100 million 6.5% senior unsecured notes due August 15, 2003. 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 and to provide for working capital needs 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 25, 1995 and February 26, 1994, $3.2 million and $2.6 million remained to be amortized over future periods. Amortized expense for these costs was $0.2, $0.2 and $0.1 million in fiscal years 1995, 1994 and 1993, respectively. 0 73

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 $0.9, $0.8 and $0.9 million in fiscal years 1995, 1994 and 1993, respectively. Minimum future obligations under capital leases in effect at February 25, 1995 are as follows (in thousands):

Year	Lease Obligations
1996	$ 2,339
1997	2,342
1998	2,216
1999	2,220
2000	2,112
Later	22,333
Total minimum future obligations	33,562
Less interest	18,928
Present value of minimum future obligations	$ 14,634

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 10.8%, determined to be applicable at the inception of the leases.

Interest expense on the outstanding obligations under capital leases was $1.2, $1.0 and $1.1 million in fiscal years 1995, 1994 and 1993, respectively.

Contingent rent expense, based primarily on sales performance, for capital and operating leases was $0.5, $0.5 and $0.6 million in fiscal years 1995, 1994 and 1993, 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 25, 1995 are as follows (in thousands):

Year	Lease Obligations
1996	$ 3,561
1997	3,404
1998	3,331
1999	2,939
2000	2,860
Later	51,773
Total minimum obligations	$ 67,868

Total minimum rental expense, net of sublease income, related to all operating leases with terms greater than one year was $2.9, $2.7 and $2.6 million in fiscal years 1995, 1994 and 1993, 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 $1.1 million and $0.8 million, representing pro rata future payments, is reflected in the accompanying consolidated balance sheets at February 25, 1995 and February 26, 1994, respectively.

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

	1995	1994
Deferred tax liabilities:		
Property and equipment	**$ 19,752**	$ 20,901
LIFO inventory valuation	**5,210**	6,580
Other	**3,462**	1,575
Total deferred tax liabilities	**28,424**	29,056
Deferred tax assets:		
Reserves and allowances	**(13,070)**	(9,902)
Capital leases	**(1,380)**	(1,416)
Total deferred tax assets	**(14,450)**	(11,318)
Net deferred tax liability	**$ 13,974**	$ 17,738

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

	1995	1994	1993
Current			
Federal	**$24,379**	$ 12,562	$ 26,269
State	**4,488**	2,560	5,343
General business and other tax credits	**(475)**	(350)	(150)
Deferred	**(3,764)**	5,995	(68)
Total provision	**$24,628**	$ 20,767	$ 31,394

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

	1995	1994	1993
Statutory income tax rate	**35.0%**	35.0%	34.0%
State income taxes, net of federal tax benefits	**4.1**	4.1	4.4
Other	**0.3**	0.2	0.1
Effective income tax rate	**39.4%**	39.3%	38.5%

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 are as follows (in thousands):

	1995	1994	1993
Depreciation	**$ (247)**	$ 1,398	$ 254
Inventory valuation reserves	**(2,261)**	—	—
LIFO inventory valuation	**(1,370)**	5,370	(75)
Bad debt and return reserves	**(806)**	22	291
Other	**920**	(795)	(538)
Total deferred tax (benefit) expense	**$ (3,764)**	$ 5,995	$ (68)

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

F. Preferred and Common Stock

The Company has 20,000,000 shares of $0.01 preferred stock authorized but unissued.

There are 75,000,000 shares of $0.01 par value common stock authorized with 32,005,000 and 32,016,000 shares issued and outstanding at February 25, 1995 and February 26, 1994, respectively.

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 are as follows (shares in thousands):

	Shares	Price Range
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
Granted	250	10.00 - 11.00
Canceled and forfeited	(238)	10.00 - 16.25
Outstanding at February 25, 1995	1,936	10.00 - 16.25
Exercisable at February 25, 1995	709	15.00 - 16.25

In fiscal 1994, 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 are 5,000 and 16,000 shares of restricted stock outstanding at February 25, 1995 and February 26, 1994, respectively.

G. Employee Benefits

Substantially all employees of the Company are covered by a defined contribution profit sharing plan. In fiscal 1995 and 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 equal to one-half of the first 6 percent of compensation contributed by participating employees. The fiscal 1993 contribution was determined at the discretion of the Board of Directors. Contributions were $6.7, $5.6 and $4.4 million for fiscal years 1995, 1994 and 1993, 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' credited 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 costs for postretirement benefits include the following (in thousands):

	1995	1994
Service cost for benefits accumulated during the year	**$ 78**	$ 77
Interest cost on accumulated benefit obligation	**60**	60
Net periodic postretirement benefit cost	**$ 138**	$ 137

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

	February 25, 1995	February 26, 1994
Retirees	$ 347	$ 367
Active plan participants	728	770
Total accumulated postretirement obligations	$1,075	$1,137

The assumed discount rate used in determining the accumulated postretirement benefit obligation was 7% in both fiscal 1995 and fiscal 1994.

The assumed health care cost trend rate used in measuring the accumulated postretirement benefit obligation was 14% for fiscal 1995 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 at the end of fiscal 1995 and fiscal 1994 and the net periodic cost for the fiscal years.

H. 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
From SUPERVALU to ShopKo	$ 96	$ 1,584
From ShopKo to wholly owned subsidiaries of SUPERVALU	$ 323	$ 2,507

Purchases of inventory from SUPERVALU were $2.7, $9.7 and $15.4 million for the fiscal years 1995, 1994 and 1993, 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.

I. Fair Values of Financial Instruments

The following disclosure is made in accordance with the requirements of Statement of Financial Accounting Standards ("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 agreement and its capital leases 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 25, 1995 are as follows (amounts in thousands):

	Carrying Amount	Fair Value
Short-term debt	$ 15,000	$ 15,000
Long-term obligations:		
Senior Unsecured Notes, due November 15, 2004	99,713	106,871
Senior Unsecured Notes, due March 15, 2002	99,742	102,927
Senior Unsecured Notes, due March 15, 2022	99,482	108,601
Senior Unsecured Notes, due August 15, 2003	99,764	91,228
Industrial Revenue Bond, due May 1, 2008	1,000	1,000

J. UNAUDITED QUARTERLY FINANCIAL INFORMATION

Unaudited quarterly financial information is as follows:

(In thousands, except per share data)	First (16 wks)	Second (12 wks)	Third (12 wks)	Fourth (12 wks)	Year (52 wks)
Fiscal Year (52 Weeks) Ended February 25, 1995					
Net sales	$514,926	$381,297	$470,919	$485,787	$1,852,929
Gross margins*	135,411	99,910	120,718	131,977	488,016
Net earnings	4,980	2,750	11,303	18,757	37,790
Net earnings per common share	0.16	0.09	0.35	0.59	1.18
Weighted average shares	32,016	32,016	32,016	32,014	32,014
Dividends declared per common share	0.11	0.11	0.11	0.11	0.44
Price range per common share**	12-10$\frac{1}{4}$	10$\frac{3}{8}$-9$\frac{3}{4}$	10$\frac{5}{8}$-9$\frac{3}{4}$	9$\frac{3}{4}$-8$\frac{5}{8}$	12-8$\frac{5}{8}$
Fiscal Year (52 Weeks) Ended February 26, 1994					
Net sales	$474,599	$355,297	$446,286	$462,564	$1,738,746
Gross margins*	127,154	92,372	121,794	112,194	453,514
Net earnings	5,719	2,126	14,061	10,216	32,122
Net earnings per common share	0.18	0.07	0.44	0.32	1.00
Weighted average shares	32,000	32,000	32,000	32,001	32,001
Dividends declared per common share	0.11	0.11	0.11	0.11	0.44
Price range per common share**	15$\frac{7}{8}$-12$\frac{1}{2}$	13$\frac{1}{8}$-10$\frac{5}{8}$	11$\frac{1}{2}$-9$\frac{3}{4}$	12-10	15$\frac{7}{8}$-9$\frac{3}{4}$

*Gross margins for previous quarters have been adjusted since depreciation and amortization expenses, which previously were a component of cost of sales and selling, general and administrative expenses, have been reclassified as a separate expense line item on the Consolidated Statements of Earnings.

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

K. BUSINESS SEGMENT INFORMATION

The Company conducts business in two business segments: general merchandise and health services. General merchandise is conducted through retail stores. Health services include professional health care services provided in the retail stores and prescription benefit management services, pharmacy mail service and claims processing activities, which are generally provided through other facilities.

Information about the Company's operations in the different businesses is as follows (in thousands):

	1995	1994	1993
Net sales			
General merchandise	**$1,489,919**	$1,411,781	$1,385,331
Health services	**363,010**	326,965	297,523
Total net sales	**$1,852,929**	$1,738,746	$1,682,854
Earnings before income taxes			
General merchandise	**$ 67,638**	$ 59,151	$ 82,940
Health services	**36,547**	29,854	28,858
Corporate	**(12,725)**	(14,699)	(12,071)
Interest expense	**(29,042)**	(21,417)	(18,274)
Earnings before income taxes	**$ 62,418**	$ 52,889	$ 81,453
Assets			
General merchandise	**$ 950,719**	$ 846,052	$ 714,342
Health services	**91,208**	58,586	38,159
Corporate	**67,824**	48,411	39,224
Total assets	**$1,109,751**	$ 953,049	$ 791,725
Depreciation and amortization expenses			
General merchandise	**$ 49,542**	$ 44,375	$ 40,467
Health services	**3,439**	2,629	2,376
Corporate	**493**	332	432
Total depreciation and amortization expenses	**$ 53,474**	$ 47,336	$ 43,275
Capital expenditures			
General merchandise	**$ 89,346**	$ 120,988	$ 86,348
Health services	**4,740**	11,398	2,896
Corporate	**514**	1,456	1,816
Total capital expenditures	**$ 94,600**	$ 133,842	$ 91,060

60

Independent Auditors' Report

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

We have audited the consolidated balance sheets of ShopKo Stores, Inc. and Subsidiaries as of February 25, 1995 and February 26, 1994 and the related consolidated statements of earnings, shareholders' equity and cash flows for each of the three years (52 weeks) in the period ended February 25, 1995. 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 25, 1995 and February 26, 1994, and the results of their operations and their cash flows for each of the three years (52 weeks) in the period ended February 25, 1995 in conformity with generally accepted accounting principles.

Deloitte & Touche LLP

DELOITTE & TOUCHE LLP
Milwaukee, Wisconsin
March 31, 1995

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 24, 1995, ShopKo's common shares were held by 2,740 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.

1995 Annual Meeting

The annual meeting of shareholders will be held June 14, 1995 at 10 a.m. at the Ramada Inn, 2750 Ramada Way, Green Bay, Wisconsin.

Investor Relations/Form 10-K

A copy of the company's 1995 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

Board of Directors

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

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

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

Officers

Dale P. Kramer
President and Chief
Executive Officer

Michael J. Bettiga
Senior Vice President of
Health Services

Oscar R. Cavazos
Vice President, Divisional
Merchandise Manager

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
Senior Vice President of
Store Marketing

Joseph A. Coffini
Vice President, Managed
Care Services

Rose A. Downs
Vice President, Operations
Administration

Gary B. Hammond
Senior Vice President of Stores

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

David S. Haugen
Regional Vice President

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

Jeffrey A. Jones
Senior Vice President and
Chief Financial Officer

Richard T. Laucks
Vice President, Loss Prevention

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

Peter R. Lynn
Senior Vice President of
Planning and Research

L. Terry McDonald
Senior Vice President
of Advertising

Dennis L. Nonnemacher
Vice President, Divisional
Merchandise Manager

Steven C. Peters
Vice President, Divisional
Merchandise Manager

William J. Podany
Executive Vice President of
Merchandising and Marketing

Randy L. Roiko
Vice President, Merchandise
Operations

Dennis R. Ruebel
Vice President,
Merchandising/Mfg. Health
Services

Steve M. Ryman
Vice President, Divisional
Merchandise Manager

James J. Sage
Regional Vice President

Walter B. Sandlin
Vice President, Divisional
Merchandise Manager

Jeffery R. Simons
Vice President and Controller

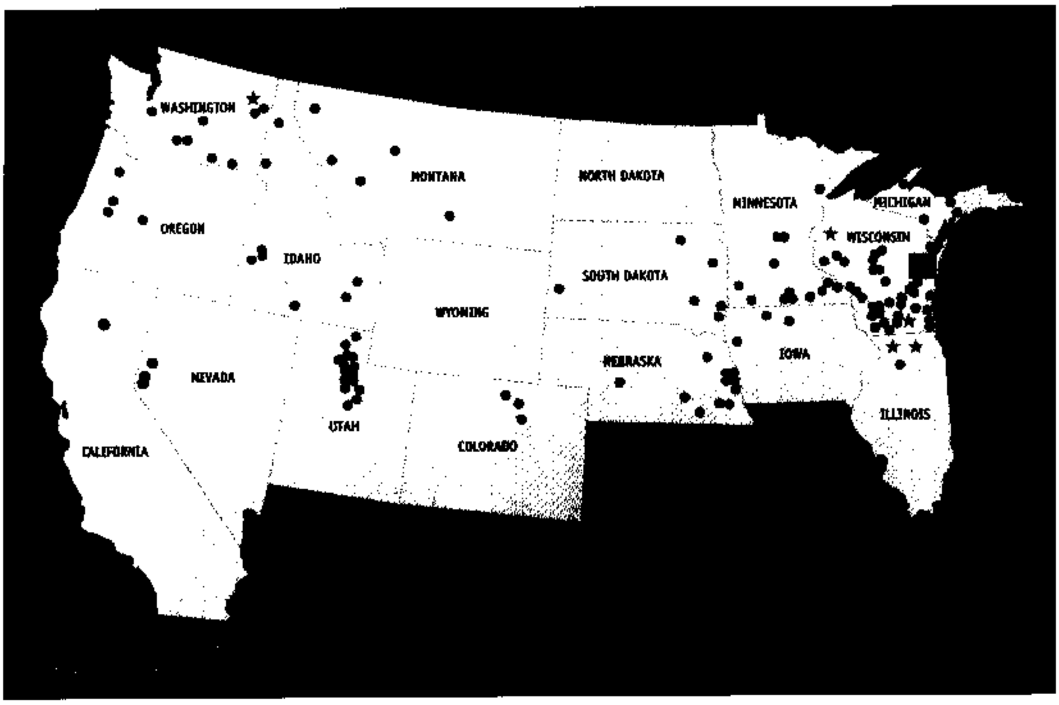
James W. Smekal
Vice President, Divisional
Merchandise Manager

Jean R. Srour
Vice President, Divisional
Merchandise Manager

James F. Tucker
Senior Vice President of
Information Services and Chief
Information Officer

Larry J. Vick
Vice President, Divisional
Merchandise Manager

Michael F. Wilson
Vice President, Store Planning



● ShopKo Stores

■ General Office
Green Bay, Wisconsin

△ Distribution Centers
Boise, Idaho
De Pere, Wisconsin
Omaha, Nebraska

★ Fiscal 1996 New ShopKo Store Locations
Delavan, Wisconsin
Rice Lake, Wisconsin
Belvidere, Illinois
Freeport, Illinois
Spokane, 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

This entire report is printed on recycled paper.

EXHIBIT 21.1

Exhibit 21.1

SUBSIDIARIES OF THE REGISTRANT

NAME	STATE OF INCORPORATION
ShopKo Pharmacies, Inc.	Michigan
SVS Trucking, Inc.	Minnesota
ShopKo Properties, Inc.	Minnesota
ShopKo Ventures - Duluth, Inc.	Minnesota
ProVantage, Inc.	Minnesota
Bravell, Inc.	Wisconsin
ProVantage Prescription Management Services, L.L.C.	Wisconsin Limited Liability Company

EXHIBIT 23.1

INDEPENDENT AUDITORS' CONSENT

We consent to the incorporation by reference in Registration Statements No. 33-43952, No. 33-58584 and No. 33-70666, all on Form S-8, of ShopKo Stores, Inc. of our reports dated March 31, 1995, appearing in and incorporated by reference in the Annual Report on Form 10-K of ShopKo Stores, Inc. and Subsidiaries for the year (52 weeks) ended February 25, 1995.

Deloitte & Touche LLP

DELOITTE & TOUCHE LLP
Milwaukee, Wisconsin
May 22, 1995