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GAMBLE-SKOGMO, INC.
ANNUAL REPORT
1976

GAMBLES

ANNUAL MEETING

The annual meeting of stockholders will be held at the home office of the company on Friday, June 24, 1977. 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.
111 Wall Street
New York, New York 10015

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 5th Street
St. Paul, Minnesota 55101

Gambles Credit Corporation Senior Notes:
The First National Bank of Chicago
One First National Plaza
Chicago, Illinois 60670

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 and Secretary
Gamble-Skogmo, Inc.
5100 Gamble Drive
Minneapolis, Minnesota 55416

HIGHLIGHTS OF THE YEAR

	1976	1975
	Fifty-two weeks ended January 29, 1977	Fifty-three weeks ended January 31, 1976
Net sales	\$1,590,372,000	\$1,559,043,000
Earnings before income taxes	34,094,000	43,364,000
Net earnings	18,270,000	22,615,000
Earnings per common share:		
Primary	3.87	4.82
Fully diluted	3.59	4.38
Dividends per share of common stock	1.40	1.40

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Bertin C. Gamble
Chairman of the Board,
Chief Executive Officer
and Founder



*The Office of President
consists of 'left to right)
Wayne E. Matschullat,
President, and Walter H.
Davies, Jr., Vice Chairman
of the Board and Chief
Financial Officer*



April 4, 1977

TO OUR STOCKHOLDERS:

Sales for the 52-week period ended January 29, 1977, were \$1,590,372,000, the highest in the company's history, compared to \$1,559,043,000 for the 53-week period ended January 31, 1976. This increase was achieved despite a decrease in the number of our stores and a one week shorter fiscal year in 1976.

Earnings for the year were \$18,270,000 compared to \$22,615,000 a year ago, and earnings per share on a fully diluted basis were \$3.59 per share compared to \$4.38 last year.

Many of Gamble-Skogmo's retail stores are located in rural areas of the United States and Canada and thus depend on a healthy farm economy for sales and earnings growth. In 1976, a severe drought extended across a large part of the company's U.S. trading area and this, along with lower farm commodity prices, adversely influenced company sales. In Canada, a faltering economy coupled with government wage and price controls affected consumer buying attitudes. Unemployment in Canada by year end had reached its highest level in more than a decade and softness in the wheat market, one of Canada's main exports, led to significantly lower farm income.

Sales in the company's Gamble and Tempo-Buckeye Divisions were also adversely affected by a protracted work stoppage in six of the company's distribution centers.

On the positive side, healthy sales and earnings increases were recorded by the company's softline specialty stores, especially on the West Coast and in metropolitan areas, and by our food and drug stores. Among the non-merchandising companies, Gambles C & M Leasing, our automobile fleet leasing subsidiary, reported record revenues and earnings for the seventh year in a row.

Last fall, several Directors unsuccessfully attempted to remove Mr. Gamble from the office of Chairman of the Board and Chief Executive Officer. One of the Directors also alleged that the company's Registration Statement in connection with its recent exchange offer may have been misleading in that it failed to disclose certain facts which, if correct, would be material. That Director also alleged that Mr. Gamble had improperly attempted to hinder the Audit Committee and to coerce individual members of the Board.

Since then, several officers and Directors, including the author of the charges, have resigned and we are pleased to report that a Special Committee of outside Directors and its independent special counsel concluded that the alleged possible violations of Federal securities laws did not occur. The Committee made several recommendations concerning corporate policy and structure, all of which were approved by the Board. The Securities and Exchange Commission is conducting its own investigation as to any possible violations of Federal securities laws.

We sincerely feel that the company's senior management has been stabilized and will now be able to function harmoniously. We appreciate the continuing confidence and support of our employees, suppliers, stockholders, noteholders and banking friends.

We are proud to report that employee ownership continues to grow. As of March 31, 1977, our employee Thrift Plan and Pension Plan held a combined total of approximately 25 percent of our common stock, and the Thrift Plan, with approximately 900,000 shares on March 31, is our largest stockholder.



BERTIN C. GAMBLE
Chairman of the Board and
Chief Executive Officer



WAYNE E. MATSCHULLAT
President

MERCHANDISING HIGHLIGHTS

GENERAL MERCHANDISING

Sales of women's apparel by our Mode O'Day Division were up 25 percent over a year ago and very little of this increase is attributable to acquisition or new store construction. This is significantly better than the record of the industry as a whole. Much of the division's competitive advantage is a direct result of its manufacturing capability.

Considerable emphasis has been placed on the training of field personnel, factory managers and dealers through a new facility, the Mode O'Day College of Retail Knowledge.

Last year, Mode O'Day set a goal to double sales within a five-year period. The division is well ahead of schedule.

The percent of sales increase achieved by Woman's World Shops was higher than any of the other merchandising divisions. The division also had an excellent earnings record. Plans call for the opening of seven new stores this year, four of them in California.

Our retail fabrics division had a greatly improved year — both as to sales and earnings. The increase reflected both good performances by existing outlets and seven new stores added by the division during the year through acquisition or construction. In addition, 20 Fab's Fashion Fabrics shops were acquired in December from Popular Services, Inc., a New Jersey-based company. Nine of the outlets are located in New Jersey and the remainder in Iowa, Wisconsin, Illinois, Indiana, Kansas and Michigan.

The division plans further expansion during the current year in existing markets and through acquisitions where possible.

The Gamble Stores Division has projected the opening of 50 new dealer stores throughout the current year. In addition, plans call for the remodeling, expansion or relocation into larger or better facilities of approximately 150 dealer stores.

Last year the division entered into a mutually beneficial association with the Robertson Companies, Inc. of Grand Forks, North Dakota. Several of that company's lumber yards have been converted to Robertson-Gamble Home Centers which stock the retail hardlines merchandise mix of the conventional Gamble store plus pre-cut lumber and paneling for the do-it-yourself-minded consumer. This concept is being extended this year into several additional Robertson yards in North Dakota and northern Minnesota.

The major thrust of the McDonald department store group during 1976 was to strengthen and streamline its operations. Following the installation of a new inventory control system, year-end store and warehouse inventories were reduced 11 percent from a year ago. This will enhance the possibility of exceeding the 8 percent sales growth planned for the present year. In addition, five small retail units of borderline profitability were closed, a new computer terminal was installed and extensive store remodelings took place in major existing markets.

During the present year, two additional outlets are planned for metropolitan Denver, an existing unit will be relocated in a shopping center location and a number of existing units will undergo renovation and remodeling.

A sales improvement is anticipated by our West Coast variety store group, the Rasco Stores Division, as a result of a recently-adopted marketing program geared to the particular consumer needs in each community serviced by Rasco. Flexible store strategies have been developed to fit each localized situation. Each store is categorized as a conventional variety store, a limited-line store or an outlet store; and the store layout and merchandise mix conform to that particular category.

IN LAST YEAR'S REPORT we were proud to feature some of the people as representative of those whose daily efforts make the corporate wheel's turn.

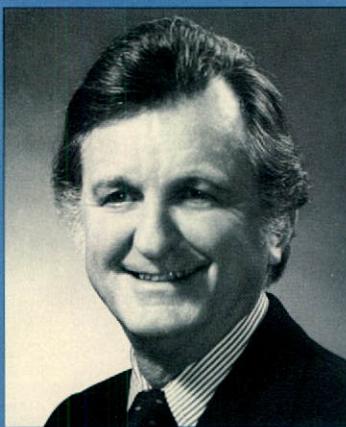
THIS YEAR we have featured and identified the personalities who are responsible for the management and direction of our people at the profit center level.

These are the persons upon whom we must rely for the planning and execution of the profit center operations. They are responsible for the motivation and direction of our people at the action level. They are the human link between corporate planning and day-to-day accomplishment.

We are justly proud of this talented group of executives.



Carle R. Wunderlich, Aldens, Inc., has been with the company for 30 years and a profit center head since 1967.



Robert E. Riley, Gamble Department Stores, Inc., has been with the company for 24 years and a profit center head since 1968.



Jacob M. (George) Peyser, Woman's World Shops, Inc., has been with the company for nine years and a profit center head since 1976.

The performance of our mass merchandising operation has been improved considerably during the year by the closing of 16 marginal Tempo stores and Buckeye Marts. The redeployment of capital from these outlets, which in most cases were small units, enabled the division to undertake an extensive remodeling and expansion program. The stores being upgraded are the ones that are recognized as having greater long-range potential.

The Canadian economy experienced a difficult year. The effect of wage and profit controls was reflected in consumer caution as wage increase expectations were diminished. There appears, however, to have been a more significant softening in the rural areas related to a drop in farm income resulting from the severe drought conditions the region experienced.

The sales slowdown resulted in a highly competitive environment as a result of lower everyday prices and more intense sales promotion to liquidate high seasonal inventories. These factors, coupled with upward expense pressures, produced a general pattern of "sales up, profits down."

The Macleods and Stedmans Divisions are celebrating their sixtieth and seventieth anniversaries, respectively, during the year. Careful, prudent expansion will strengthen our position in Canadian urban markets.

The Macleods Division will open two stores, one 40,000 and the other 50,000 square feet, in Regina, Saskatchewan, a 12,000 square foot store in Fort Francis, Ontario, and a few smaller stores will undergo major remodeling.

The Stedmans Division plans to open 13 new dealer stores during the year.

FOOD AND DRUG

The spring of 1976 saw the introduction of a new merchandising concept by our retail food chain. Called "Country Stores," they have many of the basic characteristics of the conventional warehouse or co-op market.

Three large Red Owl supermarkets (two in the Minneapolis suburbs and one in Fargo) were converted to this new "Country Store" concept during the year now ended and three more Red Owl stores in the 40,000 square foot range are scheduled for conversion this year.

Before the new concept was adopted, Red Owl management made a comprehensive market survey which indicated that although consumers like buying groceries in a warehouse or co-op type outlet in which most of the costly customer services have been eliminated, they still want the convenience of fresh meats, produce and baked goods.

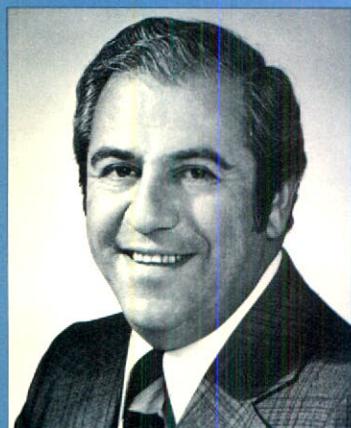
Judging from the consumer acceptance of the Country Stores, it appears that Red Owl management may have arrived at the right balance of the conventional supermarket melded into the warehouse market concept at selective locations.

In addition to the new Country Stores, plans during the current year call for the relocation of four food stores, the replacement and expansion of four or five existing outlets, and the major remodeling of six units.

Corporate store expansion last year included one new Red Owl food store and the expansion or major remodeling of seven existing stores. Twelve new franchised accounts were added, and 15 accounts increased the size of their stores, thus adding a total of 60,000 square feet.

Our Snyder's drug chain again substantially increased both sales and earnings. Expansion plans for the year in progress include three new company-owned drug stores in Minnesota. Two stores in St. Paul will be completely remodeled.

Fourteen new franchised drug outlets were opened in fiscal 1976, and plans call for the opening of nine additional units this year.



Melvin Roth, Red Owl Stores, Inc., has been with the company for three years and a profit center head since 1974.



Glenn R. Anderson, Snyder's Drug Stores, Inc., has been with the company for 20 years and a profit center head since 1973.



Donald A. Metke, Tempo-Buckeye Stores Division, has been with the company for three years and a profit center head since 1976.

MERCHANDISING HIGHLIGHTS (Continued)

CATALOG SALES

The increased sales but slightly below budget earnings reported by Aldens, our Chicago-based mail order subsidiary, were attributable to its large sales volume of relatively low profit hardlines merchandise.

A new automatic order processing system, which became operational during the year, handles customer orders more efficiently, while at the same time both operating and administrative costs are reduced. This advanced data processing system records customer orders, prepares item selection information, provides perpetual inventory data, updates customer accounts and produces a customer confirmation and mailing label.

A new warehouse is being readied for full occupancy at midyear. After vacating two antiquated buildings, warehouse space will be reduced from 1,820,000 square feet to 1,440,000 square feet. A new electro-mechanical sortation system is being installed in the largest of these two warehouses.

America Direct, Aldens' direct mail subsidiary, continued its strong growth by setting new records for sales and earnings, thus reinforcing its position as one of the leading marketers in the direct mail industry.

SERVICE ACTIVITIES

Gambles Insurance Group's total life insurance in force increased to \$1.7 billion in 1976, thus signifying another successful year of operation. Only 11 percent of all insurance companies are successful in exceeding \$1 billion.

The development of new markets and the introduction of new products played important roles in the successful expansion of the Group's mass marketing efforts in 1976. Life, disability, health and high limit accident insurance are mass marketed to the customers of major retailers, financial institutions, travel and entertainment credit cardholders. Plans call for the test marketing of additional products during 1977.

The installation of a credit life insurance plan in a major California bank was another important accomplishment in 1976. The pursuit of similar merchandising opportunities are planned for this year. Additionally, a full line of credit insurance is marketed to large and small retailers and financial institutions.

The sale of packaged insurance services for the small businessman was successfully expanded to larger businesses in the Los Angeles area, and similar expansion is being considered for other major cities.

Gambles Insurance Group consists of Gamble Alden Life Insurance Company, Gamble Alden Agency, Gambles Insurance Company and John Alden Life Insurance Company . . . all working together to provide customers with the widest possible choice of comprehensive insurance services.

Our real estate subsidiary, Gamble Development Company, is constructing a 63,000 square foot addition to its Thunderbird Mall shopping complex at Virginia, Minnesota to house a major regional department store and several small retail shops.

Gambles C & M Leasing Company reported a record 40 percent increase in earnings. The national vehicle leasing and fleet management subsidiary's performance was attributable to increased business from present customers and the addition of 50 new major corporate clients. Sharp increases in the number of customers enrolled in one or more management programs were recorded in Management Services, which provides vehicle expense identification and control systems for major leased and company-owned fleets.

East Coast and Midwest sales offices were opened during the year. These new offices, along with the West Coast sales office which opened last year, made it possible to attain greater sales penetration in these key market areas.



Donald S. Rogers, Gambles Canada Limited, has been with the company for four years and a profit center head since 1973.



Dennis R. Gibson, Macleods Division, has been with the company for 32 years and a profit center head since 1973.



Donald C. Halliday, Stedmans Division, has been with the company for three years and a profit center head since 1974.

FINANCIAL HIGHLIGHTS

Gamble-Skogmo, Inc. and consolidated subsidiaries are in a strong liquid financial position with cash and temporary cash investments at year-end totaling almost \$190,000,000, or 76 percent of current liabilities. Primarily, these funds were generated from the sale of subordinated income notes, a unique security pioneered by Gambles. Income notes increase the company's capital base and add equity-type funds which are readily available for possible major acquisitions, internal expansion or to satisfy other cash needs. Aggressive efforts have been made in the past two years to use these funds for a major acquisition. For a number of reasons, other than price, the company has, to this point, been unsuccessful. To the extent that these proceeds are not used for acquisitions, internal expansion or for other general corporate purpose, they are advanced to the finance subsidiaries. These advances are repaid to the parent company at year-end to demonstrate the finance subsidiaries' ability to repay these amounts and stand on their own.

During the year, the following financial events took place: Gambles sold \$25,500,000 of subordinated income notes due in 2005, and \$28,800,000 of notes due in 2006. Also, approximately \$10,400,000 of income notes due in 2006 were issued in exchange for a portion of the company's \$5 par value and \$40 par value preferred stock. Since year-end, an additional \$21,000,000 of notes maturing in 2006 have been sold. At year-end, the company had \$477,000,000 in capital funds, comprised of \$237,000,000 in income notes and \$240,000,000 in stockholders' equity. With the sale of the additional \$21.0 million of notes after the year-end, capital accounts increased to almost one-half billion. This capital base represented 62 percent of total assets.

Substantial advances to the finance subsidiaries during the year reduced further their necessity to rely on the short-term debt market for working capital; however, the commercial paper market continued to be the primary source of short-term funds, both in this country and Canada. Because of their strong capital structure and modest debt-to-equity ratio, both Gambles and Gambles Credit Corporation, its finance subsidiary, enjoy a commercial paper rating of Fitch-1 (Highest Grade).

In mid-year, Gambles Credit Corporation sold \$60,000,000 of 10-year senior notes in an underwritten public offering. The notes were rated "A" by Standard & Poor's. This financing provides better balance to the mix of long-term and short-term debt in the finance subsidiary.

Because of the funds raised in the long-term markets, it has been possible for Gambles and its finance subsidiaries to decrease their lines of credit with commercial banks used to support short-term commercial paper borrowings in the United States and Canada. Approximately \$90,000,000 in lines were cut, freeing funds formerly used as compensating balances for other purposes.

Gambles' purchase of \$15,000,000 of Aristar, Inc. subordinated notes has been completed. These notes, which yield 10 3/4 percent, are convertible into Aristar common stock at a price of \$3.40 per share. Conversion of the notes would give Gambles 49 percent of the then outstanding shares of Aristar, a Florida-based company operating 321 consumer loan offices nationally and 87 home furnishing stores in the Southeast.

Customer accounts receivable totaled \$353,893,000 at year-end, up 4.3 percent from a year ago. The amount outstanding represents 1,744,000 customer accounts with an average balance of \$203. This compares to 1,711,000 accounts with an average balance of \$198 the previous year. Chargeoffs, as a percentage of average receivable balances, were 3.4 percent, down from 3.7 percent last year. Likewise, due to tighter controls established last year, delinquencies, at year-end, were 6.09 percent, down from 6.17 percent the year earlier.

Our strong emphasis on conservative financial planning and efficient cash management is ongoing. Inventories and receivables were up only slightly and



Lawrence Kanters, Skogmo Stores Division, has been with the company for eight years and a profit center head since 1971.



Wayne E. Waldera, Gamble Stores Division, has been with the company for 19 years and a profit center head since 1974.



Charles E. Trussell, J.M. McDonald Co. Division, has been with the company for 17 years and a profit center head since 1976.

FINANCIAL HIGHLIGHTS (Continued)

capital expenditures amounted to \$16,000,000 compared to \$17,000,000 last year. For the current year, planned capital expenditures will amount to approximately \$25,000,000, well below anticipated depreciation and net income after dividends. Working capital of \$250,000,000 was up 4.6 percent from last year.

In 1976, the company paid dividends of \$1.40 per common share, the 48th consecutive year in which dividends have been paid. The company was one of the first to offer its shareholders a dividend reinvestment plan. This plan has been in effect for a number of years and provides a convenient method for shareholders to increase their holdings of the company's common stock. A similar plan has been offered to our subordinated income note holders whereby their interest payments can be invested in the common stock of the company.

MANAGEMENT CHANGES

DIRECTORS AND CORPORATE OFFICERS

Four new members have been elected to the company's Board of Directors. From outside the company, the Board elected William J. Casey and George S. Moore. The other two new Directors are Melvin Roth, President of the company's food and drug subsidiary, Red Owl Stores, Inc., and Robert E. Craighead, who was also elected a corporate Vice President. Mr. Casey has subsequently indicated his intention to resign at the Annual Meeting because the Special Committee on which he served has completed its report, and his other activities do not give him sufficient time to serve as a Director of Gambles.

Mr. Casey is counsel to the New York and Washington, D.C. law firm of Rogers and Wells. He has served as Chairman of the Securities and Exchange Commission and as Under Secretary of State for the State Department.

Mr. Moore is retired Chairman of Citicorp and Citibank, N.A. of New York. Following his retirement after 43 years of service with the Citibank and its affiliates, Mr. Moore has served as a business consultant and a Director of several major corporations.

Since 1966, Mr. Craighead has been with the Jewel Companies, Inc. of Chicago where he successively held a number of senior management positions.

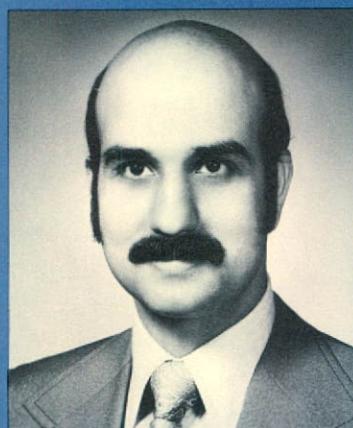
The new Directors fill four of the vacancies created by the resignations of six Directors including: Louis E. Dolan, Vice Chairman and General Counsel; Forest R. Lombaer, Senior Vice President for Personnel; James F. Tracy, Senior Vice President for Buying; and Edwin O. Wack, Senior Vice President; all of whom resigned both as corporate officers as well as Directors. Two outside Directors also resigned: Russell M. Bennett and Bernard B. Zients. Mr. Dolan was also President of the company's insurance subsidiaries.

Charles H. Gauck, who has been Secretary and Assistant General Counsel, has been elected Vice President, Secretary and General Counsel, and has assumed Mr. Dolan's legal responsibilities.

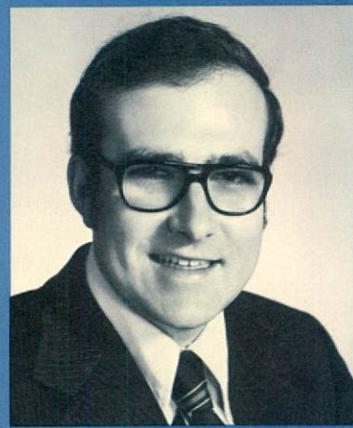
William A. Hickey has been elected Vice President for Personnel, succeeding Mr. Lombaer. Mr. Hickey has been with Sears Roebuck and Company for the past 25 years, the majority of this time in personnel administration.

Roy W. Johnson, Vice President for Buying, has assumed Mr. Tracy's responsibilities.

Donald G. Dreblow, a Group Manager in the Buying Department, has been elected a Vice President and has replaced Mr. Wack as the officer in charge of Public Relations.



Thomas D. Najour, Gamble's House of Fabrics Division, has been with the company for two years and a profit center head since 1975.



Robert A. Miesen, Gamble's C & M Leasing Company, has been with the company for eight years and a profit center head since 1973.



Paul B. Horst, Mode O'Day Division and Rasco Stores Division, has been with the company for 32 years and a profit center head since 1971.

Stanley J. Edwards was elected corporate Vice President for Distribution. In this newly-created position, Mr. Edwards is responsible for warehousing and transportation of merchandise for the Gamble Stores and Tempo-Buckeye Stores Divisions.

DIVISION AND SUBSIDIARY MANAGEMENT

Paul B. Horst, President of the Mode O'Day Division since 1971, was elected President of the Rasco Stores Division. Mr. Horst continues as President of Mode O'Day.

George C. Bohlig was elected President of Gamble's Import Corporation. He had been Vice President for Sales Promotion and Advertising for Mode O'Day since 1971.

Robert A. Miesen was elected President of Gamble's International Leasing Corporation. He continues as President of Gamble's C & M Leasing Company, a position he has held since 1973. International Leasing is engaged in the leasing of commercial and industrial equipment of all kinds, while C & M Leasing is one of the nation's largest automotive fleet leasing companies.

E. Charles Williamson, who has been Executive Vice President of Gamble Alden Life Insurance Company since 1968, was elected President of the insurance subsidiary. Mr. Williamson continues as President of Gamble's Insurance Company.

Lee G. Swygman was elected President of the St. Paul, Minnesota-based Gamble's Continental State Bank. Mr. Swygman continues as General Credit Manager for the parent company, a position he has held since 1970.

DESCRIPTION OF BUSINESS

Gamble-Skogmo, Inc. is primarily engaged, directly and through subsidiaries, in the merchandising business. Other subsidiaries are engaged in service activities that primarily serve the company's merchandising business. A general description of the company's merchandising business and service activities is set forth below and followed by a tabulation of the number of outlets included in each merchandising group.

MERCHANDISING BUSINESS

The company merchandises a wide variety of consumer products at retail through company-operated stores and through mail order catalogs, and at wholesale to independent franchised dealers. This merchandising business can be conveniently subdivided into three different groups. The "General Merchandising Group" consists of mass merchandising stores, department and specialty stores, and all Canadian stores. The "Food and Drug Group" consists of grocery and drug stores operated or franchised by Red Owl Stores, Inc. and one of its subsidiaries. The "Catalog Sales Group" consists of the catalog and mail order merchandising business conducted by Aldens, Inc. and its subsidiaries.

The 3323 stores operated or supplied by the company as of January 29, 1977, are located principally in towns and cities having populations ranging from several hundred to 50,000 people.

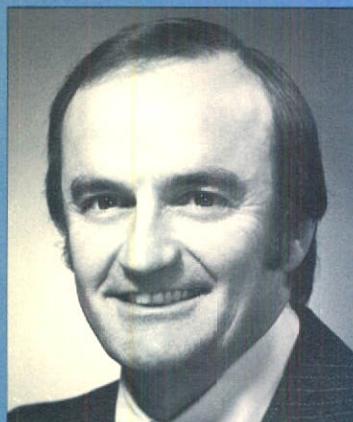
GENERAL MERCHANDISING GROUP

The General Merchandising Group is comprised of the various individual stores included in the three broad categories described below.

MASS MERCHANDISING STORES. The company operates mass merchandising stores under the names Tempo and Buckeye Mart. These stores are merchandised to appeal to the value conscious customer.



Lee G. Swyman, Gamble's Continental State Bank, has been with the company for 25 years and a profit center head since 1976.



E. Charles Williamson, Jr., Gamble Alden Life Insurance Company, has been with the company for 10 years and a profit center head since 1967.

DESCRIPTION OF BUSINESS (Continued)

DEPARTMENT AND SPECIALTY STORES. This category includes conventional department stores operating under a variety of names, and the specialty stores described below.

The Gamble stores are primarily hardline stores that are service-oriented and carry a substantial amount of private label merchandise supplied by the company.

The Gambles House of Fabrics Division is comprised of stores handling fabrics, accessories and sewing notions, operating under the names House of Fabrics and Fab's Fashion Fabrics. The J. M. McDonald stores specialize in the sale of nationally advertised brands of men's, women's and children's apparel, accessories and shoes, home furnishings, fabrics, gifts and related items. The Mode O'Day Division is comprised of Mode O'Day stores and Double Up stores. Mode O'Day stores handle low-priced lines of women's apparel and accessories, and Double Up stores handle essentially the same kinds of merchandise but are oriented toward a younger age group. The Rasco Division is comprised of variety stores operating under the names Rasco and Rasco-Tempo which are similar to the mass merchandising stores described above, and of toy stores operating under the name Toy World.

The Skogmo stores are softline stores. Woman's World stores are specialty, large-size women's apparel shops.

CANADIAN STORES. The Macleods Division of Macleod Stedman Limited, a subsidiary of Gambles Canada Limited, is comprised principally of stores handling primarily hardlines, but also includes three mass merchandising stores operated under the name Gambles in Winnipeg. The Stedmans Division of the same subsidiary is comprised of variety and softline stores. Wood Alexander Limited, a subsidiary of Macleod Stedman Limited, operates a wholesale hardware operation in Ontario.

FOOD AND DRUG GROUP

Red Owl Stores, Inc. and its drug store subsidiary operate and supply Red Owl food stores, Snyder's drug stores and Red Owl Family Centers that offer both food and drug merchandise as well as selected hardline and softline products.

CATALOG SALES GROUP

Aldens, Inc. operates a catalog sales business through direct catalog distribution by mail. An Aldens subsidiary, America Direct, makes its own merchandise offers and also syndicates small catalogs, bill stuffers and other mailings for customers such as oil companies, credit card companies, magazine publishers and banks.

SERVICE ACTIVITIES

The subsidiaries of the company that are not directly engaged in the merchandising business offer a wide variety of services, described below, that primarily serve and support the company's merchandising business.

FINANCING

Gambles Credit Corporation purchases receivables resulting from credit 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 subsidiaries.

INSURANCE

Gambles Insurance Group writes insurance and engages in related activities, principally through Gamble Alden Life Insurance Company, Gambles Insurance Company, a multiple-line casualty company, and Gamble Alden Agency, Inc., a general all-lines agency.

OTHER SERVICE ACTIVITIES

Gamble Development Company, a real estate subsidiary, manages or owns and operates five shopping centers, which range in size from approximately 34,000 square feet to 243,000 square feet. Gambles Continental State Bank, a subsidiary, is a relatively small bank doing a general banking business in downtown St. Paul, Minnesota. Gambles C & M Leasing Company, an 80 percent owned subsidiary, owns and leases vehicles (primarily automobiles and trucks), including most of the vehicles used by the company. Gambles International Leasing Corporation leases equipment to commercial and industrial users.

TABULATION OF COMPANY-OWNED AND FRANCHISED OUTLETS

as of January 29, 1977

Domestic Stores (total 2736)

Company-Owned Stores

	Buckeye Mart	Tempo	Gamble Department	McDonald Department	Gamble	Skogmo	House Of Fabrics	Mode O'Day	Rasco	Red Owl	Snyder	Woman's World	Total
	13	39	25	76	45	1	91	49	13	106	40	35	533

Franchised Dealers

	Gamble	Skogmo	Mode O'Day	Rasco	Red Owl	Snyder	Total
	1017	119	617	126	275	49	2203

Canadian Stores (total 587)

Company-Owned Stores

	Macleod	Stedman	Total
	79	64	143

Franchised Dealers

	Macleod	Stedman	Wood Alexander	Total
	195	196	53	444

Summary of Stores (total 3,323)

Domestic

	Company-Owned Stores	Franchised Dealers	Total
	533	2203	2736

Canadian

	Company-Owned Stores	Franchised Dealers	Total
	143	444	587

CONSOLIDATED STATEMENTS OF EARNINGS

GAMBLE-SKOGMO, INC. AND CONSOLIDATED SUBSIDIARIES

	1976	1975
	Fifty-two weeks ended January 29, 1977	Fifty-three weeks ended January 31, 1976
Net sales	\$1,590,372,000	\$1,559,043,000
Costs and expenses:		
Cost of sales, including certain occupancy and buying costs	1,224,082,000	1,202,937,000
Operating and administrative (Notes 6 and 8)	303,406,000	287,669,000
Depreciation and amortization	11,357,000	11,147,000
Interest, net of interest income of \$10,703,000 and \$6,684,000	18,022,000	14,288,000
Total costs and expenses	<u>1,556,867,000</u>	<u>1,516,041,000</u>
Other income — net	589,000	362,000
Earnings before income taxes	34,094,000	43,364,000
Income taxes (Note 9)	<u>15,824,000</u>	<u>20,749,000</u>
Net earnings	<u>\$ 18,270,000</u>	<u>\$ 22,615,000</u>
Earnings per common share:		
Primary	\$ 3.87	\$ 4.82
Fully diluted	<u>\$ 3.59</u>	<u>\$ 4.38</u>

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

GAMBLE-SKOGMO, INC. AND CONSOLIDATED SUBSIDIARIES

	1976	1975
	Fifty-two weeks ended January 29, 1977	Fifty-three weeks ended January 31, 1976
Beginning balance	\$ 196,932,000	\$ 182,923,000
Net earnings	18,270,000	22,615,000
Unrealized appreciation (depreciation) on marketable equity securities of unconsolidated insurance subsidiaries	992,000	(1,059,000)
Cash dividends:		
Preferred stock	(1,079,000)	(1,376,000)
Common stock	<u>(6,217,000)</u>	<u>(6,171,000)</u>
Ending balance (Note 7)	<u>\$ 208,898,000</u>	<u>\$ 196,932,000</u>

See accompanying notes to consolidated financial statements.

CONSOLIDATED BALANCE SHEETS

GAMBLE-SKOGMO, INC. AND CONSOLIDATED SUBSIDIARIES

ASSETS

Current assets:

	1976	1975
Cash including temporary cash investments of \$157,909,000 and \$138,589,000	\$188,282,000	\$174,045,000
Receivables — net (Note 2)	42,919,000	37,259,000
Inventories	255,158,000	255,479,000
Prepaid expenses	11,766,000	12,710,000
Total current assets	<u>498,125,000</u>	<u>479,493,000</u>
Investments, principally unconsolidated subsidiaries	121,588,000	93,538,000
Property and equipment — net (Notes 3 and 4)	95,703,000	95,049,000
Excess of cost over fair value in companies acquired	25,828,000	27,034,000
Deferred charges and other assets (Note 6)	24,643,000	16,562,000
	<u>\$765,887,000</u>	<u>\$711,676,000</u>

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities:

Commercial paper and notes payable (Note 6)	\$ 17,534,000	\$ 20,989,000
Current instalments of long-term debt	15,815,000	2,649,000
Accounts payable and accrued liabilities	154,600,000	161,130,000
Current income taxes	14,424,000	7,447,000
Deferred income taxes applicable to instalment sales	45,421,000	48,023,000
Total current liabilities	<u>247,794,000</u>	<u>240,238,000</u>
Deferred credits, principally deferred income taxes	6,564,000	8,328,000

Long-term debt (Note 4) excluding subordinated income notes shown below as capital accounts	33,819,000	35,709,000
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Capital accounts:

Subordinated income notes (Note 5)	<u>237,385,000</u>	<u>188,379,000</u>
Stockholders' equity (Note 1):		
Preferred stock, \$40 par value	12,565,000	12,631,000
Preferred stock, \$5 par value, including allocated paid-in capital	11,161,000	17,690,000
Common stock, \$5 par value, including additional paid-in capital; authorized 10,000,000 shares; issued 5,597,142 and 5,564,935	57,486,000	50,279,000
Retained earnings (Note 7)	208,898,000	196,932,000
Less cost of common stock and preferred stock reacquired and held in treasury	<u>(49,785,000)</u>	<u>(38,510,000)</u>
Total stockholders' equity	<u>240,325,000</u>	<u>239,022,000</u>
Contingent liabilities and commitments (Notes 10 and 11)	<u>\$765,887,000</u>	<u>\$711,676,000</u>

See accompanying notes to consolidated financial statements

CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION

GAMBLE-SKOGMO, INC. AND CONSOLIDATED SUBSIDIARIES

SOURCE OF FUNDS

	1976	1975
Fifty-two weeks ended January 29, 1977		Fifty-three weeks ended January 31, 1976
Net earnings	\$18,270,000	\$22,615,000
Net earnings of unconsolidated subsidiaries included above	(8,173,000)	(8,966,000)
Depreciation and amortization	11,357,000	11,147,000
Cash dividends from unconsolidated subsidiaries	1,070,000	642,000
 Funds derived from operations	 22,524,000	 25,438,000
Issuance of subordinated income notes	64,731,000	35,412,000
Issuance of long-term debt	—	10,935,000
Carrying value of property and equipment disposals	2,494,000	2,739,000
Issuance of common stock	715,000	518,000
Decrease in investments	—	3,010,000
Increase in deferred credits	—	1,228,000
 \$90,464,000	 \$79,280,000	

USE OF FUNDS

Cash dividends	\$ 7,296,000	\$ 7,547,000
Reduction of subordinated income notes	15,725,000	10,128,000
Reduction of long-term debt	1,890,000	2,068,000
Additions to property and equipment	14,505,000	15,556,000
Purchase of Aristar, Inc. subordinated notes	15,084,000	—
Increase in other investments	5,863,000	—
Conversion of preferred stock	103,000	120,000
Acquisition of treasury stock	11,275,000	—
Decrease in deferred credits	1,764,000	—
Other	5,883,000	4,563,000
Increase in working capital	11,076,000	39,298,000
 \$90,464,000	 \$79,280,000	

CHANGE IN WORKING CAPITAL BY COMPONENT:

Cash including temporary cash investments	\$14,237,000	\$53,201,000
Receivables	5,660,000	(1,610,000)
Inventories	(321,000)	1,929,000
Prepaid expenses	(944,000)	(1,543,000)
Commercial paper, notes payable and current instalments of long-term debt	(9,711,000)	(6,300,000)
Accounts payable and accrued liabilities	6,530,000	(9,977,000)
Current and deferred income taxes	(4,375,000)	3,598,000
 Increase in working capital	 \$11,076,000	 \$39,298,000

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.

The Audit Committee of the Board of Directors, comprised of three outside directors, meets periodically during the year on a scheduled basis to review financial controls and priorities for future audit efforts, as well as the results of internal and external audit activity. In addition the Committee is committed to meet at other times as requested by management or external auditors.

Committee members receive, simultaneously as issued to management, copies of letters issued by the external auditors regarding their findings as to the company's procedures and controls.

DEFINITION OF FISCAL YEAR. The company's fiscal year ends on the last Saturday in January. Fiscal 1976 ended on January 29, 1977 and fiscal 1975 on January 31, 1976. The years are comprised of 52 and 53 weeks respectively.

PRINCIPLES OF CONSOLIDATION. The consolidated financial statements include all accounts except those of unconsolidated service subsidiaries. Condensed financial information for finance and insurance subsidiaries are presented on pages 22 and 23 of this annual report. All other unconsolidated service subsidiaries are in the aggregate not significant. Investments in unconsolidated subsidiaries are carried at underlying equity values.

Pre-tax earnings of unconsolidated service subsidiaries, reflected in the consolidated statements of earnings as a reduction of operating and administrative expense, are \$14,968,000 for 1976 and \$15,400,000 for 1975.

Interest income in the accompanying consolidated statements of earnings includes \$6,276,000 and \$5,799,000 in 1976 and 1975, respectively, from unconsolidated service subsidiaries.

TRANSLATION OF CANADIAN FINANCIAL STATEMENTS. Inventory, properties (including related depreciation), 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. Gains and losses arising as a result of these translation procedures are recognized currently and were not significant for 1976 and 1975.

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. Substantially all excess cost arose from business acquisitions prior to 1970 and will be carried at cost until evidence of impairment of value. Excess cost arising from acquisitions since 1970 is being amortized.

INCOME TAXES. For financial reporting, deferred 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 \$59,000,000 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 (\$1,290,000 in 1976 and \$944,000 in 1975).

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 4,439,000 in 1976 and 4,404,000 in 1975.

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 5,083,000 in 1976 and 5,162,000 in 1975.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

GAMBLE-SKOGMO, INC. AND CONSOLIDATED SUBSIDIARIES

(1) Capital Stock and Additional Paid-In Capital

(All dollars in thousands)

Changes in the company's capital stock and additional paid-in capital are as follows:	1976		1975	
	Fifty-two weeks ended January 29, 1977		Fifty-three weeks ended January 31, 1976	
	SHARES	AMOUNT	SHARES	AMOUNT
Preferred stock, \$40 par value:				
Beginning of year	315,775	\$12,631	317,069	\$12,683
Conversion to common stock	(1,647)	(66)	(1,294)	(52)
End of year	<u>314,128</u>	<u>\$12,565</u>	<u>315,775</u>	<u>\$12,631</u>
Preferred stock, \$5 par value, including allocated paid-in capital:				
Beginning of year	505,443	\$ 2,527	519,064	\$ 2,595
Conversion to common stock	(7,424)	(37)	(13,621)	(68)
End of year	<u>498,019</u>	<u>2,490</u>	<u>505,443</u>	<u>2,527</u>
Paid-in capital allocated to \$5 par value preferred stock:				
Beginning of year	505,443	15,163	519,064	15,572
Conversion to common stock	(7,424)	(223)	(13,621)	(409)
Acquired for treasury	(208,971)	(6,269)	—	—
End of year	<u>289,048</u>	<u>8,671</u>	<u>505,443</u>	<u>15,163</u>
		<u>\$11,161</u>		<u>\$17,690</u>
Common stock, \$5 par value, including additional paid-in capital:				
Beginning of year	5,564,935	\$50,279	5,533,823	\$49,352
Allocation of paid-in capital due to conversion of \$5 par value preferred stock to common stock	—	223	—	409
Allocation of paid-in capital due to acquisition of \$5 par value preferred stock for treasury	—	6,269	—	—
Conversion of preferred stock	8,207	103	13,452	120
Exercise of stock options	—	—	17,660	398
Exercise of warrants	24,000	612	—	—
End of year	<u>5,597,142</u>	<u>\$57,486</u>	<u>5,564,935</u>	<u>\$50,279</u>
Common stock and preferred stock reacquired and held in treasury, at cost:				
Common stock, \$5 par value:				
Beginning of year	(1,148,355)	\$(38,510)	(1,148,355)	\$(38,510)
Purchased, at cost	(2,472)	(60)	—	—
End of year	<u>(1,150,827)</u>	<u>(38,570)</u>	<u>(1,148,355)</u>	<u>(38,510)</u>
Preferred stock, \$40 par value:				
Beginning of year	—	—	—	—
Exchanged for subordinated income notes	(117,817)	(4,043)	—	—
End of year	<u>(117,817)</u>	<u>(4,043)</u>	<u>—</u>	<u>—</u>
Preferred stock, \$5 par value:				
Beginning of year	—	—	—	—
Exchanged for subordinated income notes	(208,971)	(7,172)	—	—
End of year	<u>(208,971)</u>	<u>(7,172)</u>	<u>—</u>	<u>—</u>
Total common stock and preferred stock reacquired and held in treasury, at cost		<u>\$(49,785)</u>		<u>\$(38,510)</u>

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 824/1,000ths 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 \$40.50 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 29, 1977 is \$7,951,000.

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 29, 1977 is \$10,117,000. 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 yearend as follows:

	1976	1975
Conversion of preferred stock	442,123	747,622
Employee stock options	389,731	389,731
Common stock purchase warrants ..	224,000	248,000
	<u>1,055,854</u>	<u>1,385,353</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:

	1976	1975
Outstanding beginning of year....	88,640	126,890
Granted	—	5,000
Exercised	—	(17,660)
Expired	<u>(6,640)</u>	<u>(25,590)</u>
Outstanding end of year	<u>82,000</u>	<u>88,640</u>
Aggregate option price for shares outstanding	<u>\$2,313,000</u>	<u>\$2,524,000</u>
Shares exercisable	<u>57,200</u>	<u>43,840</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)	1976	1975
Equity in instalment accounts sold	\$36,539	\$33,877	
Other trade receivables	8,029	11,965	
Dealer accounts	12,853	3,698	
Miscellaneous, principally affiliates	7,942	10,483	
Total accounts receivable	65,363	60,023	
Less: Allowance for doubtful accounts	17,477	17,594	
Deferred finance charges	4,967	5,170	
Net receivables	<u>\$42,919</u>	<u>\$37,259</u>	

Customer installment accounts, less a portion withheld, were sold to finance subsidiaries and a bank at January 29, 1977 and were sold to finance subsidiaries at January 31, 1976 (See Unconsolidated Finance Subsidiaries Condensed Financial Information, page 22). 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 \$30,559,000 at January 29, 1977. Dealer accounts sold to banks and a finance subsidiary at January 31, 1976 were \$30,338,000 and \$8,273,000, respectively. Certain 1975 amounts have been reclassified to conform to the 1976 presentation.

(3) Property and Equipment (at cost)

	(thousands)	1976	1975
Land	\$ 9,936	\$ 10,431	
Buildings and equipment	152,509	151,723	
	162,445	162,154	
Less allowance for depreciation	82,156	81,660	
	80,289	80,494	
Leasehold improvements			
less amortization	15,414	14,555	
	<u>\$ 95,703</u>	<u>\$ 95,049</u>	

(4) Long-term Debt

The long-term debt of the operating companies (\$7,211,000) is principally unsecured and matures through 1997, paying interest at a weighted average rate of 6.2% (range 6% - 9 3/4%). The long-term debt of the real estate companies (\$26,608,000) is mortgage notes maturing through 1999, paying interest at a weighted average rate of 7.6% (range 4 3/4% - 10 1/4%).

Annual sinking fund and principal payments on long-term debt and subordinated income notes (Note 5) during the

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

GAMBLE-SKOGMO, INC. AND CONSOLIDATED SUBSIDIARIES

(4) Long-term Debt (Cont.)

next five years are as follows: 1977 - \$15,815,000; 1978 - \$3,493,000; 1979 - \$4,533,000; 1980 - \$26,228,000; 1981 - \$6,321,000.

(5) Subordinated Income Notes

Subordinated income notes mature from 1977 to 2006 and pay interest at a weighted average rate of 9.8% (range 7% to 10%). Principal payments aggregating \$167,363,000 mature subsequent to the year 2001.

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. Prior to 1976, it was the company's policy to fund current year's costs and interest on prior service costs. Beginning January 1, 1976 the company became subject to the Employee Retirement Income Security Act of 1974 (the "Act"). As a result, after January 1, 1976 the company intends to fund the Plan in accordance with requirements of the Act. The Act requires that all pension plans establish and maintain, on a cumulative basis, a Funding Standard Account. Since only contributions made after December 31, 1975 will be credited to the Account, the company deferred a portion of the 1974 contribution and all of the 1975 contribution. The company plans to pay most of such deferred contributions in 1977. There is no effect on participants' benefits as a result of deferring these contributions. The market value of the Plan assets plus the balance sheet accruals exceed the actuarially computed value of the vested benefits.

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. In 1976 the

company's Plan borrowed \$6.5 million to purchase common stock of the company on the open market. The repayment of this obligation is guaranteed by the company. Since the obligation is a demand loan and the company has ultimate responsibility to discharge the obligation through future contributions or in the event of default by the Plan, the obligation has been shown in "commercial paper and notes payable" in the accompanying consolidated balance sheets. A corresponding amount has been included in "deferred charges and other assets."

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 \$4,749,000 and \$4,479,000 in 1976 and 1975, respectively. A change in the interest rate used by the company's actuaries reduced the 1975 pension cost by approximately \$500,000.

Costs of the plans are included in operating and administrative expense in the accompanying consolidated statements of earnings. The 1975 consolidated statement of earnings has been reclassified to conform to the 1976 presentation.

(7) Retained Earnings

Retained earnings of unconsolidated service subsidiaries are restricted as to payment of dividends in the amount of \$25,670,000.

(8) Consumer Credit Operations

The results of the consumer credit operations are as follows:

	(thousands)	
	1976	1975
Finance charge income	\$56,138	\$55,782
Operating expense (including credit sales expense, collection expense, and provision for doubtful accounts)....	33,486	32,628
Interest expense	19,885	19,903
Income taxes	1,384	1,626
Total expense	54,755	54,157
Net consumer credit operations earnings..	\$ 1,383	\$ 1,625

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 6.77% in 1976 and 7.15% in 1975 applied to the average balance of customer receivables reduced by deferred

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

GAMBLE-SKOGMO, INC. AND CONSOLIDATED SUBSIDIARIES

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)	
	1976	1975
Current tax expense:		
Federal	\$ 4,212	\$ 5,698
Canadian	5,600	7,770
State and local	810	1,197
Deferred tax expense:		
Federal and state	4,738	5,233
Canadian	464	851
	<u>\$15,824</u>	<u>\$20,749</u>

Deferred taxes arose from timing differences related to the following:

	(thousands)	
	1976	1975
Instalment sales	\$ (2,536)	\$ 1,035
Depreciation	5,664	3,413
Undistributed foreign earnings	424	576
Pension accrual	1,383	(1,544)
Data processing costs	(559)	1,119
Other	826	1,485
	<u>\$ 5,202</u>	<u>\$6,084</u>

A reconciliation of the 1976 and 1975 expected U.S. Federal income tax rate of 48% to the actual effective rate is as follows:

	1976	1975
Computed "expected" tax expense	48.0%	48.0%
State income tax net of		
Federal tax benefit	2.3	2.2
Canadian taxes in excess of		
U.S. Federal tax rate	1.2	2.4
Investment tax credit	(3.8)	(2.2)
Other	(1.3)	(2.6)
	<u>46.4%</u>	<u>47.8%</u>

(10) Contingent Liabilities 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 \$10,753,000 at January 29, 1977 and \$38,900,000 at January 31, 1976. All payments of principal and interest were on a current basis. The company has guaranteed indebtedness of unconsolidated service subsidiaries of approximately \$35,704,000. In addition the company, as a result of a corporate reorganization in 1964, may be liable for the payment of \$18,993,000 of long-term debt of an unconsolidated finance subsidiary.

A number of lawsuits, one of which purports to be a class action, 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 billing practices.

Notwithstanding the above, management is of the opinion that Aldens is presently in compliance with applicable state laws. The company will vigorously defend against such lawsuits. 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. Management believes that any relief in any action brought by a state agency would be primarily injunctive in nature with limited retroactive effect. Management is of the opinion that ultimate resolution of these matters, taken in the aggregate, will not materially affect the company's financial position or results of operations.

The Securities and Exchange Commission (SEC) is currently conducting an investigation into the possibility that certain of the company's recent SEC filings may have been misleading in that they failed to disclose certain alleged facts which, if correct, would be material, and the possibility that there may have been resulting violations of the Federal securities laws. In management's opinion, resolution of these investigations will not materially affect the financial position or results of operations of the company.

(11) Lease Liability

The company conducts the major part of its operations from leased premises. For purposes of the following disclosure, the company has made a distinction between "financing" lease arrangements and other lease arrangements. A "financing" lease is one which, during the noncancelable lease period, either (i) covers 75 percent or more of the economic life of the property or (ii) has terms which assure the lessor a full recovery of the fair market value of the property at the inception of the lease plus a reasonable return on his investments.

Total rental expense for the last two years was as follows:

	(thousands)	
	1976	1975
Financing leases:		
Minimum rentals	\$13,503	\$12,663
Contingent rentals	1,068	956
Sublease rentals	(1,470)	(1,431)
	<u>13,101</u>	<u>12,188</u>
Other leases:		
Minimum rentals	20,459	20,409
Contingent rentals	2,084	2,646
Sublease rentals	(7,998)	(8,691)
	<u>14,545</u>	<u>14,364</u>
	<u><u>\$27,646</u></u>	<u><u>\$26,552</u></u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

GAMBLE-SKOGMO, INC. AND CONSOLIDATED SUBSIDIARIES

(11) Lease Liability (Cont.)

Contingent rentals are determined on the basis of a percentage of sales in certain leased stores.

At January 29, 1977 minimum rental commitments under all non-cancelable leases (reduced by sublease rentals) expire as follows:

(thousands)

Years Ended January	Type of Property			Total
	Real Property	Transportation Equipment	Other	
1978	\$16,915	\$2,054	\$3,738	\$11,833
1979	15,836	2,128	2,344	11,477
1980	14,973	1,007	1,840	10,075
1981	14,010	552	1,360	8,978
1982	12,917	243	1,039	8,120
1983-1987	48,995	179	241	27,709
1988-1992	23,795	—	—	13,707
1993-1997	9,273	—	—	7,152
Subsequent	6,212	—	—	5,863
				349

The above minimum rental commitments which apply principally to real property have been reduced by the following sublease rentals:

(thousands)

Years Ended January	Financing Leases	All Other Leases
1978	\$1,015	\$5,954
1979	929	5,215
1980	762	4,497
1981	685	3,692
1982	603	2,737
1983-1987	2,102	7,741
1988-1992	930	1,715
1993-1997	664	696
Subsequent	—	55

Substantially all leases included above provide that the company pay taxes, maintenance, insurance and certain other operating expenses applicable to the leased premises.

The present values of the aggregate minimum lease commitments, net of sublease rentals, relating to the "finance" leases at January 29, 1977 and January 31, 1976 were approximately \$68,000,000 and \$67,000,000 respectively, based upon interest rates ranging from 3 3/4% to 10 1/2%. The weighted average interest rate was 7.4% for 1976 and 7.0% for 1975.

If all of the above "finance" leases were capitalized, the lease rights amortized on a straight-line basis and interest expense accrued on the basis of the outstanding lease liability, net earnings for 1976 and 1975 would have been affected by less than 3%.

(12) Quarterly Financial Information (Unaudited)

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

In Thousands, except per share,
For the Thirteen Weeks Ended

	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	antidilutive	\$.85	\$.39	\$ 2.13

(13) Replacement Cost Information (Unaudited)

In compliance with rules of the Securities and Exchange Commission, the company is required to estimate certain replacement cost information for inventories, property, cost of sales and depreciation. In periods of inflation replacement cost is generally higher than historical cost. Capital funds to replace existing assets are provided by (a) reinvestment through depreciation expense, (b) retained earnings after payment of dividends, (c) probable ongoing income tax provisions for accelerated depreciation and investment credit, (d) long, intermediate, and short-term debt and new issues of equity securities.

For additional replacement cost information please refer to 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 29, 1977 and January 31, 1976 and the related consolidated statements of earnings, retained earnings and changes in financial position for the fifty-two weeks ended January 29, 1977 and the fifty-three weeks ended January 31, 1976. Our examination was 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 29, 1977 and January 31, 1976, and the results of their operations and the changes in their financial position for the periods then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

March 22, 1977

Peat, Marwick, Mitchell & Co.

SUMMARY OF OPERATING RESULTS BY GROUP

	1976		1975		1974		1973		1972	
	Amount	Percent of Total								
Net sales and operating revenues:										
General merchandising..	\$ 737.8	46.4%	\$ 723.8	46.4%	\$ 686.8	46.2%	\$ 643.0	46.1%	\$ 618.5	45.9%
Food and drug..	626.0	39.4	615.0	39.5	574.4	38.6	539.1	38.6	511.8	37.9
Catalog sales..	226.6	14.2	220.2	14.1	226.2	15.2	212.8	15.3	203.0	15.1
Total merchandising	1,590.4	100.0	1,559.0	100.0	1,487.4	100.0	1,394.9	100.0	1,333.3	98.9
Outdoor advertising..	—	—	—	—	—	—	—	—	15.5	1.1
Total	\$1,590.4	100.0%	\$1,559.0	100.0%	\$1,487.4	100.0%	\$1,394.9	100.0%	\$1,348.8	100.0%
Pre-Tax Earnings:										
General merchandising..	\$ 16.5	48.4%	\$ 24.8	57.1%	\$ 29.4	60.9%	\$ 26.4	54.1%	\$ 21.1	49.6%
Food and drug..	6.9	20.2	6.3	14.6	6.3	13.1	7.1	14.6	7.3	17.1
Catalog sales..	10.7	31.4	12.3	28.3	12.6	26.0	15.3	31.3	12.4	29.1
Total merchandising	34.1	100.0	43.4	100.0	48.3	100.0	48.8	100.0	40.8	95.8
Outdoor advertising..	—	—	—	—	—	—	—	—	1.8	4.2
Total	\$ 34.1	100.0%	\$ 43.4	100.0%	\$ 48.3	100.0%	\$ 48.8	100.0%	\$ 42.6	100.0%

The contribution to company earnings of the service subsidiaries has been included in the earnings of the merchandising divisions they serve.

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.

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.

	1976				1975			
	Quarter	New York Stock Exchange		Dividends Paid	New York Stock Exchange		Dividends Paid	
		Market High	Market Low		Market High	Market Low		
COMMON STOCK	1st	29 1/2	24	\$0.35	25 1/4	20 1/4	\$0.35	
	2nd	28 1/2	24 3/4	0.35	24 3/8	20 1/4	0.35	
	3rd	28	22 5/8	0.35	24 1/4	20 1/8	0.35	
	4th	24 1/2	21 1/2	0.35	24 3/8	20 1/2	0.35	
				\$1.40			\$1.40	
\$5 PAR VALUE PREFERRED STOCK	1st	26	21 3/4	\$0.40	22 5/8	18 1/4	\$0.40	
	2nd	29 3/8	22 1/2	0.40	23	19 3/8	0.40	
	3rd	32 1/4	29	0.40	21 1/4	17 3/4	0.40	
	4th	23 3/4	21 1/2	0.40	22 1/4	18 1/4	0.40	
				\$1.60			\$1.60	
\$40 PAR VALUE PREFERRED STOCK	1st	27	23 1/2	\$0.43 3/4	24 1/2	20 1/4	\$0.43 3/4	
	2nd	29	23 1/4	0.43 3/4	23	20 9/4	0.43 3/4	
	3rd	32 1/4	29	0.43 3/4	21 3/4	18 1/2	0.43 3/4	
	4th	25 1/2	23 1/8	0.43 3/4	23	19 1/4	0.43 3/4	
				\$1.75			\$1.75	

UNCONSOLIDATED FINANCE SUBSIDIARIES CONDENSED FINANCIAL INFORMATION

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

1976

Fifty-two weeks ended
January 29, 1977

1975

Fifty-three weeks ended
January 31, 1976

FINANCIAL POSITION

Assets

Customer and dealer accounts receivable	\$372,097	\$352,413
Other assets	18,408	16,636
	<u>\$390,505</u>	<u>\$369,049</u>

Liabilities and Stockholders' Equity

Notes payable and current instalments of long-term debt..	\$185,063	\$203,167
Contract reserve account, applicable to customer and dealer accounts receivable	37,210	35,241
Other liabilities	1,931	6,208
Long-term debt, excluding current instalments:		
Senior	81,541	43,569
Subordinated	11,088	11,787
Total	<u>92,629</u>	<u>55,356</u>
Stockholders' equity	<u>73,672</u>	<u>69,077</u>
	<u>\$390,505</u>	<u>\$369,049</u>

OPERATIONS

Income, principally on investment in customer instalment accounts	\$ 27,020	\$ 27,116
Expenses, principally interest	<u>17,942</u>	<u>17,993</u>
Earnings before income taxes	9,078	9,123
Provision for income taxes	4,483	4,404
Net earnings	<u>\$ 4,595</u>	<u>\$ 4,719</u>

Customer and dealer accounts receivable are purchased from the operating companies of Gamble-Skogmo, Inc. and Subsidiaries at the gross amount thereof. The finance subsidiaries retain 10% of the aggregate purchase price of the receivables purchased as a contract reserve account, or such greater amount as is necessary to maintain a contract reserve account balance equal to 10% of the amount of all outstanding receivables.

The operating companies retain the customer finance charges and pay the finance companies an amount designed to equal 1½ times the finance subsidiaries' fixed charges.

UNCONSOLIDATED INSURANCE SUBSIDIARIES CONDENSED FINANCIAL INFORMATION

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

FINANCIAL POSITION

Assets

Investments:

Bonds and notes at amortized cost (market value: 1976 — \$34,968; 1975 — \$24,089)	\$35,137	\$26,025
Marketable equity securities at lower of cost or market (cost: 1976 — \$1,250; 1975 — \$6,061) ..	1,183	5,002
Other investments	10,513	11,604
	<u>46,833</u>	<u>42,631</u>
Other assets	12,176	11,358
Separate account — Gamble-Skogmo pension plan, primarily securities at market	29,834	25,559
	<u>\$88,843</u>	<u>\$79,548</u>

Liabilities and Stockholders' Equity

Future policy benefits	\$18,640	\$18,886
Unpaid claims	10,773	10,904
Other liabilities	10,472	8,229
Separate account — Gamble-Skogmo pension plan	29,834	25,559
	<u>69,719</u>	<u>63,578</u>
Total liabilities	19,124	15,970
Stockholders' equity	<u>\$88,843</u>	<u>\$79,548</u>

OPERATIONS

Premiums, investment income, and other revenues — net	\$44,641	\$40,478
Benefits	31,269	29,123
Decrease in future policy benefits	(324)	(1,688)
Other expenses	9,951	9,084
	<u>40,896</u>	<u>36,519</u>
Total expenses	3,745	3,959
Earnings before income taxes	1,283	1,600
Provision for income taxes		
Net earnings	<u>\$ 2,462</u>	<u>\$ 2,359</u>

1976

Year Ended
December 31

1975

Year Ended
December 31

SIGNIFICANT COMPARISONS

GAMBLE-SKOGMO, INC. AND CONSOLIDATED SUBSIDIARIES

	(All dollars in thousands except amounts per share)	1976	1975	1974
RESULTS FOR THE YEAR:				
Net sales and operating revenues	\$1,590,372	\$1,559,043	\$1,487,455	
Earnings before income taxes	34,094	43,364	48,278	
Federal, state and Canadian taxes	15,824	20,749	23,292	
Net earnings	18,270	22,615	24,986	
Cash dividends (including preferred)...	7,296	7,547	7,681	
PER SHARE OF COMMON STOCK:				
Earnings per share including common equivalents	3.87	4.82	5.52	
Cash dividends	1.40	1.40	1.40	
Book value	49.99	47.20	44.11	
Book value assuming conversion of preferred stock	49.16	46.28	43.64	
YEAREND POSITION:				
Inventories	255,158	255,479	253,550	
Net working capital	250,331	239,255	199,957	
Current ratio	2.0 to 1	2.0 to 1	1.9 to 1	
Subordinated income notes	237,385	188,379	163,095	
Stockholders' equity	240,325	239,022	224,615	
NUMBER OF:				
Full time employees	18,100	19,000	18,800	
Square feet of retail selling space	8,189,000	8,739,000	8,741,000	
Company-owned stores	676	680	678	
Authorized dealers	2,647	2,752	2,843	
Common shares outstanding at yearend**	4,446,315	4,416,580	4,385,468	
Shareholders	12,661	14,525	14,540	
Subordinated income note holders ...	37,396	27,762	23,285	

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

**Excludes shares of treasury stock in 1976, 1975, 1974, 1973 and 1972

1973	1972	1971	1970	1969	1968	1967
\$1,394,883	\$1,348,826	\$1,315,092	\$1,296,704	\$1,258,404	\$1,144,165	\$ 910,312
48,786	42,630	36,001	30,953	27,596	27,896	24,992
23,857	20,259	16,874	15,887	14,390	14,723	12,997
24,929	22,371*	19,127	15,066	13,206	13,173	11,995
7,871	8,382	8,462	8,165	8,062	7,612	7,407
5.32	4.09*	3.56	3.08	2.66	2.81	2.51
1.35	1.30	1.30	1.30	1.30	1.30	1.30
39.83	39.21	34.81	31.87	29.83	28.69	26.28
39.25	38.51	35.21	33.39	32.21	31.60	30.16
230,396	212,870	202,720	214,173	198,739	212,562	187,388
177,465	144,540	153,346	174,236	192,458	174,399	162,977
1.9 to 1	1.8 to 1	1.9 to 1	2.0 to 1	2.3 to 1	2.3 to 1	2.5 to 1
139,146	114,603	100,099	88,021	71,757	69,085	37,718
215,650	211,336	221,012	193,672	186,466	175,753	163,588
19,500	21,474	22,166	24,275	26,349	26,741	27,286
8,860,000	8,990,000	8,839,000	8,931,000	9,155,000	9,494,000	8,656,000
673	674	711	799	802	907	987
2,850	2,872	3,158	3,205	3,205	3,193	3,315
4,250,896	4,097,758	4,783,110	3,999,620	3,839,951	3,602,430	3,454,885
14,976	15,244	16,108	17,345	18,101	17,299	17,059
17,529	12,540	10,017	7,566	4,277	3,549	3,789

FIVE 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 29, 1977, and should be read in conjunction with the financial statements and notes thereto appearing elsewhere in this annual report.

(All dollars in thousands except amounts per share)

	1976	1975	1974
Net sales and operating revenues	\$1,590,372	\$1,559,043	\$1,487,455
Costs and expenses:			
Cost of sales	1,224,082	1,202,937	1,142,569
Operating and administrative	303,406	287,669	275,492
Interest — net	18,022	14,288	11,482
Other costs and expenses	10,768	10,785	9,634
Earnings before income taxes	34,094	43,364	48,278
Income taxes	15,824	20,749	23,292
Net earnings before extraordinary item	18,270	22,615	24,986
Gain on sale of Claude Neon Advertising, Ltd. stock less applicable income taxes of \$500	—	—	—
Net earnings	18,270	22,615	24,986
Dividend requirements on preferred stock ...	(1,079)	(1,376)	(1,810)
Net earnings applicable to common stock ..	\$ 17,191	\$ 21,239	\$ 23,176
Average number of common and common equivalent shares outstanding			
Primary	4,439,000	4,404,000	4,201,000
Fully diluted	5,083,000	5,162,000	5,300,000
Earnings per common share			
Primary			
Earnings before extraordinary item	\$ 3.87	\$ 4.82	\$ 5.52
Extraordinary item	—	—	—
Net earnings	\$ 3.87	\$ 4.82	\$ 5.52
Fully diluted			
Earnings before extraordinary item	\$ 3.59	\$ 4.38	\$ 4.71
Extraordinary item	—	—	—
Net earnings	\$ 3.59	\$ 4.38	\$ 4.71
Cash dividends paid per share of common stock	\$ 1.40	\$ 1.40	\$ 1.40

ANALYSIS OF SUMMARY OF OPERATIONS

1973	1972
\$1,394,883	\$1,348,826
1,073,106	1,037,821
251,481	247,689
11,325	10,875
10,185	9,811
48,786	42,630
23,857	20,259
24,929	22,371
—	5,616
24,929	27,987
(2,549)	(2,320)
\$ 22,380	\$ 25,667
4,206,000	4,900,000
5,562,000	6,336,000
\$ 5.32	\$ 4.09
—	1.15
\$ 5.32	\$ 5.24
\$ 4.48	\$ 3.53
—	.89
\$ 4.48	\$ 4.42
\$ 1.35	\$ 1.30

Net Sales in 1976 exceeded \$1.5 billion for the second consecutive year. However sales volume in 1976 was adversely affected by drought conditions in many of the states in which the company is heavily concentrated. Furthermore, the company's Canadian operations continued to feel the impact of the unfavorable economic conditions in that country. The percentage of net sales contributed by each of the company's three merchandising groups has remained relatively constant during each of the last five years.

Cost of sales during the five years increased in approximate proportion to increases in sales.

Operating and administrative expenses remained relatively constant as a percentage of sales during the four years preceding 1976. However in 1976 these costs increased slightly as a percentage of sales primarily due to a work stoppage in a number of the company's distribution centers, costs of closing a number of unprofitable stores, and finance charge refunds to certain customers of the company's catalog sales subsidiary. (See footnote 10, page 19.)

Interest-net of interest income — increased approximately \$3,700,000 in 1976. The increase is the change resulting from additional interest expense of approximately \$7,700,000 reduced by increased interest income of approximately \$4,000,000. Interest expense increased primarily as a result of an increase in long-term borrowings. Temporary investment of these borrowings is the principal reason interest income increased. (See Financial Highlights, page 7.)

Interest, net of interest income, also increased in 1975. Interest expense during this period did not significantly increase, despite higher borrowings, because interest rates were lower in 1975 than in 1974. However, the lower interest rates also reduced interest income with the result that *net* interest expense increased.

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).

Income taxes during the five year period varied in proportion to earnings before income taxes. The percentage of income taxes to pre-tax income was 46.4% and 47.8% in 1976 and 1975, respectively. The reduction is primarily attributable to a lower effective tax rate in Canada and more investment tax credit as a percent of income. (See footnote 9, page 18.)

Gain on sale of Claude Neon Advertising, Ltd. stock in 1972 resulted in an extraordinary gain of approximately \$5,616,000 net of income taxes. Net earnings of Claude Neon during 1972 were approximately \$1,224,000.

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 notes for preferred stock. (See Financial Highlights, page 7.)

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.

DIRECTORS AND OFFICERS

DIRECTORS

William J. Casey, *Attorney, Counsel to Rogers and Wells*
Robert E. Craighead, *Vice President*
B. Fred Davidson, *Retired Officer*
Walter H. Davies, Jr., *Vice Chairman of the Board
and Chief Financial Officer*
Bertin C. Gamble, *Chairman of the Board
and Chief Executive Officer*
Arthur G. Johnson, *Executive Vice President*
Wayne E. Matschullat, *President*
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.*

OFFICERS

Bertin C. Gamble, *Chairman of the Board
and Chief Executive Officer*

Wayne E. Matschullat, *President*

Walter H. Davies, Jr., *Vice Chairman and Chief Financial Officer*

Arthur G. Johnson, *Executive Vice President*

Lawrence W. Rixe, *Senior Vice President and Controller*

Robert E. Craighead, *Vice President*

Donald G. Dreblow, *Vice President*

Stanley J. Edwards, *Vice President for Distribution*

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

William A. Hickey, *Vice President for Personnel*

Roy W. Johnson, *Vice President for Buying*

Lawrence Kanters, *Vice President; General Manager, Skogmo Stores Division*

Frank T. Matthews, *Vice President for Store Design,
Construction and Display*

Donald A. Metke, *Vice President; General Manager,
Tempo-Buckeye Stores Division*

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

Norman M. Steck, *Treasurer*

David A. Heider, *Assistant Vice President
and Assistant to the President*

Richard L. Parry, *Assistant Vice President*

Paul P. Senio, *Assistant Vice President*

James C. Bowie, *Assistant Controller*

Richard W. Nelson, *Assistant Treasurer*

William E. Oppenheimer, *Assistant Secretary*

} OFFICE
OF
PRESIDENT

OFFICES, DIVISIONS & SUBSIDIARIES

MERCHANDISING OPERATIONS

Except as listed, all operations are located at the company's corporate headquarters:
5100 Gamble Drive, Minneapolis,
Minnesota 55416 (Phone 612/374-6123)

ALDENS, INC. Chicago, Illinois	MACLEODS DIVISION Winnipeg, Manitoba, Canada
GAMBLE DEPARTMENT STORES, INC. Chicago, Illinois	MODE O'DAY DIVISION Burbank, California
GAMBLE STORES DIVISION	SKOGMO STORES DIVISION
GAMBLES CANADA LIMITED Winnipeg, Manitoba, Canada	RASCO STORES DIVISION Burbank, California
GAMBLES CORPORATE BUYING DIVISION New York, New York	RED OWL STORES, INC. Hopkins, Minnesota
GAMBLES HOUSE OF FABRICS DIVISION Kansas City, Missouri	SNYDER'S DRUG STORES, INC. Hopkins, Minnesota
GAMBLES IMPORT CORPORATION Burbank, California	STEDMANS DIVISION Toronto, Ontario, Canada
J. M. McDONALD CO. DIVISION Hastings, Nebraska	TEMPO-BUCKEYE STORES DIVISION WOMAN'S WORLD SHOPS, INC. LaMesa, California

SERVICE SUBSIDIARIES

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

BULK RATE
U. S. POSTAGE
PAID
Minneapolis, Minn.
Permit No. 2320

GAMBLE-SKOGMO, INC.  5100 GAMBLE DRIVE, MINNEAPOLIS, MINNESOTA 55416