

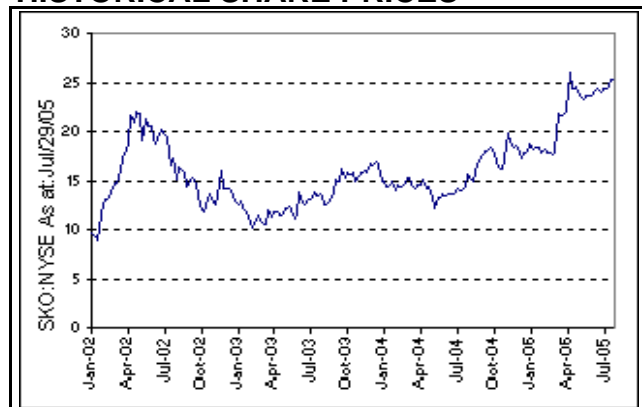
## THE COMPANY

ShopKo Stores is a discount specialty retailer, which manages 361 stores in 23 states. Of these stores, 141 are operated under the ShopKo name while the remaining 220 stores operate under the Pamida banner. The ShopKo retail segment consists of a multi-department retailer located primarily in mid-size and larger communities with an average store size of 90,000 square feet. The Pamida retail segment is a general merchandise retailer serving smaller and more rural communities, offering a convenient, one-stop shopping format with an average store size of 27,500 square feet.

## FINANCIAL DATA

|                             | 2001  | 2002  | 2003  |
|-----------------------------|-------|-------|-------|
| Earnings per Share (\$)     | 0.98  | 1.41  | 1.20  |
| Price to Earnings (times)   | 14.6  | 10.1  | 12.0  |
| Dividend (\$)               | -     | -     | -     |
| Dividend Yield (%)          | -     | -     | -     |
| Book Value (\$)             | 24.02 | 18.86 | 20.15 |
| Price to Book Value (times) | 0.60  | 0.76  | 0.71  |

## HISTORICAL SHARE PRICES



## WHY ABC FUNDS BOUGHT SHOPKO

Shares of ShopKo reached an all time high of \$40.75 in July 1999. Earnings had grown from \$1 per share in 1993 to \$2.60 a share in 1999, an average annual growth rate over 17% per year. The following year, a softening U.S. economy turned same store sales comparisons negative while competition from Wal-Mart and other larger department stores eroded profit margins. As a result, ShopKo's earnings fell to \$1.14 per share. With that, many investors who purchased ShopKo for its earnings growth exited the stock. As ShopKo's share price fell and interest in the stock dissipated, most of the brokerage firms on Wall Street either issued sell recommendations or dropped coverage entirely. By the end of the year, ShopKo shares had fallen below \$5.

Today ShopKo appears to be making strides to improve its operations and increase sales. First of all, the company has made significant management changes in the last year and a half including the addition of Sam Duncan as CEO. Duncan previously served as President of Fred Meyer, a general merchandise and food retailer. Second, ShopKo has added pharmacies and optical centers to its Pamida stores. In addition to generating store traffic, these services have contributed significantly to the company's overall sales and profitability in its ShopKo division. Finally, the company is busy remodeling and re-modernizing its Pamida stores. The remodeled stores will feature a new "easy-to-shop" appearance, including improved sight lines, reduced aisle congestion and attractive, easy-to-read signing.

ShopKo trades at a 29% discount to its book value of \$20.15 per share and roughly 10 times management's earnings guidance of between \$1.33 and \$1.48 per share. ShopKo also owns nearly half of its store locations as well as its corporate headquarters and distribution centers. Insiders hold less than 3% of the outstanding shares and therefore the company could theoretically be a takeover candidate. Same store sales rose 5.2% in March and if this trend continues, we feel ShopKo could command a higher price to book and or price to earnings multiple going forward.

ABC Funds  
April 23, 2004

## UPDATE

On August 19th, ShopKo Stores announced second quarter 2004 results. Net income was \$8.3 million or \$0.28 per share compared with net income of \$7.7 million or \$0.26 per share in 2003. Sales increased 1.4% to 775.6 million compared with \$764.7 million last year while comparable store sales rose 1.7%. This quarter was the second consecutive quarter of sales improvement at the ShopKo division and represented the sixth consecutive quarter of comparable sales increases for Pamida. Commenting on the quarter, CEO Sam Duncan stated that he was pleased with ShopKo's earnings performance. He concluded that the results were in line with expectations and reflect the progress of merchandising initiatives at both divisions.

ShopKo also announced the locations of two new ShopKo Express stores. Construction will begin this fall for a location in the

## UPDATE (cont'd)

Village of Howard, Wisconsin, located near Green Bay. The store will include a professional eye care centre and will open in mid-January 2005. The Howard site will be the second ShopKo Express location to be opened. Previously, ShopKo announced plans to open an Express location in Ledgeview, Wisconsin. In addition to the Ledgeview and Howard locations, ShopKo has purchased an existing neighbourhood drug store in Port Washington, Wisconsin near Milwaukee. This store is to be completely remodeled and converted to the ShopKo Express format. The ShopKo Express concept differs from the old ShopKo retail format in that stores are smaller in size and focus exclusively on health, wellness and grocery convenience items.

ShopKo shares have appreciated approximately 21% since April and, in our opinion, remain attractive. Presently, the shares trade at a 15% discount to book value of \$20.40 and 12 times expected earnings per share of \$1.46. Same store sales dropped 0.5% in August in what was a weak retailing environment, however management expects sales growth to increase to the low single digits in September.

ABC Funds  
September 3, 2004

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On November 18th, 2004 ShopKo Stores announced third quarter financial results. Net income was \$2.0 million or \$0.07 per share compared with \$1.0 million or \$0.03 per share last year. Sales for the quarter decreased 1.6% to 746.4 million from \$758.5 million last year. Comparable store sales for the third quarter decreased 1.5%. Commenting on the quarter, ShopKo Stores, Inc. President and Chief Executive Officer Sam Duncan said, "We are pleased with our increase in earnings over last year, which reflects improvements in gross margin rates and tight expense control. In addition, we are well positioned for the fourth quarter with inventory levels below last year."

ShopKo management is maintaining a conservative outlook for the rest of the fiscal year (ending January 29th 2005). They expect earnings in the fourth quarter to be in the range of \$1.06 to \$1.16 and full year earnings to be in the range of \$1.33 to \$1.46 per share. Shares of ShopKo are trading at 13 times this year's earnings and an 8% discount to its book value of 20.39 per share. Keep in mind that ShopKo's book value likely understates the value of its real estate, which is stated at its historical cost. Looking ahead to next year, ShopKo should benefit from new store openings and as well as several store remodels.

ABC Funds  
December 31, 2004

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Today, April 8th 2005, ShopKo Stores, Inc announced that it has signed a definitive merger agreement to be acquired by private equity investment firm Goldner, Hawn, Johnson, & Morrison for \$24 a share. The offer represents a 4 % premium over ShopKo's closing price yesterday of \$23.03 and a 34% premium to ShopKo's March 1st closing price of \$17.90.

It is interesting to note that while ShopKo is a discount retailer; it is also a real estate play. Specifically, ShopKo owns 80% of its ShopKo branded stores and 29% of its Pamida locations. In addition, the company also owns its ShopKo and Pamida headquarters as well as three distribution centres. These locations were purchased years ago and are likely worth much more today than what the company originally paid. In fact, various sources have indicated that the real estate value alone in the company could be worth as much as \$30 a share. In theory, a buyer of ShopKo at \$24 per share could enter into a sale-leaseback agreement, and then use the proceeds to finance the purchase of the entire company. In effect, to an aggressive acquirer, ShopKo could be an attractive leveraged buyout (LBO) candidate. Overall, with ShopKo now trading at \$26.02, it appears that Goldner's first offer is too low and that a higher offer could be on the way. In summation, we have decided at this time, to hold our shares and monitor the situation closely.

ABC Funds  
April 8, 2005

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Shares of ShopKo Stores have traded between \$23.32 and \$26.02 since April 8th; the day the company announced it had signed an agreement to be purchased by buyout firm Goldner, Hawn, Johnson, & Morrison (GHJM) for \$24 a share. It is interesting to note that a significant amount of trading in the stock has taken place above the offer price of \$24. John A. Levin & Co, a New York based Investment Company, recently disclosed that it has purchased 1.8 million shares of ShopKo or 6% of the company at prices ranging from \$23.75 to \$24.70. In a letter to ShopKo's Board of Directors, Levin & Co say they believe GHJM's offer for ShopKo is too low. Based on the value of ShopKo's real estate, working capital and prescription files, they believe ShopKo is worth considerably higher- between \$32.18 and \$32.88 per share. Levin & Co's purchase could be a potential catalyst. If more ShopKo shareholders voice their unhappiness towards the purchase price, GHJM or another interested party may eventually have to pay a higher price to take the company private.

ABC Funds  
July 29, 2005

**UPDATE (cont'd)**

The ShopKo takeover vote will occur on September 14th 2005. Although a higher price is possible, it is unlikely at this time. Conversely, if shareholders vote against the merger the stock could fall to pre-announcement levels of around \$18-20. Interestingly, this offer has been outstanding for over four months and no white knight has emerged to pay in excess of the \$24 takeover offer. Consequently, we believe the prudent action at this time would be to sell ShopKo stock in the market above the \$24 a share offer price. This is exactly what we have done for our three ABC Funds.

ABC Funds

September 2, 2005