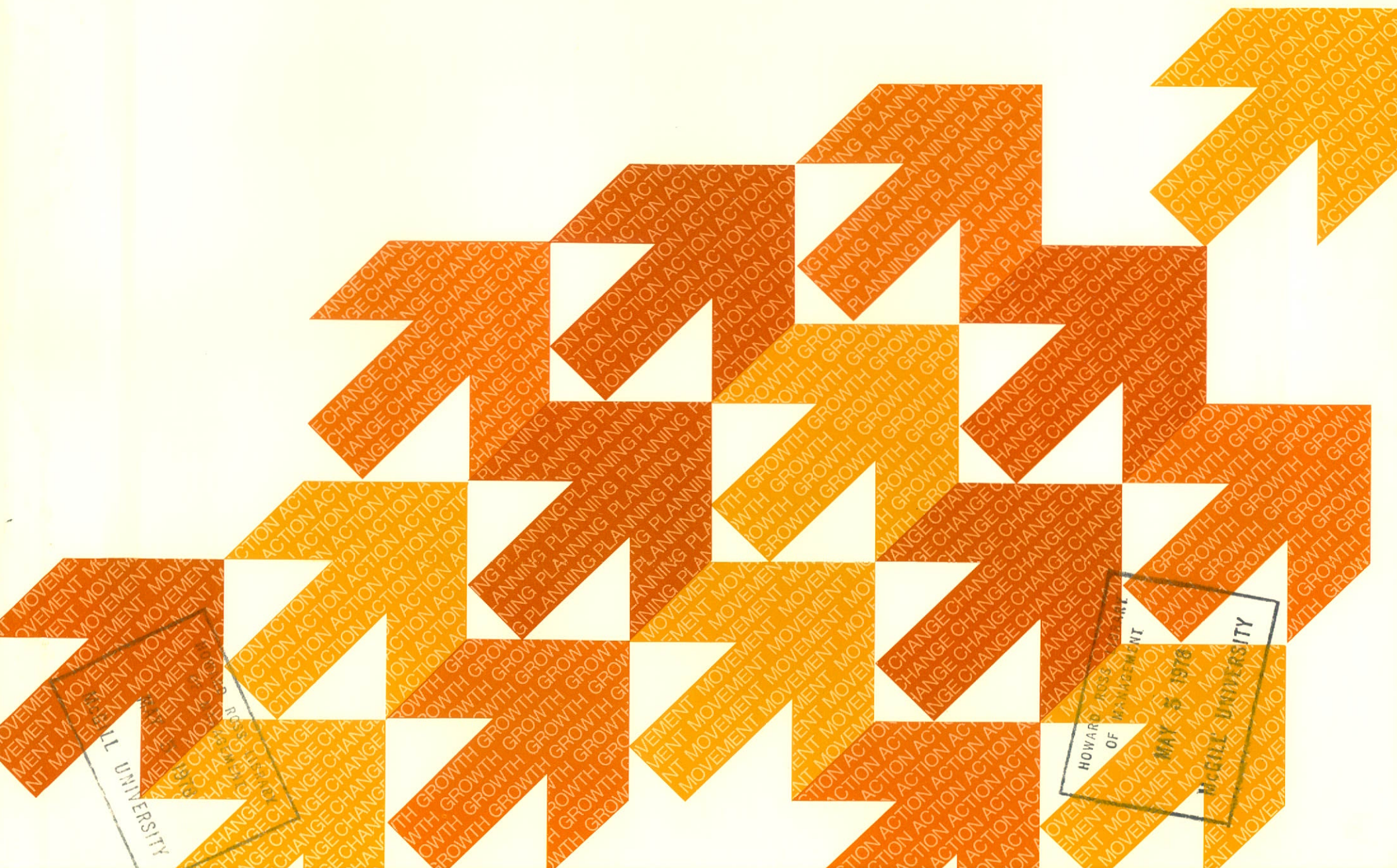


**GAMBLE-SKOGMO, INC.**  
**ANNUAL REPORT**  
**1977**



McGILL UNIVERSITY  
LIBRARY  
MAY 5 1978

HOWARD ROSS  
OF MANAGEMENT  
MAY 5 1978  
McGILL UNIVERSITY



## What Gambles is .

17 retailing Profit Centers, located in 35 states of the U.S.A. and in 10 provinces and the Northwest Territories of Canada, comprising a total of 3,144 company-owned stores and independent dealers.

10 financial service subsidiaries, located in the United States and Canada.

20,712 full-time employees.

An uninterrupted 50-year record of dividends paid to stockholders.

Net sales of \$1,634,122,000 for 52 weeks ending January 28, 1978, with net earnings of \$9,821,000 for the same period.

Corporate headquarters located at 5100 Gamble Drive, Minneapolis, Minnesota 55481.

## What Gambles does .

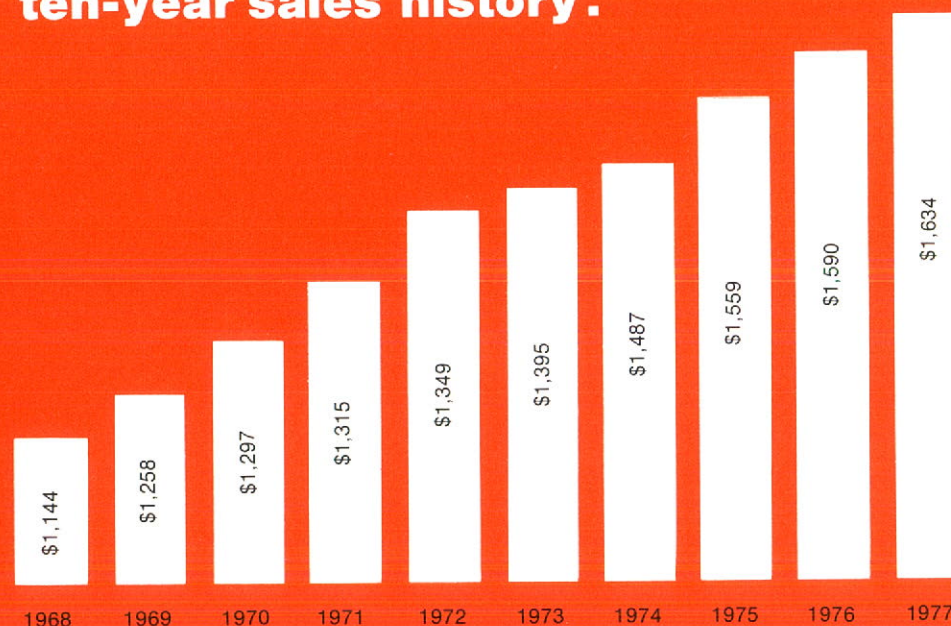
Gambles is a diversified merchandising and financial-service company. At the retail level, Gambles sells a wide range of consumer products, including durable goods, fashion apparel, food and pharmaceuticals, through company-owned stores and mail-order catalogs. At wholesale, Gambles sells and distributes these same products to independent dealers.

The financial-service subsidiaries of Gambles are devoted to activities which support the company's merchandising divisions and serve a rapidly expanding public market. These financial services include financing, insurance, leasing, and real estate development.

## Where Gambles is going .

Our future is filled with opportunities for growth and profit. However, the realization of this potential is possible only through an operating philosophy which combines responsible planning and creative management. Gambles therefore seeks to increase the productivity and profitability of its current retail and financial-service holdings through improved cost analysis and control, and through the redeployment of unproductive assets in areas of greater growth potential. We also plan to build upon our unbroken dividend record by seeking corporate acquisitions which will strengthen the company's long-range marketing and earnings profile.

## Gambles' ten-year sales history .



(All dollars in millions)

10 YEAR SALES HISTORY



# HIGHLIGHTS OF THE YEAR

## A YEAR OF MIXED PERFORMANCE

Sales and earnings were both adversely affected in 1977 by two major factors beyond the company's control. Downward movement of the Canadian currency exchange rate was largely responsible for a loss of earnings in the first quarter, and held back otherwise strong earnings in the third quarter. The depressed farm economy also dampened sales in Gambles' many retail outlets located in small, rural-oriented communities, especially during the first nine months of the year. However, fourth-quarter results from operations proved to be among the strongest in our history.

## SALES

Despite a first-quarter drop in sales from the previous year, aggressive promotion by company profit centers helped produce a steady increase during the last three quarters. Sales were actually up from 1976, a record year for Gambles.

## PROFITS

While operating earnings exceeded 1976 results, the foreign exchange translation loss and the provision for store closings were contributing factors in a decline of net earnings from the previous year.

	1977	1976
	Fifty-two weeks ended January 28, 1978	Fifty-two weeks ended January 29, 1977
Net sales	\$1,634,122,000	\$1,590,372,000
Net earnings	9,821,000	18,270,000
Earnings per common share:		
Primary	2.05	3.87
Fully diluted	2.03	3.59
Dividends per share of common stock	1.40	1.40

# CONTENTS

- 1 — Highlights of the year
- 2 — Letter to stockholders
- 4 — The Year In Review
  - General Merchandising
  - Catalog
  - Food & Drug
  - Financial Services
- 11 — Management changes
- 11 — Tabulation of company-owned and dealer outlets
- 12 — Financial highlights
- 13 — Consolidated statements of earnings
- 13 — Consolidated statements of retained earnings
- 14 — Consolidated balance sheets
- 15 — Consolidated statements of changes in financial position
- 16 — Notes to consolidated financial statements
- 22 — Accountants' report
- 22 — Stock information
- 23 — Summary of operating results by merchandising area
- 23 — Summary of operating results by geographic area
- 24 — Unconsolidated finance subsidiaries condensed financial information
- 25 — Unconsolidated insurance subsidiaries condensed financial information
- 26 — Significant comparisons
- 28 — Five year summary of operations
- 29 — Analysis of summary of operations
- 30 — Officers
- 31 — Officers, divisions and subsidiaries
- 32 — Directors
- Inside Back Cover — Directors, Committees of the Board, Corporate Data





## TO OUR STOCKHOLDERS:

For Gambles, 1977 was a paradoxical year. We began with our poorest quarterly results from operations, but finished with one of the strongest fourth quarters in company history. We looked backward and recognized a decade of accumulated problems and charges which penalized this year's earnings; we looked forward and hailed a future of promise, prosperity and accomplishment. We moved from dependence upon a restrictive policy of centralization to reliance upon a talented and experienced federation of entrepreneurs. We said farewell to a period of

---

**We began with our poorest quarterly results from operations, but finished with one of the strongest fourth quarters in company history.**

---

stagnation; we greeted instead an enthusiasm and aggressiveness that was so prevalent in the Gambles of yesteryear. The burden of uninvested cash suddenly became the foundation of corporate mobility and the basis for opportunities to add to the Gamble family of companies. We watched the end of an era with the departure of Bert Gamble, empire builder; we saw the emergence of the most



unique company in America—a company whose largest shareholder is its employees.

---

**We watched the end of an era with the departure of Bert Gamble, empire builder; we saw the emergence of the most unique company in America—a company whose largest shareholder is its employees.**

---

We recognized the importance of preserving the capital base that protects our 40,000 noteholders, who have provided Gambles with significant capital funds, when we rejected a possible sale of the company on terms that threatened to endanger that capital base. We further encouraged the substantial ownership position of our employees—a factor that should safeguard both stockholder and noteholder interests alike. We experienced a nightmare of boardroom chaos; we now have a competent, dedicated, working board. We left behind a board criticized for its narrow interpretation of director involvement and are welcoming a board whose makeup will represent outside interests, women and minorities. Finally, the most interesting metamorphosis of all, an environment of uncertainty and distrust was transformed into a climate where everyone can perform well and be rewarded accordingly.

The cumulative effect of these striking contrasts upon our sales and earnings in 1977 is detailed in the financial sections

of this report. Our performance throughout the year was plagued by unfavorable currency exchange rates affecting our Canadian subsidiaries, a condition over which the company had no control. However, by year's end vigorous corporate expense curtailment, aggressive promotion, and quickening retail sales minimized this erosion—a recovery which we fully expect to continue throughout 1978. Without the negative impact of the Canadian exchange rates, store-closing write-offs, and accounting adjustments, Gambles' earnings actually would have exceeded 1976 levels.

In retrospect, it has been a year of great transition—transition, we can be sure, for the better. A change has taken place, one conducive to building again. Fortunately, we stand on the shoulders of giants, giants like Bert Gamble and his early associates, who built the capital and provided the structure for a company whose future knows no bounds.

We are not supermen, but we are dedicated to a no-nonsense management philosophy and strategy. We shall strive for the daring to innovate, the discipline to plan, the will to achieve. We shall also

---

**We shall strive for the daring to innovate, the discipline to plan, the will to achieve. We shall also strive for balance, and for the commitment to be responsible.**

---

strive for balance, and for the commitment to be responsible.

Our first concern shall always be our stockholders. Interestingly enough, we employees are stockholders too. How fortunate and unusual that our interests and goals are the same.



Walter H. Davies, Jr.  
*Chairman of the Board  
and Chief Financial Officer*



Wayne E. Matschullat  
*President  
and Chief Executive Officer*





## THE YEAR IN REVIEW

Gambles' diversified merchandising and financial-service activities may be categorized into four major groups: General Merchandising, Catalog Sales, Food and Drug, and Financial Services. Description of these activities by individual profit center is set forth below, followed by a tabulation on page 11 of the number of outlets currently operational in each category.

### GENERAL MERCHANDISING

Gambles' general merchandising sector consists of department and specialty stores, mass merchandising stores, and all Canadian outlets. Individual divisions are described below within these three groupings.

#### Department and Specialty Stores

Gambles operates a number of conventional department stores under a variety of regional and local names. These stores are managed through Gamble Department Stores, Inc. and the J.M. McDonald Co. Division. Merchandised to suit regional needs and tastes, these stores assert a strong fashion leadership role in their communities while offering competitive prices on nationally advertised brands of men's, women's, and children's apparel, shoes and accessories, fabrics, gifts, home furnishings, and related items of popular appeal.

Gamble Department Stores finished 1977 with an exceptionally good Christmas season, resulting in a final net profit figure well ahead of the industry average on a percent-to-sales basis. Assets freed by the closing of three older, less profitable downtown stores will be used to facilitate expansion in more promising markets in 1978.

The depressed national farm economy slowed sales in J.M. McDonald Co. stores in the past year, since approximately half their annual volume is dependent upon agricultural communities. However, sales in metropolitan areas remained strong.

Reflecting further penetration of the Rocky Mountain marketing region by J.M. McDonald Co., two new women's specialty stores were introduced in Denver, Colorado during the year. A new full-line store in Visalia, California and the relocation of the Yuma, Arizona store to a shopping center are planned for 1978.

Though stores dependent upon agricultural markets will have difficulty generating optimal sales increases during the first six months of 1978, sales in urban stores should move steadily ahead in spite of heavy competition. Computer-aided fashion merchandising programs targeted at the 25-to-34 year-old women's market should bolster this projected growth.

The Mode O'Day Division includes Mode O'Day Stores and Double Up Stores. Both are specialty chains emphasizing lower-priced selections of women's fashion apparel and accessories, but the latter is aimed at a younger feminine market.

Mode O'Day recorded another banner year in 1977 as sales climbed 15 percent and pretax earnings rose a dramatic 25 percent over 1976. This is the third consecutive year in which sales and pretax profits increased a minimum of 15 percent and 25 percent respectively. As in previous years, very little of this increase was due to new-store acquisition or construction. A direct-mail promotional campaign met with particular success again this year, and a new junior sportswear line accounted for a full 42 percent of increased sales.

A plan to modernize and unify Mode O'Day's retail image was developed for each of three major merchandising strategies in 1977. 57 stores were converted to the new image by year's end. 17 new retail outlets were added during the year, and current plans call for an additional 35 units to open in 1978.

Woman's World Shops concentrate on popular women's apparel in larger "plus" sizes for the fashion-conscious mature woman. The combination of competitive quality and moderate price yields an attractive impression of value in Woman's World Shops.



Enjoying an extended period of growth, Woman's World looks forward to completion of enlarged central offices and warehouse facilities in LaMesa, California by May of this year. A consolidated data processing system linking company headquarters with point-of-sale registers in all 55 stores will bring state-of-the-art inventory control to the new facility by the end of the year. In February of this year Woman's World opened a second distribution center in Columbus, Ohio in conjunction with Tempo-Buckeye Stores, another Gamble division.

Projecting a healthy 25 percent increase in sales for fiscal 1978, Woman's World will rely more heavily on imports to improve mark-ups in the face of widespread wage increases in the domestic softlines industry. Midwestern urban centers, including Chicago, Detroit and St. Louis, are targeted as the most attractive potential market for Woman's World Shops in the near future, with 10 of 13 new store openings in 1978 to take place there.

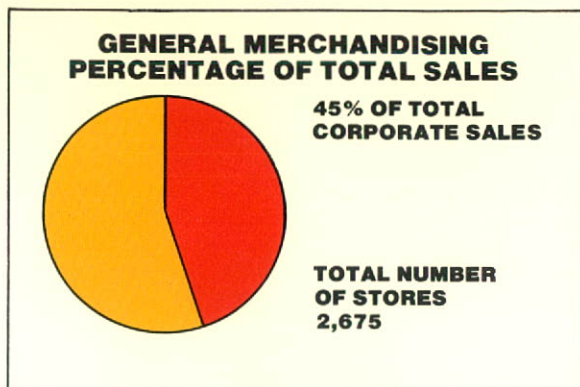
The Gambles House of Fabrics Division is comprised of stores purveying popular fabrics and home-sewing accessories. These stores operate under the names House of Fabrics and Fab's Fashion Fabrics.

A home sewing market depressed by retail saturation and the decline in price and popularity of doubleknit fabrics held back sales and earnings for House of Fabrics in 1977. The division has embarked upon a rigorous streamlining program that will close persistently unprofitable outlets during the coming year. Action has already been taken to reduce total administrative overhead and thereby enhance the division's profit potential.

With a slight resurgence in sales recorded this past fall, the slow but continuing recovery of this budget-minded market is anticipated for 1978, especially as higher retail prices spread throughout the ready-to-wear industry.

Rasco Stores Division operates high-volume variety stores similar to those of the Tempo-Buckeye Division under the names Rasco and Rasco-Tempo, and a chain of Toy World Stores featuring broad selections of popular toys for children and youths.

The refinement and relaying of merchandise assortments in Rasco and Rasco-Tempo Stores to reflect a more positive promotional price impression brought about a notable improvement in sales in



1977. Capital expenditures for new stores—two Rasco and eight Toy World Stores—were justified by sales in excess of initial projections.

1977 also witnessed the successful introduction of a new Sarco ready-to-wear pilot store. Mixing healthy markups on domestic and imported close-outs and overstocks with attractive savings for consumers, Sarco's marketing strategy was so well received that 25 additional Sarco Stores will open their doors in 1978. The Rasco Division anticipates that 1978 will record the largest sales volume in its history as well as commensurate profit performance.

Skogmo Stores Division, a chain of dealer-owned family-apparel stores located in smaller communities in the Upper Midwest, was sold to V S C of Clara City, Minnesota in December 1977. V S C is a full-line distributor to independent junior department stores. In past years, Skogmo had contributed less than one-half of one percent of total corporate retail sales.

The Gamble Stores Division is primarily made up of dealer-owned hardlines stores in rural America which carry a balanced mix of private-label and branded merchandise supplied by the company. These stores maintain a strong service orientation to their market communities, with a merchandise selection geared to the do-it-yourself consumer.

In the last five years, the division has made significant progress in restoring vigor to its Gamble Dealer Program. Operating with 254 fewer stores at the close of this period, yearly sales have increased by some \$32 million. Most importantly, the sales of the average Gamble store have grown by 68 percent.





## GENERAL MERCHANDISING

### Department and Specialty Stores (continued)

To make the divisional organization itself more responsive to the needs of dealers and consumers, regional commands were reduced to four, and the home office and field staffs were completely restructured. A \$2.5 million upgrading of its warehouses and delivery fleet has already enabled Gambles to distribute merchandise to dealers in less time and at more competitive wholesale costs.

With major improvements in distribution and operations capabilities to be completed by the middle of 1978, the Gamble Stores Division looks forward to a substantial upward shift in sales and earnings by the end of the current fiscal year. A vigorous program of expansion is expected to produce 40 new stores and 150 remodelings or expansions of existing stores during the same period.

Gambles Import Corporation purchases and imports into the U.S. selected hardlines and softlines for various retail subsidiaries of Gamble-Skogmo. It operates from central offices and showrooms in Burbank, California and maintains foreign offices in Japan, Korea, Taiwan, and Hong Kong. The foreign offices primarily serve quality-control and market-survey functions.

### Mass Merchandising Stores

Gambles operates high-volume, low-margin stores under the names Tempo and Buckeye Mart. These stores are merchandised to appeal to the value-

conscious consumer, and stock name-brand products in depth along with selected private-label items. Fashion apparel selection is geared to dominant popular trends and the achievement of good quality at low-to-moderate retail prices.

Tempo and Buckeye Mart Stores continued a drive to improve overall profitability in 1977 by remodeling nine stores in Ohio for greater efficiency and consumer appeal, and by closing six unproductive units at scattered locations. 1978 will see the completion of the remodeling program with renovations of two additional stores.

During 1977 the division also established its own softlines buying organization at its central distribution center in Columbus, Ohio, a move designed to strengthen sales of profitable fashion merchandise. The division's field organization was also restructured to provide more direct district management input to each store.

Strong holiday-season sales in 1977 resulted in part from a test program of television commercials covering a 37-store market area. This cooperative ad program will supplement the division's basic print promotional schedule in 1978.

### Canadian Operations

1977 proved to be another unsettled year for the Canadian economy, dominated by the potential secession of Quebec, the decline of the dollar on the world market, and intransigently high rates of inflation and unemployment. In addition, farm income across Canada was depressed by slow recovery from drought and low commodity prices, a trend that is expected to continue in 1978. In concert, these factors produced a sluggish retail atmosphere in which competitive pressures ran high while consumer spending remained cautious, although improvement was noticeable in the third and fourth quarters. 1978 will likely be another year of challenge.

The Macleods Division operates dealer-owned hardlines stores resembling the domestic Gambles concept throughout central and western Canada,





and also operates several mass-merchandising outlets under the name Gambles. The Stedmans Division is comprised of dealer-owned variety and soft-lines stores which are merchandised and priced to meet the unique needs of smaller Canadian communities. Stedmans Stores are located mainly in central and eastern provinces.

Growth of our Canadian divisions in 1977 was primarily exhibited in renovation of existing outlets, ground-level planning for future penetration of new markets, and by the addition of approximately 40 new dealers to our programs. The redefinition of merchandise assortments in each division is currently crystallizing Macleods as a hardlines retailer and Stedmans as a softlines variety chain, an adjustment which will facilitate deeper market penetration without overlap.

Macleods placed heavy emphasis on its Gambles mass-merchandising stores in 1977. A new 65,000 square-foot Gambles Store, as well as a Macleods Store converted to the Gambles concept, opened in Regina, Saskatchewan in August. At the same time, the Macleods Store in Saskatoon, Saskatchewan was also converted under this program. Several Macleods units underwent refixturing and renovation during the year.

A model store concept designed to present a unified Stedmans image to consumers was inaugurated in 1977, with complete development expected by mid-1978. Along with ongoing refinement of merchandise assortments for increased depth in popular categories, the model-store program should further define and secure Stedmans' position as a leading softlines variety retailer.

1977 also saw expansion and new-store development efforts shift away from corporate outlets to independent dealer operations. Elimination of perennially unprofitable company stores continued with five stores closed and four converted to dealer outlets. Conversion to independent dealer operations will be accelerated in the current fiscal year and should relieve the drain on retail profits by significantly reducing assets thus employed.







## CATALOG SALES

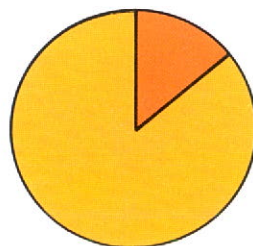
Aldens, Inc. is the fifth-largest retail catalog company in the U.S. on the basis of annual sales. Aldens operates its business through direct mail distribution of catalogs and goods. It carries a full department-store selection of contemporary fashion apparel, basic hardlines, and name-brand domestic durables. Merchandised for strong appeal to young family households, Aldens' dynamic full-color catalogs find responsive markets all across the U.S.—wherever people enjoy trend-setting luxury goods of better quality.

Aldens recorded both higher sales and earnings in 1977, with an all-time sales total set by the hardlines division. A restructuring of Aldens' New York Fashion Buying Office will direct more attention to the special requirements of catalog buying and is expected to improve ready-to-wear sales in 1978.

During the year, Aldens occupied a new central distribution center equipped with a computerized order sortation system. The improved efficiency and reduced warehouse space of this new facility should achieve measurable cost savings in fiscal 1978.

Aldens is currently testing a toll-free inbound WATS telephone ordering service. If it proves successful, the service will be expanded to include all customers in the continental U.S.—a marketing innovation with vast potential.

### CATALOG PERCENTAGE OF TOTAL SALES



**14% OF TOTAL  
CORPORATE SALES**

America Direct, an Aldens subsidiary, separately markets merchandise to the public through syndicated catalogs, bill stuffers, and other mailings for customers such as oil companies, credit-card companies, magazine publishers, and banks. In 1977 this subsidiary reported substantially higher earnings, a result of more selective marketing partnerships.





## FOOD AND DRUG

From a central headquarters and distribution center in Hopkins, Minnesota, Red Owl Stores, Inc. and its subsidiary, Snyder's Drug Stores, Inc., operate and supply supermarkets and drug stores bearing these names throughout the Upper Midwest. These stores are designed to be value leaders in their communities on name-brand and private-label consumable items. Red Owl also operates several Red Owl Family Centers, which carry selected hardlines and softlines in addition to a wide assortment of food and drug merchandise.

A 5.8 percent increase in sales marked 1977 as another year of steady growth for Red Owl. In addition, a total of six company-owned and 17 dealer stores were expanded, converted to new merchandising programs, or opened as new retail units. A number of additional stores underwent minor refurbishing. This ongoing program of expansion and upgrading will continue in 1978, with 11 company-owned and 12 dealer stores scheduled for similar projects.

Red Owl's "Country Store" warehouse-style food markets, promoting a bag-it-yourself-and-save theme, met with growing acceptance by consumers this past year as three Minnesota stores were converted to this program and in operation by year's end. Several more such conversions are planned or under consideration for 1978. Adding to its reputa-

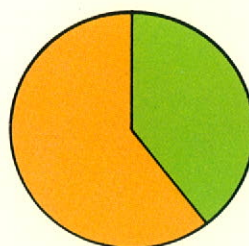
tion as one of the largest and most innovative food retailers in the Minneapolis-St. Paul urban area, Red Owl also inaugurated test programs for both electronic price scanning and electronic banking in selected stores.

Red Owl also called upon employees during 1977 to help improve store operations, with beneficial results. Suggested changes in customer service and perishable departments were quickly put into effect, and one suggestion from the division's Office Services Department will save more than \$60,000 in mail-handling expenses.

Snyder's Drug Stores also maintained its growth pace in 1977 with sales and earnings up in both company-owned and dealer stores. 52 dealer-owned and 46 company-owned stores are currently operational, with an anticipated cumulative total of well over 100 units to be reached during 1978. Intensive promotional campaigns throughout this year will keep Snyder's firmly positioned in the consumer's awareness as a leading purveyor of pharmaceuticals and related products. The goal of increasing sales and maintaining Snyder's current large share of the market will receive ongoing attention.

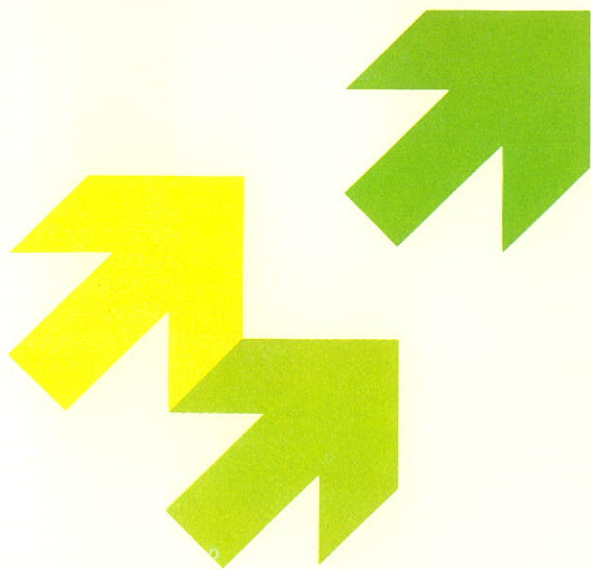


### FOOD AND DRUG PERCENTAGE OF TOTAL SALES

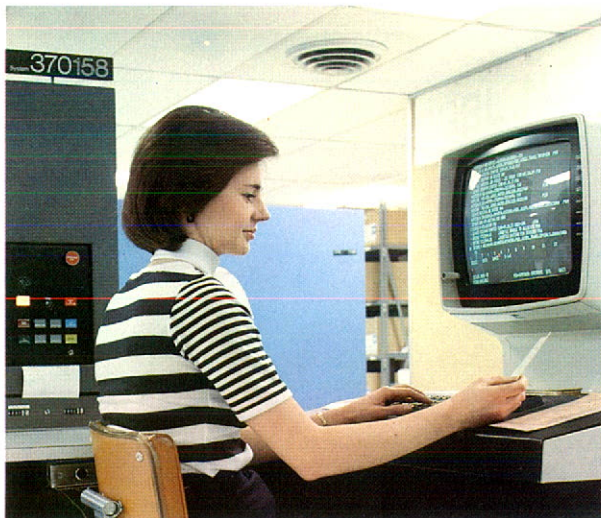


41% OF TOTAL  
CORPORATE SALES

TOTAL NUMBER  
OF STORES  
469







## FINANCIAL SERVICES

The subsidiaries of Gambles, while not directly involved in merchandising, offer a variety of services and are engaged in commercial activities which support the company's merchandising business and serve a rapidly expanding public market. These are described below under four headings.

### Financing

Gambles currently owns approximately 50% of Aristar, a holding company whose subsidiaries are engaged principally in consumer finance, related insurance activities and home furnishings merchandising. The subsidiaries engaging in consumer finance activities are commonly identified as Blazer Financial Services and, through a network of 295 offices in 24 states, make instalment loans to individuals and purchase retail instalment sales contracts for goods and services from local retail establishments. The Aristar subsidiaries engaged in merchandising activities operate 83 retail stores and three warehouses in five southern states and offer a complete line of home furnishings.

Approximately \$302,333,000 of the retail sales of company-operated stores (excluding food and drug stores, which do not offer credit sales) in fiscal 1977, as well as a significant undetermined portion of retail sales of dealer stores, was transacted on a credit basis for which a finance charge is made. Gambles Credit Corporation purchases consumer receivables resulting from credit retail sales by the company and its subsidiaries in the United States, and Gambles Canada Acceptance Limited purchases receivables resulting from similar credit sales by the company's Canadian merchandising operations.

Gambles Continental Bank, a wholly-owned subsidiary located in St. Paul, Minnesota, is a general banking institution serving Gambles' employees and the public at large. Its emphasis is on personalized banking service tailored to the needs of individual customers.

### Insurance

Gamble Alden Life Insurance Company writes life, health, and accident insurance for individual and

group clients, and offers related services. It is an A.M. Best recommended company with approximately \$1.1 billion of life insurance presently in force, ranking it among the top ten percent of life insurance companies in the industry on this basis.

The development of new products and markets played a crucial role in the successful expansion of Gamble Alden Life's mass marketing efforts in 1977. Its portfolio of life, disability, health, and high-limit accident insurance was expanded to include cancer care, hospital cash, mortgage life and disability, and collateral products. These products were marketed to customers of financial institutions, oil companies, and major retailers. An insurance mass marketing plan for bank credit customers was developed during the year and will be aggressively marketed by major banks throughout the country in 1978.

Gamble Alden Life is succeeding in the mass marketing area in excess of plan projections, for several reasons. Inflation, which cut back the purchasing power of the insurance dollar, has also created an active market for small amounts of supplemental coverages. In addition, consumer confidence in the mass marketing industry has been enhanced by the high ethical standards of the companies involved, including Gamble Alden Life. As consumer recognition of the tangible benefits of buying insurance by direct mail continues to grow, so does Gamble Alden Life's reputation as one of the leaders in this insurance field.

In the Employer-Sponsored Group Trust area, Gamble Alden Life increased the number of its clients, agents, and premium income by approximately 30 percent over 1976 levels. Its success in this area is attributable to innovations in a "share the cost" concept which helps check both premium size and loss ratios, resulting in a more stable program for both clients and insurers. 1978 will see the further cultivation of mass marketing accounts and the establishment of Employer-Sponsored Group plans in additional cities across the country.

Diamond State Life, a wholly owned subsidiary of Aristar, markets credit life and disability insurance to Aristar customers. Although it is authorized to write ordinary life insurance, operations are presently confined to the underwriting of life and acci-



dent coverages in connection with credit transactions. Business is developed through the finance subsidiaries of the parent company in the 24 states in which it is licensed. Diamond State Life currently has \$991 million of insurance in force.

### Leasing

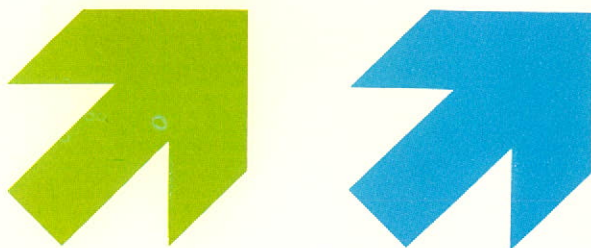
Gambles C & M Leasing Company, an 80-percent owned subsidiary, owns and leases fleet vehicles to individuals and companies. Present estimates rank it among the ten largest fleet vehicle leasing companies in the U.S. in terms of the number of units leased. Gambles International Leasing Corporation leases a variety of equipment to commercial and industrial clients.

C & M Leasing reported another record year of earnings in 1977 before new lease accounting requirements, marking the eighth consecutive year of uninterrupted growth for the subsidiary. Continued emphasis on high-quality, responsive daily service to existing customers and the addition of 49 new corporate clients contributed heavily to the increase. In addition, significant gains were recorded in management services, which provide expense identification and control systems for major fleets.

The organization of C & M Leasing has been strengthened in anticipation of continued future growth. A sales office recently opened in Houston complements facilities established in other major cities, including New York, Chicago and Los Angeles.

### Real Estate Development

Gamble Development Company, a real estate subsidiary, manages or owns and operates five shopping centers in the Upper Midwest. These centers range up to 243,000 square feet in size. Each center includes national and local merchants as well as either a Red Owl Store and a Snyder's Drug Store, or a Red Owl Family Center.



## MANAGEMENT CHANGES

Significant changes occurred at several executive management levels of Gambles in 1977. Though marking the beginning of a vital new phase in the company's history, these changes represent continuity with the past as well as a bridge to the future. This orderly transition and realignment of executive responsibility has readied the company and its management for decisive action in response to changing economic conditions.

Undoubtedly the single most important change occurred on September 20, 1977. On that day, Bertin C. Gamble elected to retire as Chairman of the Board and Chief Executive Officer of the company, and as a Director. In unanimous response, the Board of Directors adopted a resolution expressing deep appreciation for Mr. Gamble's 52 years of dynamic leadership and service to the company. He was subsequently designated Founder-Honorary Chairman of the Board, and continues to serve as a consultant to the company.

Upon Mr. Gamble's retirement, Wayne E. Matschullat, President of the company, was designated Chief Executive Officer, and Walter H. Davies, Jr., former Vice Chairman of the Board, was elected Chairman of the Board and Chief Financial Officer.

Additional changes took place on Gambles' Board of Directors during the year, including the election of a new Director. Ellsworth L. Johnson was elected at the June 24, 1977 annual meeting to serve a three-year term. Mr. Johnson is also a Director and Chairman of First American Care Facilities, Inc., a Minneapolis-based company.

To consolidate executive responsibility in key areas, six new corporate Vice Presidents have recently been elected. They include David A. Heider, Vice President and Assistant to the President; Albert W. Krasnoff, Vice President-Real Estate; Richard L. Parry, Vice President and Economist; Paul P. Senio, Vice President-Taxation; Norman M. Steck, Vice President and Treasurer; and Lee G. Swygman, Vice President-Credit. Two Corporate Assistant Vice Presidents were also named during the year: Donald J. Hirsch, who is Director of Corporate Accounting Services; and John H. Stubstad, Director of Data Processing. All of the foregoing have extensive prior experience within the company.

## TABULATION OF COMPANY-OWNED AND DEALER-OWNED OUTLETS

### Domestic Stores (2,562)

#### Company-Owned

46	Tempo-Buckeye
21	Gamble Department
69	McDonald Department
42	Gamble
88	House of Fabrics
32	Mode O'Day
48	Rasco
42	Woman's World
99	Red Owl
43	Snyder

**530 Total**

#### Dealer-Owned

963	Gamble
647	Mode O'Day
95	Rasco
271	Red Owl
56	Snyder

**2032 Total**

### Canadian Stores (582)

#### Company-Owned

79	Macleod
59	Stedman

**138 Total**

#### Dealer-Owned

196	Macleod
196	Stedman
52	Crest

**444 Total**

### Total Number of Stores

(Domestic and Canadian)

**3,144**



## FINANCIAL HIGHLIGHTS

Gamble-Skogmo, Inc. and consolidated subsidiaries continue to maintain a strong financial position. At year-end, cash and temporary investments of \$117,000,000 were equal to 47 percent of current liabilities. Capital funds in the amount of \$492,000,000 included \$254,000,000 in subordinated income notes and \$238,000,000 of stockholders' equity. This capital base represented 61 percent of total assets and was buttressed early in the year by the sale of \$21,212,000 of income notes maturing in 2006. At year-end, over \$188,000,000 of the outstanding subordinated income notes had a maturity beyond the year 2001.

Just prior to year-end, Gambles Credit Corporation, a wholly-owned subsidiary that purchases consumer receivables from various Gamble companies, sold \$40,000,000 of 12- and 20-year subordinated notes through a public offering. Placement of this debt increased the capital base of Gambles Credit Corporation to more than \$119,000,000. During the year, substantial advances were made to Gambles Credit Corporation and Gambles Canada Acceptance Limited by their respective parent companies. Thus, through these actions, the reliance by the finance subsidiaries on the short-term money market was significantly reduced. Nevertheless, commercial paper continued to be the primary source of short-term funds, both in this country and Canada.

Our need for borrowed funds arises primarily from the financing of inventories and consumer receivables. Accordingly, it is essential that these assets be tightly controlled. Inventories, at year-end, totaled \$280,000,000, up 9.7 percent from last year with Aristar's home furnishings division accounting for 5.3% of the increase. Consumer receivables of \$379,104,000 were up 7.1 percent. There were 1,816,000 customer accounts with an average balance of \$209, up from 1,744,000 accounts with an average balance of \$203 the pre-

vious year. Charge-offs, as a percentage of average receivable balances, were up somewhat to 3.7 percent as compared to 3.4 percent the year earlier. However, tighter controls imposed on the granting of credit resulted in delinquencies dropping to 5.79 percent from 6.09 percent last year.

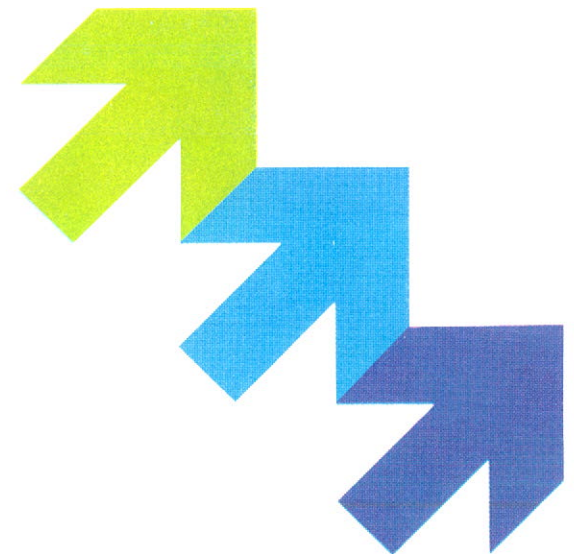
Capital expenditures amounted to \$19,000,000 compared to \$16,000,000 the previous year. For the coming year, capital expenditures are planned at about \$20,000,000.

A program is underway to sell or close about 60 stores in various divisions. These stores incurred operating losses in 1977 of approximately \$1,600,000 after income taxes. The closing of these stores will release about \$13,000,000 in capital for redeployment in more profitable areas. A provision for store closing expenses in the amount of \$4,589,000 was charged against 1977 pre-tax earnings.

The translation of Gambles Canada operations into U.S. dollars reduced our net earnings by \$5,528,000 because of the decline in the Canadian exchange rate. The inclusion of unrealized currency rate fluctuations in corporate earnings is the result of Financial Standards Board Statement No. 8. Although the adjustments are not cash items, they accounted for 65 percent of the decrease in our earnings.

In February 1978 Gambles acquired all of the 1,111,493 outstanding shares of Leath and Company for \$19.00 cash per share. The purchase price included more than \$14,000,000 of retail receivables which heretofore have been financed in the operating company. These receivables will be sold to our finance subsidiary, Gambles Credit Corporation, which will free up cash that can be more profitably employed in other areas. Leath is a retail furniture chain headquartered in Chicago

which operates 50 stores in the surrounding five-state area. Total revenues for their fiscal year ended December 31, 1977 were \$46,479,000 and net earnings were \$1,878,000. We view Leath as a conservatively-managed consistently profitable company which will contribute to Gambles' earnings in an important consumer market. This acquisition is a part of our program to employ our funds in projects where there is an adequate return and the opportunity for future expansion and growth.





## CONSOLIDATED STATEMENTS OF EARNINGS

GAMBLE-SKOGMO, INC. AND CONSOLIDATED SUBSIDIARIES

(All dollars in thousands except earnings per share)

	1977	1976
	Fifty-two weeks ended January 28, 1978	Fifty-two weeks ended January 29, 1977
Net sales	\$1,634,122	\$1,590,372
Costs and expenses:		
Cost of sales, including certain occupancy and buying costs	1,257,708	1,224,082
Operating and administrative (Notes 6 and 8)	330,381	309,365
Depreciation and amortization	12,419	11,357
Interest, net of interest income of \$13,187,000 and \$10,703,000	17,219	18,022
Total costs and expenses	1,617,727	1,562,826
Other income — net	1,001	589
Provision for estimated costs of store closings	4,589	—
Earnings before income taxes and equity in net earnings of unconsolidated subsidiaries	12,807	28,135
Income taxes (Note 9)	6,932	13,476
Equity in earnings of unconsolidated subsidiaries	3,946	3,611
Net earnings	\$ 9,821	\$ 18,270
Earnings per common share:		
Primary	\$ 2.05	\$ 3.87
Fully diluted	\$ 2.03	\$ 3.59

## CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

GAMBLE-SKOGMO, INC. AND CONSOLIDATED SUBSIDIARIES

(all dollars in thousands)

	1977	1976
	Fifty-two weeks ended January 28, 1978	Fifty-two weeks ended January 29, 1977
Beginning balance	\$ 208,898	\$ 196,932
Net earnings	9,821	18,270
Unrealized appreciation (depreciation) on marketable equity securities of unconsolidated insurance subsidiaries	—	992
Cash dividends:		
Preferred stock	(779)	(1,079)
Common stock	(6,124)	(6,217)
Ending balance (Note 7)	\$ 211,816	\$ 208,898

See accompanying notes to consolidated financial statements.



# **CONSOLIDATED BALANCE SHEETS**

GAMBLE-SKOGMO, INC. AND CONSOLIDATED SUBSIDIARIES

(All dollars in thousands)

## **ASSETS**

### **Current assets:**

Cash including temporary cash investments of \$101,521,000 and \$157,909,000	\$117,377	\$188,282
Receivables — net (Note 2)	79,765	42,919
Inventories	279,865	255,158
Prepaid expenses	18,581	11,766
<b>Total current assets</b>	<b>495,588</b>	<b>498,125</b>
Investments, principally unconsolidated subsidiaries	161,328	121,588
Property and equipment — net (Notes 3, 4, and 11)	103,588	95,703
Excess of purchase price over equity of companies acquired	25,786	25,828
Deferred charges and other assets	24,642	24,643
<b>TOTAL ASSETS</b>	<b>\$810,932</b>	<b>\$765,887</b>

## **LIABILITIES AND STOCKHOLDERS' EQUITY**

### **Current liabilities:**

Commercial paper and notes payable	\$ 23,843	\$ 17,534
Current instalments of long-term debt	4,646	15,815
Accounts payable and accrued liabilities	167,379	154,600
Current income taxes	1,177	6,813
Deferred income taxes applicable to instalment sales	54,463	53,032
<b>Total current liabilities</b>	<b>251,508</b>	<b>247,794</b>
Deferred credits, principally deferred income taxes	8,535	6,564
Excess of equity over purchase price of company acquired	22,728	—
Long-term debt (Note 4) and lease obligations (Note 11) excluding subordinated income notes shown below as capital accounts	36,394	33,819
<b>Capital accounts:</b>		
Subordinated income notes (Note 5)	254,079	237,385
<b>Stockholders' equity (Note 1):</b>		
Preferred stock, \$40 par value	12,195	12,565
Preferred stock, \$5 par value, including allocated paid-in capital	10,590	11,161
Common stock, \$5 par value, including additional paid-in capital; authorized 10,000,000 shares; issued 5,626,297 and 5,597,142	58,586	57,486
Retained earnings (Note 7)	211,816	208,898
Less cost of common stock and preferred stock reacquired and held in treasury	(55,499)	(49,785)
<b>Total stockholders' equity</b>	<b>237,688</b>	<b>240,325</b>
Contingent liabilities and commitments (Notes 10 and 11)		
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$810,932</b>	<b>\$765,887</b>

See accompanying notes to consolidated financial statements.



# **CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION**

GAMBLE-SKOGMO, INC. AND CONSOLIDATED SUBSIDIARIES

(All dollars in thousands)

## **SOURCE OF FUNDS**

	1977 Fifty-two weeks ended January 28, 1978	1976 Fifty-two weeks ended January 29, 1977
Net earnings	\$ 9,821	\$18,270
Add (deduct) items not requiring working capital		
Net earnings of unconsolidated subsidiaries included above	(9,110)	(8,173)
Depreciation and amortization	12,419	11,357
Cash dividends from unconsolidated subsidiaries	190	1,070
Increase (decrease) in deferred income taxes	(625)	877
Other - net	1,764	1,409
Funds derived from operations	14,459	24,810
Issuance of subordinated income notes	21,212	64,731
Issuance of long-term debt and capital lease obligations	5,831	—
Carrying value of property and equipment disposals	3,741	2,494
Issuance of common stock	611	715
Conversion of Aristar, Inc. notes to equity	15,000	—
Increase in deferred credits	1,446	—
Decrease in working capital	6,251	—
	<b>\$68,551</b>	<b>\$92,750</b>

## **USE OF FUNDS**

Cash dividends	\$ 6,903	\$ 7,296
Reduction of subordinated income notes	4,518	15,725
Reduction of long-term debt and lease obligations	3,256	1,890
Additions to property and equipment, including capital leases	24,044	14,505
Purchase of Aristar, Inc. subordinated notes	—	15,084
Investment in Aristar	15,543	—
Increase in other investments	7,249	5,863
Conversion of preferred stock	452	103
Acquisition of treasury stock	5,714	11,275
Decrease in deferred credits	—	2,691
Other	872	7,242
Increase in working capital	—	11,076
	<b>\$68,551</b>	<b>\$92,750</b>

## **CHANGE IN WORKING CAPITAL BY COMPONENT**

Cash including temporary cash investments	\$(70,905)	\$14,237
Receivables	36,846	5,660
Inventories	24,707	(321)
Prepaid expenses	6,815	(944)
Commercial paper, notes payable and current instalments of long-term debt	4,860	(9,711)
Accounts payable and accrued liabilities	(12,779)	6,530
Current and deferred income taxes	4,205	(4,375)
Increase (decrease) in working capital	<b>\$ (6,251)</b>	<b>\$11,076</b>

See accompanying notes to consolidated financial statements.



# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

GAMBLE-SKOGMO, INC. AND CONSOLIDATED SUBSIDIARIES

## Summary of Accounting Policies

The company's accounting policies conform with generally accepted accounting principles and have been applied on a consistent basis. Significant policies are outlined below.

**DEFINITION OF FISCAL YEAR.** The company's fiscal year ends on the last Saturday in January. Fiscal 1977 ended on January 28, 1978 and fiscal 1976 on January 29, 1977. Each year is comprised of 52 weeks.

**PRINCIPLES OF CONSOLIDATION.** The consolidated financial statements include all accounts of the merchandising operations and real estate subsidiaries whose properties are utilized in merchandising operations. Finance and insurance subsidiaries and several other small non-merchandising subsidiaries are not consolidated. Condensed financial information for finance and insurance subsidiaries are presented on pages 24 and 25 of this annual report. Investments in unconsolidated subsidiaries are carried at underlying equity values.

Pre-tax earnings of captive finance subsidiaries, reflected in the consolidated statements of earnings as a reduction of operating and administrative expense, are \$10,424,000 for 1977, and \$9,009,000 for 1976. The net earnings of all other unconsolidated subsidiaries are included as a single line in the consolidated statement of earnings. For comparative purposes the consolidated statement of earnings for 1976 has been restated to show the net earnings of unconsolidated subsidiaries, except captive finance subsidiaries, on a single line.

Interest income in the accompanying consolidated statements of earnings includes \$7,106,000 and \$6,276,000 in 1977 and 1976,

respectively, from unconsolidated subsidiaries.

**TRANSLATION OF CANADIAN FINANCIAL STATEMENTS.** Inventory, properties, and intangible assets of the company's Canadian subsidiaries are translated at exchange rates applicable at the time of acquisition. Other assets and liabilities are translated at period-end exchange rates and income and expense items at average exchange rates in effect during the year, except for depreciation and cost of sales which are translated at exchange rates applicable at time of acquisition. Gains and losses arising as a result of these translation procedures are recognized currently and reduced net income \$5,528,000 in 1977 and \$196,000 in 1976.

**INVENTORIES.** Merchandise inventories are comprised principally of general merchandise and food and are stated at lower of cost (first-in, first-out) or realizable value.

**DEPRECIATION.** Property and equipment is depreciated over the estimated service lives or, in the case of leasehold improvements, over the period of leases if shorter. Depreciation and amortization is provided generally on the straight-line method for financial reporting and on accelerated methods for income taxes.

**EXCESS COST.** Excess cost of companies acquired since 1970 is being amortized on the straight line basis over its estimated life. Excess cost of companies acquired prior to 1970 is not amortized unless, in the opinion of management, it has diminished in value.

The excess of equity over purchase price is taken into income over 12 years.

**INCOME TAXES.** For financial reporting, de-

ferred income taxes are provided for expenses and income recognized in different periods for income tax purposes.

Deferred income taxes from timing differences on instalment sales are included in the financial statements as current liabilities. All other deferred income taxes are included in deferred credits.

It is the policy of the company to accrue taxes on such earnings of the Canadian subsidiary companies which are intended to be remitted to the parent company in the near future. No provision for income taxes has been made on approximately \$61,500,000 of undistributed earnings of the Canadian companies that have been indefinitely reinvested in the subsidiaries' business.

Investment tax credits are used to reduce income taxes in the year the property is acquired (\$1,427,000 in 1977 and \$1,290,000 in 1976.)

**EARNINGS PER SHARE.** Primary earnings per common share have been computed by dividing net earnings after provision for preferred dividends by the weighted average number of common shares and common equivalent shares (dilutive stock options and warrants) outstanding during the year. The average number of such shares outstanding was 4,403,000 in 1977 and 4,439,000 in 1976.

Fully diluted earnings per share is computed assuming conversion of all convertible preferred stock (with appropriate elimination of preferred dividend requirements) and issuance of all shares reserved for stock options and warrants deemed to be common stock equivalents. The average number of such shares outstanding, assuming conversion, would have been 4,833,000 in 1977 and 5,083,000 in 1976.



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

GAMBLE-SKOGMO, INC. AND CONSOLIDATED SUBSIDIARIES  
(All dollars in thousands)

### (1) Capital Stock and Additional Paid-In Capital

Changes in the company's capital stock  
and additional paid-in capital are as follows:

	1977 Fifty-two weeks ended January 28, 1978		1976 Fifty-two weeks ended January 29, 1977	
	SHARES	AMOUNT	SHARES	AMOUNT
Preferred stock, \$40 par value:				
Beginning of year	314,128	\$12,565	315,775	\$12,631
Conversion to common stock	(9,260)	(370)	(1,647)	(66)
End of year	304,868	\$12,195	314,128	\$12,565
Preferred stock, \$5 par value, including allocated paid-in capital:				
Preferred stock, \$5 par value:				
Beginning of year	498,019	\$ 2,490	505,443	\$ 2,527
Conversion to common stock	(16,319)	(82)	(7,424)	(37)
End of year	481,700	2,408	498,019	2,490
Paid-in capital allocated to \$5 par value preferred stock:				
Beginning of year	289,048	8,671	505,443	15,163
Conversion to common stock	(16,319)	(489)	(7,424)	(223)
Acquired for treasury	—	—	(208,971)	(6,269)
End of year	272,729	8,182	289,048	8,671
		\$10,590		\$11,161
Common stock, \$5 par value, including additional paid-in capital:				
Beginning of year	5,597,142	\$57,486	5,564,935	\$50,279
Allocation of paid-in capital due to conversion of \$5 par value preferred stock to common stock	—	489	—	223
Allocation of paid-in capital due to acquisition of \$5 par value preferred stock for treasury	—	—	—	6,269
Conversion of preferred stock	23,255	452	8,207	103
Exercise of stock options	5,900	159	—	—
Exercise of warrants	—	—	24,000	612
End of year	5,626,297	\$58,586	5,597,142	\$57,486
Less treasury stock at cost:				
Common stock, \$5 par value:				
Beginning of year	(1,150,827)	\$(38,570)	(1,148,355)	\$(38,510)
Purchased, at cost	(176,842)	(5,707)	(2,472)	(60)
End of year	(1,327,669)	(44,277)	(1,150,827)	(38,570)
Preferred stock, \$40 par value:				
Beginning of year	(117,817)	(4,043)	—	—
Exchanged for subordinated income notes	—	(2)	(117,817)	(4,043)
End of year	(117,817)	(4,045)	(117,817)	(4,043)
Preferred stock, \$5 par value:				
Beginning of year	(208,971)	(7,172)	—	—
Exchanged for subordinated income notes	—	(5)	(208,971)	(7,172)
End of year	(208,971)	(7,177)	(208,971)	(7,172)
Total common stock and preferred stock reacquired and held in treasury, at cost		\$(55,499)		\$(49,785)



# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

GAMBLE-SKOGMO, INC. AND CONSOLIDATED SUBSIDIARIES

Preferred stock, \$40 par value; \$1.75 per share dividend — authorized 600,000 shares. Each share is voting, cumulative and convertible into 927/1,000ths of a share of common stock until October 31, 1978, and 824/1000ths of a share to October 31, 1983, on which date conversion rights expire. The stock is redeemable at the option of the company and in the event of involuntary liquidation at \$40.25 per share plus accrued and unpaid dividends with annual reductions of \$.25 per share to \$40.00 per share on and after November 1, 1978. Sinking fund requirements, equal to 5% per year of shares issued, commence in 1983. The aggregate preference upon involuntary liquidation at January 28, 1978 is \$7,529,000.

Preferred stock, \$5 par value; \$1.60 per share dividend — authorized 1,400,000 shares. Each share is voting, cumulative and convertible into 9/10ths of a common share to November 30, 1979, and 8/10ths of a share to November 30, 1984, on which date conversion rights expire. The stock is redeemable at the option of the company and in the event of involuntary liquidation at \$35.00 per share plus accrued and unpaid dividends. Sinking fund requirements, equal to 5% of shares issued, commence in 1984. The aggregate preference upon involuntary liquidation at January 28, 1978 is \$9,545,000. Paid-in capital allocated to \$5 par value preferred stock is equivalent to the mandatory redemption price in excess of par value.

Common stock, \$5 par value — authorized 10,000,000 shares. Common shares were reserved at fiscal year-end as follows:

	1977	1976
Conversion of preferred stock	418,852	442,123
Employee stock options	383,831	389,731
Common stock purchase warrants	224,000	224,000
	<u>1,026,683</u>	<u>1,055,854</u>

Under the company's option plans for executives and key employees, options are granted at market value and are exercisable from one to five years after date of grant. Shares under option were as follows:

	1977	1976
Outstanding beginning of year	82,000	88,640
Exercised	(5,900)	—
Expired	(46,800)	(6,640)
Outstanding end of year	<u>29,300</u>	<u>82,000</u>
Aggregate option price for shares outstanding	<u>\$724,000</u>	<u>\$2,313,000</u>
Shares exercisable	<u>15,900</u>	<u>57,200</u>

Warrants to purchase common stock issued in connection with the sale of subordinated income notes are exercisable at \$40.00 per share and expire in January 1984.

## (2) Receivables

	(thousands) 1977	1976
Equity in instalment accounts sold	\$37,623	\$36,539
Other trade receivables	8,689	8,029
Dealer accounts	9,584	12,853
Miscellaneous, principally affiliates	48,208	7,942
Total accounts receivable	104,104	65,363
Less: Allowance for doubtful accounts	19,480	17,477
Deferred finance charges	4,859	4,967
Net receivables	<u>\$79,765</u>	<u>\$42,919</u>

Customer instalment accounts, less a portion withheld, were sold to finance subsidiaries and a bank at January 28, 1978 and January 29, 1977. (See Unconsolidated Finance Subsidiaries Condensed Financial Information, page 24). The allowance for doubtful accounts provides for the exposure on all receivables listed above and those sold to finance subsidiaries. Dealer accounts sold to finance subsidiaries were \$26,486,000 at January 28, 1978 and \$30,559,000 at January 29, 1977.

## (3) Property and Equipment (at cost)

	(thousands) 1977	1976
Land	\$10,067	\$ 9,936
Buildings and equipment	156,224	152,509
	<u>166,291</u>	<u>162,445</u>
Less allowance for depreciation	84,249	82,156
	<u>82,042</u>	<u>80,289</u>
Leasehold improvements less amortization	16,924	15,414
	<u>98,966</u>	<u>95,703</u>
Capitalized leases less amortization	4,622	—
	<u>\$103,588</u>	<u>\$ 95,703</u>

## (4) Long-term Debt

The long-term debt of the operating companies (\$5,711,000) is principally unsecured and matures through 1997, paying interest at a weighted average rate of 6.6% (range 6%-9¼%). The long-term debt of the real estate companies (\$25,321,000) is mortgage notes maturing through 1999, paying interest at a weighted average rate of 7.9% (range 4¾%-10¼%).

Annual sinking fund and principal payments on long-term debt and subordinated income notes (Note 5) during the next five years are as follows:

1978 - \$4,355,000; 1979 - \$4,430,000; 1980 - \$26,126,000; 1981 - \$6,245,000; 1982 - \$6,435,000.

## (5) Subordinated Income Notes

Subordinated income notes mature from 1978 to 2006 and pay interest at a weighted average rate of 9.8% (range 7% to 10%). Principal payments aggregating \$188,575,000 mature subsequent to the year 2001.



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### GAMBLE-SKOGMO, INC. AND CONSOLIDATED SUBSIDIARIES

The provisions of the note indentures require that interest be paid currently if earned. If not earned, interest must be paid upon maturity of the notes to the extent not previously paid.

In financial statements filed with the Securities and Exchange Commission, the company includes subordinated income notes under the caption "long-term debt" and does not include the caption "capital accounts."

#### (6) Pension and Thrift Sharing Plans

The company has various retirement plans covering substantially all regular full-time employees not covered under union agreements.

The Gamble-Skogmo, Inc. and Subsidiaries' Pension Plan (the "Plan") is a noncontributory plan administered by a wholly-owned life insurance subsidiary. It is the company's policy to fund normal costs accrued and interest on unfunded prior service costs. The actuarially computed value of vested benefits exceeds the market value of Plan assets plus balance sheet accruals by approximately \$1,600,000.

The contributory Thrift and Profit Sharing Plan (the "Plan") provides that the company make annual contributions to the Plan equal to 25% of the contributions made by participating employees plus additional amounts based on earnings of the company.

Employer contributions to both the above plans are irrevocable and upon termination of the plans the amounts thereof are not available to the company. Costs of these plans, including costs of pension and thrift sharing plans of the company's Canadian subsidiaries but excluding pension costs under union agreements, were \$5,313,000 and \$4,749,000 in 1977 and 1976, respectively.

Costs of the plan of consolidated companies are included in operating and administrative expense in the accompanying consolidated statements of earnings.

#### (7) Retained Earnings

Retained earnings of unconsolidated service subsidiaries are restricted as to payment of dividends in the amount of \$19,600,000.

#### (8) Consumer Credit Operations

The results of the consumer credit operations are as follows:

	(thousands)	
	1977	1976
Finance charge income	\$60,669	\$56,138
Operating expense (including credit sales expense, collection expense, and provision for doubtful accounts)	37,954	33,486
Interest expense	23,642	19,885
Income taxes	(464)	1,384
Total expense	61,132	54,755
Net consumer credit operations earnings (loss)	\$ (463)	\$ 1,383

Finance-charge income and operating expense are included in operating and administrative expense in the accompanying consolidated statements of earnings. Interest expense is calculated based upon the average cost of borrowings of the finance subsidiaries of 7.66% in 1977 and 6.77% in 1976 applied to the average balance of customer receivables reduced by deferred income taxes. An effective rate of 50% is assumed in calculating income taxes.

#### (9) Income Tax Expense

Income tax expense is made up of the following components.

	(thousands)	
	1977	1976
Current tax expense:		
Federal	\$ (3,447)	\$ 1,545
Canadian	4,445	5,231
State and local	679	703
Deferred tax expense:		
Federal and state	5,524	5,533
Canadian	(269)	464
	<u>\$ 6,932</u>	<u>\$13,476</u>

Deferred taxes arose from timing differences related to the following:

	(thousands)	
	1977	1976
Store closing costs	\$ (1,014)	—
Instalment receivables	5,509	5,075
Interest accrual	720	(720)
Undistributed foreign earnings	436	424
Retirement benefits	430	1,383
Data processing costs	(330)	(559)
Other	(496)	394
	<u>\$ 5,255</u>	<u>\$ 5,997</u>

A reconciliation of the 1977 and 1976 expected U.S. Federal income tax rate of 48% to the actual effective rate is as follows:

	1977	1976
Computed "expected" tax expense	48.0%	48.0%
State income tax net of		
Federal tax benefit	4.4	2.4
Investment tax credit	(9.6)	(3.7)
Translation adjustment on Canadian earnings	16.8	.4
Other	(5.5)	.8
	<u>54.1%</u>	<u>47.9%</u>

#### (10) Commitments and Litigation

Notes sold to banks under purchase-guarantee agreements are unconditionally guaranteed by Gamble-Skogmo, Inc. The uncollected balance of such notes and certain other guarantees was \$6,304,000 at January 28, 1978 and \$10,753,000 at January 29, 1977. All payments of principal and interest were on a current basis. The company has guaranteed indebtedness of unconsolidated service subsidiaries of approximately \$49,040,000. In addition,



# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

GAMBLE-SKOGMO, INC. AND CONSOLIDATED SUBSIDIARIES

tion, the company, as a result of a corporate reorganization in 1964, may be liable for the payment of \$17,447,000 of long-term debt of an unconsolidated finance subsidiary.

On September 20, 1977, the company offered to purchase all 422,156 common shares of the B.C. Gamble and P.W. Skogmo foundations for \$32.50 per share. The offer is still outstanding and is subject to receipt of a favorable tax ruling from the Internal Revenue Service.

A number of lawsuits and inquiries and complaints from state regulatory agencies, are pending against Aldens, Inc., a subsidiary of the company. These proceedings relate to the legality of certain credit and finance charge practices. Notwithstanding the above, management is of the opinion that Aldens is presently in compliance with applicable state laws. If such lawsuits are tried and decided adversely, it is impossible to predict what amounts, if any, might be awarded, although theoretically material amounts could be involved in the future. The company has been unsuccessful in substantially all cases that have been finally adjudicated, but is vigorously defending each pending case. Management is of the opinion that ultimate resolution of the pending matters or possible litigation involving finance charges, taken in the aggregate, will not materially affect the company's financial position or results of operations. As a result of the settlement of certain actions in 1976, the company made refunds of finance charges of approximately \$1,375,000. No refunds were made in 1977.

## (11) Leases

The company conducts a major part of its operations from leased premises. Prior to January 1, 1977 such leases were accounted for by the operating method. In November 1976,

the Financial Accounting Standards Board issued statement No. 13, "Accounting for Leases." The statement is effective for lease agreements entered into on or after January 1, 1977. The provisions of the statement will have to be applied retroactively by the company by restating its financial statements beginning with year-end January 27, 1979. Certain leases in effect at December 31, 1976 which are now being accounted for by the operating method would be classified and accounted for as "capital leases" under Statement No. 13. If the company had accounted for those leases as capital leases, assets would have increased by \$31,132,000 and \$34,578,000, and liabilities would have increased by \$39,924,000 and \$43,258,000 at January 28, 1978 and January 29, 1977, respectively. Net income for the year ended January 28, 1978 would have been reduced by \$57,000 (.01 per share).

The company has leases for warehousing, manufacturing and administrative facilities and equipment. These leases have terms ranging from one to 40 years. The majority of these leases contain provisions to renew the leases for varying periods. In some limited instances the company may, after the initial lease term, purchase the property. In addition, retail store properties are leased for the majority of the company-owned stores. The initial terms usually are between five and 20 years with one or more five-year renewal options. The majority of the store leases provide for a minimum rental plus a percentage of the stores' sales in excess of stipulated amounts. Certain of the store leases are in turn sublet to franchise dealers. The majority of these subleases are for the same term as the company's primary lease.

In most cases, management expects that in the normal course of business, leases will be renewed or replaced by other leases.

## Commitments as lessee

The following schedule analyzes assets under leases which have been accounted for since January 1, 1977 as capital leases under Statement No. 13 and are reported in the accompanying balance sheet:

	(thousands) January 28, 1978
Land and Buildings	\$ 3,527
Equipment	1,286
	4,813
Less accumulated amortization	191
Net leased assets under capital leases	\$ 4,622

At January 28, 1978 minimum rental payments are as follows:

	(thousands)	Capital leases	Operating leases
Years ended January			
1979	\$	917	\$ 28,599
1980		912	26,077
1981		906	23,345
1982		899	20,409
1983		822	17,297
Later Years		6,499	99,624
Total minimum lease payments	(a)	10,955	\$215,351
Less executory costs		41	
Net minimum lease payments		10,914	
Less amount representing interest		5,261	
Present value of net minimum lease payments	(b)	\$5,653	

(a) Minimum payments for operating and capital leases have not been reduced by sublease rentals of \$39,916,000 and \$1,962,000, respectively, due in the future under noncancellable subleases. In addition to minimum future lease payments, contingent rentals may be paid under certain store leases. Contingent rentals amounted to \$3,416,000 and \$3,152,000 in 1977 and 1976, respectively.

(b) Presented in the January 28, 1978 balance sheet as current portion of long-term debt and long-term debt of \$291,000 and \$5,362,000, respectively.



# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

GAMBLE-SKOGMO, INC. AND CONSOLIDATED SUBSIDIARIES

The following schedule shows the composition of total rental expense for all operating leases:

	(thousands) 1977	1976
Minimum rentals	\$35,261	\$34,806
Contingent rentals	3,391	3,152
Less: Sublease rentals	(9,591)	( 9,468)
	<u>\$29,061</u>	<u>\$28,490</u>

## Investments as lessor

At January 28, 1978 the Company had subleased some store buildings and equipment to independent dealers. In compliance with the requirements of Statement of Financial Accounting Standards No. 13, those leases which were entered into subsequent to January 1, 1977 and meet the requirements for capitalization have been accounted for as direct financing leases. The following lists the net investment in direct financing leases at January 28, 1978:

	(thousands)
Net minimum lease payments receivable	\$ 1,965
Estimated unguaranteed residual value	212
Less unearned income	<u>1,195</u>
Net investment	982
Less current portion included in receivables	<u>178</u>
Net investment in direct financing leases	<u>\$ 804</u>

## (12) Acquisitions

On November 30, 1977, the company converted its \$15,000,000 of 10% Convertible Subordinated Notes of Aristar, Inc. into 4,411,764 shares of Aristar, Inc. Common Stock. Aristar is primarily engaged in the consumer loan business. Other businesses include insurance and retail home furnishings stores. The 4,565,164 shares of Aristar, Inc. Common Stock owned by the company repre-

sent approximately 51% of Aristar, Inc.'s outstanding Common Stock and slightly more than 50% of its total outstanding voting shares. The transaction has been accounted for as a purchase. The purchase price, \$15,534,000, was less than the fair value of Aristar, Inc.'s equity at the date of acquisition. The difference is being taken into income over 12 years. The assets and liabilities and the results of operations since the date of conversion of the home furnishings division are included in the consolidated financial statements of the company. The financial service division and life insurance subsidiary of Aristar, Inc. are being accounted for by the equity method and, accordingly, the results of their operations are included in the consolidated statement of earnings since the date of conversion.

The following unaudited data represents the consolidated results of operations of the company on a pro forma basis as if Aristar, Inc. had been combined with the company for its full fiscal years ended January 29, 1977 and January 28, 1978.

	(thousands)	(unaudited) Year Ended
	January 28, 1978	January 29, 1977
Net sales	\$1,676,107	\$1,653,883
Net income	14,861	19,617
Net income per share	3.20	4.18

The company purchased all 1,111,493 outstanding common shares of Leath and Company for \$19 cash per share. The acquisition was effected on February 27, 1978.

## (13) Business Segment Information

Information concerning the company's operations by industry segment and geographic area is presented on page 23.

## (14) Quarterly Financial Information (Unaudited)

Set forth below are financial data showing results of operations for the four fiscal quarters of 1977 and 1976. In the opinion of management all adjustments (consisting only of normal recurring accruals) necessary for a fair presentation have been included.

	In Thousands, except per share, For the Thirteen Weeks Ended			
	April 30, 1977	July 30, 1977	Oct. 29, 1977	Jan. 28, 1978
Net sales	\$376,650	\$384,718	\$409,314	\$463,440
Cost of sales	294,964	300,510	319,267	342,967
Net earnings	(2,387)	1,899	2,085	8,224
Earnings per share				
Primary	(.58)	.38	.43	1.87
Fully diluted	(.58)*	.38*	.43*	1.74
	May 1, 1976	July 31, 1976	Oct. 30, 1976	Jan. 29, 1977
Net sales	\$379,022	\$379,323	\$394,952	\$437,075
Cost of sales	293,590	293,414	306,510	330,568
Net earnings	1,448	4,397	2,001	10,424
Earnings per share				
Primary	.25	.92	.40	2.30
Fully diluted	.25*	.85	.39	2.13

\*antidilutive

The decrease in fourth quarter net earnings in 1977 compared to the fourth quarter of 1976 is primarily attributable to unrealized loss on translation of the company's Canadian operations into U.S. dollars (\$1,509,000) and provision for store closing costs (\$2,294,000). In addition other charges in the fourth quarter aggregated approximately \$800,000.

## (15) Replacement Cost Information (Unaudited)

In compliance with rules of the Securities and Exchange Commission the company is required to estimate certain replacement cost information. This information is contained in the company's Form 10-K report filed with the Securities and Exchange Commission, a copy of which is available upon request.



## ACCOUNTANTS' REPORT

PEAT, MARWICK, MITCHELL & CO.  
 Certified Public Accountants  
 1700 IDS Center  
 Minneapolis, Minnesota

The Board of Directors and Stockholders  
 Gamble-Skogmo, Inc.:

We have examined the consolidated balance sheets of Gamble-Skogmo, Inc. and consolidated subsidiaries as of January 28, 1978 and January 29, 1977 and the related consolidated statements of earnings, retained earnings and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the aforementioned consolidated financial statements present fairly the financial position of Gamble-Skogmo, Inc. and consolidated subsidiaries at January 28, 1978 and January 29, 1977, and the results of their operations and the changes in their financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

*Peat, Marwick, Mitchell & Co.*

March 24, 1978

## STOCK INFORMATION

The company's common stock, \$5 par value preferred stock, and \$40 par value preferred stock are listed on the New York Stock Exchange. The common stock is also listed on the Midwest Stock Exchange. The symbol on both exchanges for the company's common stock is GSK.

Quarterly dividend payments per share and market prices per share for the various classes of stock over the past two fiscal years are shown below.

		1977			1976		
		New York Stock Exchange Market Price		Dividends Paid	New York Stock Exchange Market Price		Dividends Paid
Quarter		High	Low		High	Low	
COMMON STOCK	1st	33	22½	\$0.35	29½	24	\$0.35
	2nd	39¼	30⅛	0.35	28½	24¾	0.35
	3rd	34½	22	0.35	28	22¾	0.35
	4th	28¾	22⅞	0.35	24½	21½	0.35
				\$1.40			\$1.40
\$5 PAR VALUE PREFERRED STOCK	1st	29⅞	22½	\$0.40	26	21¾	\$0.40
	2nd	35	27	0.40	29¾	22½	0.40
	3rd	29½	20½	0.40	32¼	29	0.40
	4th	25	21	0.40	23¼	21½	0.40
				\$1.60			\$1.60
\$40 PAR VALUE PREFERRED STOCK	1st	30½	24	\$0.43¾	27	23½	\$0.43¾
	2nd	36	28	0.43¾	29	23¼	0.43¾
	3rd	29⅞	21¾	0.43¾	32¼	29	0.43¾
	4th	25	21¾	0.43¾	25½	23⅞	0.43¾
				\$1.75			\$1.75



## SUMMARY OF OPERATING RESULTS: BY MERCHANDISING AREA

(all dollars in thousands)

	General Merchandising	Catalog Sales	Food and Drug	Adjustments and Eliminations	Consolidated
Sales	\$789,431	\$228,331	\$670,490	\$ (54,130)	\$1,634,122
Operating profit	\$ 16,136	\$ 13,728	\$ 10,665	\$ —	\$ 40,529
Equity in net income of unconsolidated subsidiaries					3,946
General corporate expenses					10,503
Interest expense - net of interest income					17,219
Income before income taxes					\$ 16,753
Identifiable assets at January 28, 1978	\$452,216	\$363,172	\$103,809	\$(367,907)	\$ 551,290
Investment in net assets of unconsolidated subsidiaries					145,206
Corporate assets					114,436
Total assets at January 28, 1978					\$ 810,932

## BY GEOGRAPHIC AREA

(all dollars in thousands)

	United States	Canada	Adjustments and Eliminations	Consolidated
Sales	\$1,483,700	\$204,552	\$ (54,130)	\$1,634,122
Operating profit	\$ 35,662	\$ 4,867	\$ —	\$ 40,529
Equity in net income of unconsolidated subsidiaries				3,946
General corporate expenses				10,503
Interest expense - net of interest income				17,219
Income before income taxes				\$ 16,753
Identifiable assets at January 28, 1978	\$ 772,325	\$146,872	\$(367,907)	\$ 551,290
Investment in net assets of unconsolidated subsidiaries				145,206
Corporate assets				114,436
Total assets at January 28, 1978				\$ 810,932

### OPERATING RESULTS BY MERCHANDISING AREA

Gamble-Skogmo, Inc. is engaged in the business of merchandising a wide variety of consumer products at retail through company-owned stores and mail-order catalogs, and at wholesale to dealer-owned outlets. Certain subsidiaries are engaged in other activities that serve Gambles' merchandising businesses and unaffiliated customers. See "The Year in Review" for additional information about the company's businesses.

The "General Merchandising Group" is involved in the sale of merchandise through mass merchandising stores, a wide variety of department and specialty stores, and all Canadian stores. The "Food and Drug Group" sells groceries and drugs and other drug store merchandise. The "Catalog Sales Group" markets merchandise through cata-

logs and direct mail business. Sales between the three groups are not material.

Operating profit is total net sales less operating expenses. In computing operating profit, none of the following items has been added or deducted: general corporate expenses, consolidated interest expense, income taxes, and equity in income of unconsolidated investees. Depreciation for the General Merchandising Group, Food and Drug Group, and Catalog Sales Group, respectively, was \$7,095,000 \$3,985,000 and \$948,000. Capital expenditures for the three groups were \$11,359,000, \$9,720,000 and \$1,967,000, respectively.

Identifiable assets are those assets that are used in the respective operations of each group. Consumer and dealer receivables resulting from credit sales of each group have been included in identifi-

able assets. Corporate assets are principally cash and receivables.

### OPERATING RESULTS BY GEOGRAPHIC AREA

Sales between the United States and Canadian operations are not material. Operating profit is total net sales less operating expenses. In computing operating profit, none of the following items has been added or deducted: general corporate expenses, consolidated interest expense, income taxes, and equity in income of unconsolidated investees.

Identifiable assets are those assets that are identified with the operations in each geographic area. Consumer and dealer receivables resulting from credit sales of each area have been included in identifiable assets. Corporate assets are principally cash and receivables.



# UNCONSOLIDATED FINANCE SUBSIDIARIES CONDENSED FINANCIAL INFORMATION

GAMBLE-SKOGMO, INC.

(All dollars in thousands)

1977

Fifty-two weeks ended  
January 28, 1978

1976

Fifty-two weeks ended  
January 29, 1977

## FINANCIAL POSITION

Assets		
Customer and dealer accounts receivable	\$410,346	\$373,868
Notes and contracts receivable — net	274,480	—
Other assets	43,795	16,353
Total assets	728,621	390,221
Liabilities		
Notes payable and current instalments of long-term debt	196,240	185,063
Contract reserve account, applicable to customer and dealer accounts receivable	40,878	37,210
Other liabilities	56,458	1,931
Long-term debt, excluding current instalments:		
Senior	192,646	81,257
Subordinated	77,480	11,088
Total liabilities	563,702	316,549
Net assets	164,919	73,762
Less minority interest in Aristar, Inc.	47,125	—
Gamble-Skogmo, Inc. equity in net assets	\$117,794	\$ 73,762

## OPERATIONS

Income, principally on investment in customer instalment accounts	\$ 43,077	\$ 27,020
Expenses, principally interest	31,593	17,942
Earnings before income taxes	11,484	9,078
Provision for income taxes	5,963	4,483
Net earnings	5,521	4,595
Less minority interest in the earnings of Aristar, Inc.	163	—
Gamble-Skogmo, Inc. equity	\$ 5,358	\$ 4,595

The company converted \$15 million of Aristar, Inc. notes into common stock. The conversion was effected on November 30, 1977, and resulted in the company owning approximately 51% of the common shares of Aristar, Inc. The data shown for the unconsolidated financial

subsidiaries for 1977 include the accounts of Aristar's financial services division at January 28, 1978 and the results of their operations subsequent to the conversion. The data for the unconsolidated insurance subsidiaries for 1977 shown on page 25 include the accounts

of Diamond State Life Insurance Company, a wholly-owned subsidiary of Aristar, Inc., as of December 31, 1977 and the results of their operations subsequent to the conversion. (See note 12 of Notes to Consolidated Financial Statements.)



# UNCONSOLIDATED INSURANCE SUBSIDIARIES CONDENSED FINANCIAL INFORMATION

GAMBLE-SKOGMO, INC.

(All dollars in thousands)

## FINANCIAL POSITION

	1977	1976
	Year Ended December 31	Year Ended December 31
Assets		
Investments:		
Bonds and notes at amortized cost (market value: 1977 — \$46,526; 1976 — \$34,968)	\$ 46,734	\$35,137
Marketable equity securities at lower of cost or market (cost: 1977 — \$9,202; 1976 — \$1,250)	9,135	1,183
Other investments	30,700	10,513
	86,569	46,833
Other assets	23,968	12,176
Separate account — Gamble-Skogmo pension plan, primarily securities at market	29,846	29,834
Total Assets	140,383	88,843
Liabilities		
Future policy benefits	41,988	18,640
Unpaid claims	9,187	10,773
Amounts due reinsurers	8,637	3,186
Other liabilities	11,589	7,286
Separate account — Gamble-Skogmo pension plan	29,846	29,834
Total Liabilities	101,247	69,719
Net Assets	39,136	19,124
Less: minority interest in Diamond State Life Insurance Company	9,046	—
Gamble-Skogmo, Inc. equity in net assets	\$ 30,090	\$19,124

## OPERATIONS

Premiums, investment income, and other revenues — net	\$ 41,350	\$44,641
Benefits	23,627	31,269
Increase (decrease) in future policy benefits	991	(324)
Other expenses	11,442	9,951
Total expenses	36,060	40,896
Earnings before income taxes	5,290	3,745
Provision for income taxes	2,040	1,283
Net earnings	3,250	2,462
Less minority interest in the earnings of Diamond State Life Insurance Company	210	—
Gamble-Skogmo, Inc. equity	\$ 3,040	\$ 2,462

See note on page 24



# SIGNIFICANT COMPARISONS

GAMBLE-SKOGMO, INC. AND CONSOLIDATED SUBSIDIARIES

(All dollars in thousands except amounts per share)

	1977	1976	1975	1974
<b>RESULTS FOR THE YEAR</b>				
Net sales and operating revenues	\$1,634,122	\$1,590,372	\$1,559,043	\$1,487,455
Net earnings	9,821	18,270	22,615	24,986
Cash dividends (including preferred dividends)	6,903	7,296	7,547	7,681
<b>PER SHARE OF COMMON STOCK</b>				
Earnings per share including common equivalents	2.05	3.87	4.82	5.52
Cash dividends	1.40	1.40	1.40	1.40
Book value	51.32	49.99	47.20	44.11
Book value assuming conversion of preferred stock	50.38	49.16	46.28	43.64
<b>YEAR-END POSITION</b>				
Inventories	279,865	255,158	255,479	253,550
Net working capital	244,080	250,331	239,255	199,957
Current ratio	2.0 to 1	2.0 to 1	2.0 to 1	1.9 to 1
Subordinated income notes	254,079	237,385	188,379	163,095
Stockholders' equity	237,688	240,325	239,022	224,615
<b>NUMBER OF:</b>				
Full-time employees	20,712	18,100	19,000	18,800
Square feet of retail selling space	8,514,000	8,189,000	8,739,000	8,741,000
Company-owned stores	668	676	680	678
Dealer-owned stores	2,476	2,647	2,752	2,843
Common shares outstanding at year-end**	4,298,628	4,446,315	4,416,580	4,385,468
Shareholders	12,076	12,661	14,525	14,540
Subordinated income note holders	39,110	37,396	27,762	23,285

\* Excludes extraordinary item of \$5,616 (\$1.15 per share)

\*\* Excludes shares of treasury stock in 1977, 1976, 1975, 1974, and 1973



1973	1972	1971	1970	1969	1968
\$1,394,883	\$1,348,826	\$1,315,092	\$1,296,704	\$1,258,404	\$1,144,165
24,929	22,371 *	19,127	15,066	13,206	13,173
7,871	8,382	8,462	8,165	8,062	7,612
5.32	4.09 *	3.56	3.08	2.66	2.81
1.35	1.30	1.30	1.30	1.30	1.30
39.83	39.21	34.81	31.87	29.83	28.69
39.25	38.51	35.21	33.39	32.21	31.60
230,396	212,870	202,720	214,173	198,739	212,562
177,465	144,540	153,346	174,236	192,458	174,399
1.9 to 1	1.8 to 1	1.9 to 1	2.0 to 1	2.3 to 1	2.3 to 1
139,146	114,603	100,099	88,021	71,757	69,085
215,650	211,336	221,012	193,672	186,466	175,753
19,500	21,474	22,166	24,275	26,349	26,741
8,860,000	8,990,000	8,839,000	8,931,000	9,155,000	9,494,000
673	674	711	799	802	907
2,850	2,872	3,158	3,205	3,205	3,193
4,250,896	4,097,758	4,783,110	3,999,620	3,839,951	3,602,430
14,976	15,244	16,108	17,345	18,101	17,299
17,529	12,540	10,017	7,566	4,277	3,549



# 5 YEAR SUMMARY OF OPERATIONS

The following summary of operations presents in condensed form the consolidated results of operations of the company for the five years ended January 28, 1978, and should be read in conjunction with the financial statements and notes thereto appearing elsewhere in this annual report.

	1977	1976	1975	1974	1973
(All dollars in thousands except amounts per share)					
Net sales	\$1,634,122	\$1,590,372	\$1,559,043	\$1,487,455	\$1,394,883
Costs and expenses:					
Cost of sales	1,257,708	1,224,082	1,202,937	1,142,569	1,073,106
Operating and administrative	330,381	309,365	294,006	281,175	256,088
Interest:					
Long-term debt	28,887	24,533	18,355	15,862	12,780
Other	1,519	4,192	2,617	4,576	3,547
Income, principally from unconsolidated subsidiaries	(13,187)	(10,703)	(6,684)	(8,956)	(5,002)
Other costs and expenses	11,418	10,768	10,785	9,634	10,185
Provision for estimated costs of store closings	4,589	—	—	—	—
Earnings before income taxes and equity in net earnings of unconsolidated subsidiaries	12,807	28,135	37,027	42,595	44,179
Income taxes (Note 9)	6,932	13,476	18,686	21,149	22,154
Equity in net earnings of unconsolidated subsidiaries	3,946	3,611	4,274	3,540	2,904
Net earnings	9,821	18,270	22,615	24,986	24,929
Dividend requirements on preferred stock	(779)	(1,079)	(1,376)	(1,810)	(2,549)
Net earnings applicable to common stock	\$ 9,042	\$ 17,191	\$ 21,239	\$ 23,176	\$ 22,380
Average number of common and common-equivalent shares outstanding					
Primary	4,403,000	4,439,000	4,404,000	4,201,000	4,206,000
Fully diluted	4,833,000	5,083,000	5,162,000	5,300,000	5,562,000
Earnings per common share					
Primary	\$ 2.05	\$ 3.87	\$ 4.82	\$ 5.52	\$ 5.32
Fully diluted	\$ 2.03	\$ 3.59	\$ 4.38	\$ 4.71	\$ 4.48
Cash dividends paid per share of common stock	\$ 1.40	\$ 1.40	\$ 1.40	\$ 1.40	\$ 1.35



# ANALYSIS OF SUMMARY OF OPERATIONS

## 1977

Net sales in 1977 exceeded \$1.6 billion for the first time in the company's history. Sales increased despite weak sales demand resulting from the soft agricultural economy in the company's rural trading areas.

Cost of sales as a percentage of sales was the same for both years. Operating and administrative expenses increased slightly from 19.5% of sales to 20.2%. The increase is attributable to more aggressive sales promotion efforts in 1977 compared to 1976 and increased operating and administrative costs due to inflation.

Long-term interest expense increased \$4,354,000. The increase is attributable to an increase in long-term borrowings. The proceeds from these borrowings were advanced to the company's domestic finance subsidiary and used to repay short-term debt thus increasing interest income and reducing short-term interest expense, respectively.

In 1977 the company established a provision for store closing costs in the amount of \$4,589,000 before income taxes. A portion of the stores were closed in the fourth quarter with the remaining scheduled for closing in fiscal 1978.

Tax expense as a percentage of earnings before income taxes and equity in net earnings of unconsolidated subsidiaries was 54.1% in 1977 compared to 47.9% in 1976. The increase is primarily attributable to the impact of translation of the company's Canadian operations into U.S. dollars.

The provision for store closing costs and unrealized loss on translation of the company's Canadian operations into U.S. dollars reduced

net earnings approximately \$7,800,000 or \$1.77 per share.

In 1976 the company exchanged \$10.4 million of income notes for a portion of the company's preferred stock. Since the stock was exchanged in midyear, preferred dividends in 1977 and 1976 were reduced approximately \$300,000 compared to 1976 and 1975, respectively.

## 1973-1976

Sales in 1976 were \$1,590,372,000, compared to \$1,559,043,000 in 1975. The year 1976 was a 52-week period compared to a 53-week period in 1975. The sales increase is attributable to increased sales volume and the favorable impact of inflation on selling prices. Sales volume increased despite fewer stores and drought conditions in many of the states in which Gambles is concentrated. Sales of the Canadian operations were adversely affected by unfavorable economic conditions in that country.

Operating and administrative expenses remained relatively constant as a percentage of sales during the three years preceding 1976. However, in 1976 these costs increased slightly as a percentage of sales. The increase occurred primarily in the General Merchandising Group. Contributing to the increase in costs was a work stoppage in a number of distribution centers that are primary sources of supply for a significant number of stores. Also during 1976 Gambles closed a number of unprofitable stores. Gambles estimates the work stoppage and store closings adversely affected pre-tax earnings approximately \$3 million. Gambles also had to refund finance charges to certain customers of its Catalog Sales subsidiary. These refunds totaled \$1.4 million. (See Note 10 of Notes to Consolidated Financial Statements.)

Interest expense increased approximately \$7.7 million in 1976. The increase resulted primarily from an increase in long-term borrowings. Gambles increased its long-term borrowings to obtain funds for general corporate purposes, such as to finance inventories and franchised dealer indebtedness, to satisfy working capital requirements and to finance capital expenditures. Gambles exchanged \$10.4 million of income notes for a portion of Gambles' outstanding preferred stock. Proceeds in excess of the requirements described above were temporarily loaned to Gambles' domestic finance subsidiary and is the principal reason that interest income increased approximately \$4 million. Despite higher borrowings in 1975, interest expense did not significantly increase compared to 1974 because interest rates were lower in 1975 than in 1974. The lower interest rates, however, were the principal reason that interest income declined in 1975.

Other costs and expenses in 1976 remained relatively constant as a percentage of sales. The increase in 1975 is primarily a result of greater depreciation expense (\$462,000) and lower miscellaneous income (\$689,000).

Dividend requirements on preferred stock were reduced in 1976 due to a lower number of preferred shares outstanding. The number of shares was reduced as a result of an offer to exchange subordinated income capital notes for preferred stock.

In 1974, 430,844 shares of preferred stock were converted into common stock. This conversion, coupled with a one-time charge to the preferred dividend account in 1973, resulted in a decrease of \$739,000 in the dividend requirements on preferred stock in 1974. Because the preferred shares were not converted until late 1974, the full impact of the lower preferred dividend requirement was not reflected until 1975 and resulted in lower dividend requirements in 1975 compared to 1974.



# OFFICERS



Krasnoff, Johnson, Parry, Matthews



Back: Dreblow, Edwards Front: Rixe, Heider



Back: (left to right) Nelson, Bowie, Stubstad  
Front: Oppenheimer



Craighead, Gauck, Hirsch



Hickey, Steck, Swygman, Senio



## OFFICERS

**Walter H. Davies, Jr.**

*Chairman of the Board and Chief Financial Officer*

**Wayne E. Matschullat**

*President and Chief Executive Officer*

**Lawrence W. Rixe**

*Senior Vice President and Controller*

**Robert E. Craighead**

*Vice President*

**Donald G. Dreblow**

*Vice President*

**Stanley J. Edwards**

*Vice President — Distribution*

**Charles H. Gauck**

*Vice President, Secretary and General Counsel*

**David A. Heider**

*Vice President and Assistant to the President*

**William A. Hickey**

*Vice President — Personnel*

**Roy W. Johnson**

*Vice President — Buying*

**Lawrence Kanters**

*Vice President*

**Albert W. Krasnoff**

*Vice President — Real Estate*

**Frank T. Matthews**

*Vice President — Store Design, Construction and Display*

**Richard L. Parry**

*Vice President and Economist*

**Paul P. Senio**

*Vice President — Taxation*

**Norman M. Steck**

*Vice President and Treasurer*

**Lee G. Swygman**

*Vice President — Credit*

**Carle R. Wunderlich**

*Vice President*

**Donald J. Hirsch**

*Assistant Vice President*

**John H. Stubstad**

*Assistant Vice President*

**James C. Bowie**

*Assistant Controller*

**Richard W. Nelson**

*Assistant Treasurer*

**William E. Oppenheimer**

*Assistant Secretary*

## OFFICES, DIVISIONS & SUBSIDIARIES

Except as listed, all operations are located at the company's corporate headquarters: 5100 Gamble Drive, Minneapolis, Minnesota 55481 (Phone 612/374-6123)

### MERCHANDISING OPERATIONS

ALDENS, INC.

Chicago, Illinois

GAMBLE DEPARTMENT STORES, INC.

Chicago, Illinois

GAMBLE STORES DIVISION

GAMBLES HOUSE OF FABRICS DIVISION

Kansas City, Missouri

GAMBLES IMPORT CORPORATION

Burbank, California

J. M. McDONALD CO. DIVISION

Hastings, Nebraska

LEATH AND COMPANY, INC.

Chicago, Illinois

MACLEODS DIVISION

Winnipeg, Manitoba, Canada

MODE O'DAY DIVISION

Burbank, California

RASCO STORES DIVISION

Burbank, California

RED OWL STORES, INC.

Hopkins, Minnesota

SNYDER'S DRUG STORES, INC.

Hopkins, Minnesota

STEDMANS DIVISION

Toronto, Ontario, Canada

TEMPO-BUCKEYE STORES DIVISION

WOMAN'S WORLD SHOPS, INC.

LaMesa, California

### FINANCIAL SERVICE SUBSIDIARIES

\*ARISTAR, INC.

Coral Gables, Florida

GAMBLE ALDEN AGENCY, INC.

GAMBLE ALDEN LIFE INSURANCE  
COMPANY

GAMBLE DEVELOPMENT COMPANY

GAMBLES C & M LEASING COMPANY

GAMBLES CANADA ACCEPTANCE LIMITED  
Winnipeg, Manitoba, Canada

GAMBLES CONTINENTAL STATE BANK  
St. Paul, Minnesota

GAMBLES CREDIT CORPORATION  
Reno, Nevada

GAMBLES DATAMATION CENTER  
Burbank, California

GAMBLES INSURANCE COMPANY

GAMBLES INTERNATIONAL LEASING  
CORPORATION

\*Approximately 50% Owned



# BOARD OF DIRECTORS



*Bertin C. Gamble, Retired*



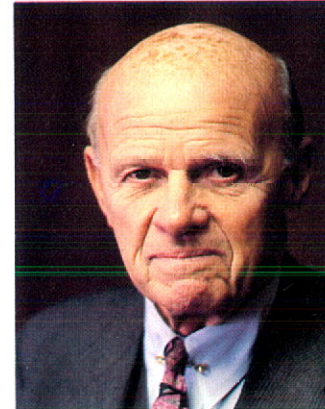
*Walter H. Davies, Jr.*



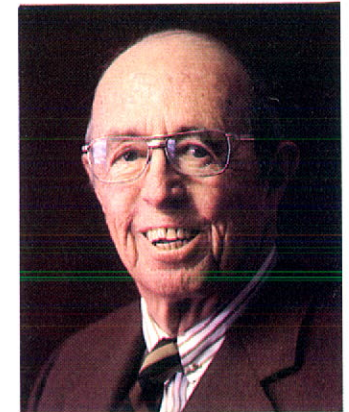
*Wayne E. Matschullat*



*Arthur G. Johnson*



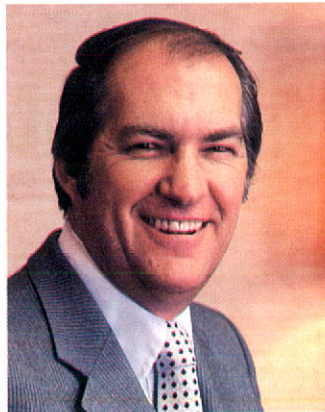
*George S. Moore*



*Burr L. Robbins*



*Wheelock Whitney*



*Robert E. Craighead*



*Carle R. Wunderlich*



*Ellsworth L. Johnson*



*Melvin Roth*



## DIRECTORS

**Walter H. Davies, Jr.**, *Chairman of the Board and Chief Financial Officer*

**Wayne E. Matschullat**, *President and Chief Executive Officer*

**Robert E. Craighead**, *Vice President*

**Arthur G. Johnson**, *Retired; former Executive Vice President*

**Ellsworth L. Johnson**, *Chairman, First American Care Facilities, Inc.*

**George S. Moore**, *Retired; former Chairman, Citicorp and Citibank, N.A.*

**Burr L. Robbins**, *Retired; former President, General Outdoor Advertising Company, Inc.*

**Melvin Roth**, *President, Red Owl Stores, Inc.*

**Wheelock Whitney**, *Chairman, The Johnson Institute (for chemical dependency)*

**Carle R. Wunderlich**, *Vice President; President, Aldens, Inc.*

## COMMITTEES OF THE BOARD

### Executive Committee

W. E. Matschullat, Chairman

W. H. Davies, Jr.

R. E. Craighead

### Audit Committee

B. L. Robbins, Chairman

E. L. Johnson

G. S. Moore

### Finance Committee

W. H. Davies, Jr., Chairman

W. E. Matschullat

G. S. Moore

W. Whitney

### Compensation Committee

G. S. Moore, Chairman

A. G. Johnson

W. Whitney

## FOUNDER — HONORARY CHAIRMAN

**Bertin C. Gamble**, *Retired*

## ANNUAL MEETING

The annual meeting of stockholders will be held at the home office of the company on Friday, June 23, 1978. A proxy statement, including a request for proxies, will be mailed to stockholders approximately three weeks prior to the meeting.

## TRANSFER AGENTS

Citibank, N.A.

15th Floor, Tube 20

111 Wall Street

New York, New York 10043

The First National Bank of Chicago

One First National Plaza

Chicago, Illinois 60670

## REGISTRARS

The Chase Manhattan Bank, N.A.

One Chase Manhattan Plaza

New York, New York 10015

Continental Illinois National Bank and Trust Company  
of Chicago

231 South La Salle Street

Chicago, Illinois 60693

## NOTE TRUSTEES

Subordinated Income Capital Notes:

Northwestern National Bank of St. Paul

55 East Fifth Street

St. Paul, Minnesota 55101

Gambles Credit Corporation Senior Notes:

The First National Bank of Chicago

One First National Plaza

Chicago, Illinois 60670

Gambles Credit Corporation Subordinated Notes:

National City Bank of Minneapolis

75 South Fifth Street

Minneapolis, Minnesota 55402

## FORM 10-K

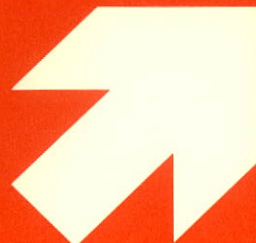
A copy of the company's annual report to the Securities and Exchange Commission on Form 10-K for its most recent fiscal year may be obtained by stockholders without charge by writing to:

Charles H. Gauck, Vice President, Secretary and  
General Counsel

Gamble-Skogmo, Inc.

5100 Gamble Drive

Minneapolis, Minnesota 55481







***GAMBLE-SKOGMO, INC.***

5100 GAMBLE DRIVE,  
MINNEAPOLIS, MINNESOTA 55481