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BLUE CHIP STAMPS 10-K PT 1 & 2

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SECURITIES AND EXCHANGE COMMISSION
Washington, D. C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OF
THE SECURITIES EXCHANGE ACT OF 1934

For the fifty-two weeks ended February 27, 1971

Commission file number 0-3810

BLUE CHIP STAMPS
(Exact name of registrant as specified in its charter)

California
(State or other jurisdiction of incorporation or organization)

94-1354687
(I.R.S. Employer Identification No.)

5801 South Eastern Avenue, Los Angeles, California
(Address of principal executive offices)

90040
(Zip Code)

Registrant's telephone number, including area code 213-685-8615

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

Common stock, par value, $1.00 per share
6½% Subordinated Debentures due 1978

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Item 1. Business.

The Company is engaged primarily in furnishing a trading stamp service to retail merchants and their customers. Approximately 21,000 retailers distribute the Company's stamps in over 23,000 retail outlets in California, Nevada, Oregon and Arizona. The Company maintains 89 redemption stores where stamps may be redeemed for a wide variety of merchandise or for cash. The Company is also engaged in the development of incentive and premium programs and, to a limited extent, supermarket games and sales continuity promotions.

During the fiscal year ended February 27, 1971 the Company was faced with increased competition from two sources. First, a number of supermarket operators discontinued or reduced the use of trading stamps in connection with their conversion to so-called discount merchandising, a rival form of promotion. Second, a major trading stamp company converted its California operations to the Company's low price, non-franchised manner of doing business. As a result, stamp service income declined from $125,888,000 for the fiscal year ended February 28, 1970 to $120,015,000 for the fiscal year ended February 27, 1971. This decline occurred in the last half of the year.

The Company's issuance of stamps to major customers (those accounting for 1% or more) declined from 32% of total issuance in the 1969-1970 fiscal year to 26% in the 1970-1971 fiscal year. Included in this group was a national supermarket chain which accounted for 4% of the Company's issuance of stamps in the 1970-1971 fiscal year as compared with 10% or more in prior years.

Item 2. Summary of Operations.

The following statements of income and of stockholders' equity should be read in conjunction with the Company's financial statements and notes thereto appearing on pages 6 to 10 of the attached printed annual report.

STATEMENT OF INCOME

	Fiscal year ended				
	Mar. 4 1967	Mar. 2 1968	Mar. 1 1969	Feb. 28 1970	Feb. 27 1971
	(In thousands except for amounts per share)				
Revenues:					
Stamp service income	$92,028	$91,757	$108,449	$125,888	$120,015
Interest, dividends and gains and losses on sale of securities	2,045	2,328	3,096	4,748	5,986
Other income	603	579	938	1,424	1,566
	94,676	94,664	112,483	132,060	127,567
Costs and expenses:					
Cost of redemptions, consisting of merchandise and related expenses	81,854	83,797	94,703	108,977	104,392
Selling, general and administrative expenses	6,031	6,101	6,761	7,275	8,558
Debenture interest and amortization	-	-	255	1,063	1,063
	87,885	89,898	101,719	117,315	114,013
Income before income taxes and extraordinary charges	6,791	4,766	10,764	14,745	13,554
Provision for income taxes	2,507	1,348	5,120	6,980	4,970
Income before extraordinary charges	4,284	3,418	5,644	7,765	8,584
Extraordinary charges - settlements of law suits and claims less applicable income taxes	-	-	(3,651)	(378)	-
Net income	$ 4,284	$ 3,418	$ 1,993	$ 7,387	$ 8,584
Per share*					
Income before extraordinary charges	$1.38	$1.10	$1.60	$1.54	$1.69
Extraordinary charges	-	-	(1.03)	(.08)	-
Net income	$1.38	$1.10	$ .57	$1.46	$1.69

*Per share amounts are based upon the weighted average number of shares of common stock outstanding adjusted for a five-for-one stock split in October 1969 and for the dilutive effect of all outstanding stock options. Such dilution is calculated assuming all such options have been exercised and the proceeds used to purchase the Company's stock at the average market price during the year. Shares including dilution were: 3,108,000 in 1967 and 1968, 3,530,000 in 1969, 5,057,000 in 1970 and 5,080,000 in 1971. No change in per share amounts would result from use of the more restrictive "fully diluted" method.

The decline in net income for the fiscal year ended March 2, 1968 was due primarily to the additional costs resulting from operation of a distribution center at Rancho Cordova, California from September 1966 to June 1968. The decline in net income for the fiscal year ended March 1, 1969 was due primarily to settlements of lawsuits and claims which are reflected above as extraordinary charges. The decline in stamp service income for the fiscal year ended February 27, 1971 was caused primarily by increased competition, as explained in Item 1; the increase in net income during this period, despite lower revenues, resulted from increased after-tax yield on the investment portfolio.

Revenues, earnings and earnings per share as set forth above are not necessarily indicative of future revenues, earnings and earnings per share. As explained in Item 1, increased competition resulted in a decline in stamp service income in the last half of the fiscal year ended February 27, 1971. Consequently, revenues and earnings for the entire fiscal year did not bear the full impact of such competition, and as long as it continues revenues and earnings are expected to be adversely affected. The Company is also of the opinion that revenues and earnings would be adversely affected by any of the following: (1) further increases in competition; (2) discontinuance by retailers of the practice of giving consumers multiple stamps (more than one stamp for each 10 cents of sales), a promotion technique which has been widespread the past three years; (3) a sale of one-third of the Company's California trading stamp business (see Item 5(a) and Note 9 to the financial statements in the attached printed annual report).

STATEMENT OF STOCKHOLDERS' EQUITY

	Common Stock		Paid-in	Retained
	Shares*	Amount	Capital	Earnings
Balance at February 26, 1966	3,108,000	$ 207,000		$15,151,000
Net income for the fiscal year ended March 4, 1967	-	-		4,284,000
Balance at March 4, 1967	3,108,000	207,000		19,435,000
Net income for the fiscal year ended March 2, 1968	-	-		3,418,000
Balance at March 2, 1968	3,108,000	207,000		22,853,000
Sale of restricted stock to employees	137,000	9,000		-
Sale of stock to users	1,626,000	109,000	$2,878,000	-
Net income for the fiscal year ended March 1, 1969	-	-	-	1,99[illegible],000
Balance at March 1, 1969	4,871,000	325,000	2,878,000	24,846 000
Exercise of stock options	79,000	79,000	403,000	-
Change in par value	-	4,546,000	(2,878,000)	(1,668,000)
Cash dividends of $.10 per share	-	-	-	(487,000)
Net income for the fiscal year ended February 28, 1970	-	-	-	7,387,000
Balance at February 28, 1970	4,950,000	4,950,000	403,000	30,078,000
Exercise of stock options	77,000	77,000	393,000	-
Purchase of stock from terminated employees	(1,000)	(1,000)	-	-
Cash dividends of $.24 per share	-	-	-	(1,188,000)
Net income for the fiscal year ended February 27, 1971	-	-	-	8,584,000
Balance at February 27, 1971	5,026,000	$5,026,000	$ 796,000	$37,474,000

*Adjusted for 5-for-1 stock split, October 1969.

Item 3. Properties.

The Company's principal offices are located at 5801 South Eastern Avenue, Los Angeles, where the Company occupies approximately 25,000 square feet of space under a lease running to July 31, 1975. (The Company has an option to extend the lease an additional five years.)

The Company operates distribution centers at Los Angeles and at Richmond (near San Francisco). The Los Angeles distribution center has a storage capacity of approximately 6,100,000 cubic feet and is leased under an agreement expiring July 31, 1975 (with a five-year renewal option). The Richmond distribution center has a storage capacity of approximately 4,900,000 cubic feet and is owned by the Company in fee

The Company normally leases its redemption stores for initial terms of ten years with five-year renewal options.

Item 4. Parents and Subsidiaries.

The Company has no parents and no subsidiaries.

Item 5. Pending Legal Proceedings.

(a) United States of America v. Blue Chip Stamp Company, Alexander's Markets, Lucky Stores, Inc., Market Basket, Purity Stores, Inc., Ralphs Grocery Company, Safeway Stores, Incorporated, Thriftimart, Inc., Thrifty Drug Stores, Inc., and Von's Grocery Co. (United States District Court, Central District of California, Civil Action No. 63-1552-F).

This action under the Sherman Act was instituted by the United States Department of Justice on December 26, 1963 against the Company's predecessor and a Consent Decree was entered therein on June 5, 1967. Pursuant to said Consent Decree, the Company within 30 months after April 6, 1970 is required to submit to the Court a plan for the sale of one-third of its California trading stamp business located within a contiguous geographical area in Southern California.

(b) The following three actions were brought against the Company in the United States District Court, Northern District of California, by plaintiffs engaged in the issuance of trading stamps and allege violations of the Sherman Act:

(i) EZY Cash Stamp Company, Inc. v. Blue Chip Stamp Company. Civil Action No. 50143 filed October 15, 1968.

(ii) Bel Air Mart, a corporation, dba Bel Air Markets and Mark Five Stamp Company; and George R. Wong, William Wong, Gim Wong, Gene Wong, Paul Wong, Albert Wong, and Allie Fong, a partnership, dba Bel Air Markets v. Lucky Stores, Inc.; Purity Stores, Inc.; Safeway Stores, Inc.; and Thrifty Drug Stores Co., Inc. Civil Action No. 50979 filed April 8, 1969.

(iii) Evergreen Stamp Company, Inc. v. Blue Chip Stamp Company. Civil Action No. 51811 filed July 21, 1969.

In the Bel Air Mart action the plaintiffs also allege violations of the Clayton Act, and litigation counsel for the Company are also defending the action on behalf of four stockholders of the Company's predecessor. In each action plaintiffs assert injuries in amounts not yet ascertained and seek treble damages plus attorneys' fees and costs.

(c) The following two actions were brought against the Company in the United States District Court, Central District of California, by plaintiffs engaged in the oil business and allege violations of the Sherman Act, the Clayton Act and the California Unfair Practices Act:

(i) Douglas Oil Company of California v. Blue Chip Stamp Company and Blue Chip Stamps. Civil Action No. 69-1532-DWW filed August 5, 1969.

(ii) Time Oil Co., Top Oil Co., and Richmond Sav-Mor Oil Co. v. Blue Chip Stamp Company and Blue Chip Stamps. Civil Action No. 1585-DWW filed August 12, 1969.

In the Douglas Oil action the plaintiff alleges damages in the sum of $1,050,000 and prays for the recovery of treble damages plus attorneys' fees and costs. In the Time Oil action the plaintiffs allege damages in an amount not yet ascertained and seek treble damages plus attorneys' fees and costs.

(d) The following five actions were brought against the Company in the United States District Court, Northern District of California, by plaintiffs engaged in the oil business and allege violations of the Sherman Act, Clayton Act and the California Unfair Practices Act:

(i) Sonora Saving Center, Tahoe Saving Center and Coast Oil Company (on its behalf and as assignee for 15 assignors) v. Blue Chip Stamp Company and Blue Chip Stamps. Civil Action No. 69-677 filed December 31, 1969.

(ii) Beacon Oil Company v. Blue Chip Stamp Company and Blue Chip Stamps. Civil Action No. 70-120 filed January 16, 1970.

(iii) Sure-Save Stations, Inc., Freeway Oil Company, J. A. Wickland, Jr., all doing business as King Dollar, and Wickland Oil Company v. Blue Chip Stamp Company and Blue Chip Stamps. Civil Action No. 70-476 filed March 4, 1970.

(iv) Mohawk Petroleum Corporation v. Blue Chip Stamp Company and Blue Chip Stamps. Civil Action No. 71-645 filed April 2, 1971.

(v) Gulf Oil Corporation v. Blue Chip Stamp Company and Blue Chip Stamps. Civil Action No. 71-664 filed April 6, 1971.

Each complaint asserts injuries in an amount not yet ascertained and seeks treble damages plus attorneys' fees and costs.

(e) Manor Drug Stores, and all other users of Blue Chip Stamps who were entitled but failed to purchase stock of Blue Chip Stamps, on behalf of themselves and all other persons similarly situated v. Blue Chip Stamps, Blue Chip Stamp Co., a merged corporation, Alexander's Markets, Lucky Stores, Inc., Market Basket, Purity Stores, Inc., Ralphs Grocery Company, Safeway Stores, Inc., Thriftimart, Inc., Thrifty Drug Stores Co., Inc., Vons Grocery Co., Robert E. Alexander, Donald A. Koeppell, Leonard H. Straus, William F. Ramsey, Robert E. Laverty, Richard Ralphs, John R. Niven, Fred Von der Ahe.

This purported class action was filed on November 10, 1970 in the United States District Court, Central District of California as Civil Action No. 70-2539. The amended complaint filed January 27, 1971 alleges damages to plaintiffs of $21,400,000 and exemplary damages of $25,000,000 based upon alleged breach of contract, fraud and misrepresentation in connection with an offering of securities by the Company in 1968. Plaintiffs also seek to recover interest, attorneys' fees and costs and to obtain the right to purchase stock, or units of stock and debentures, of the Company on the terms of the 1968 offering.

(f) Eleanor A. Botney and Thelma G. Daar, in behalf of themselves and all others similarly situated v. Blue Chip Stamps.

This action No. 997374 was filed on March 1, 1971 in the Superior Court of the State of California for the County of Los Angeles for declaratory relief and for money as a purported class action to recover for trading stamp savers monies collected as reimbursement for California sales taxes on redemption of stamps. Plaintiffs claim that the redemption transaction is not taxable and all such collections should be returned to trading stamp savers or, alternatively, that such collections exceeded the tax payable and such excess should be returned. The Company has paid sales taxes to the state equal to its reimbursement collections, which in recent years have averaged about $7,000,000 annually. In the opinion of counsel for the Company claims can be asserted against the state for reimbursement for all or part of any recovery by plaintiffs in the event they prevail in the action.

Item 6. Increases and Decreases in Outstanding Equity Securities.

Following is an analysis of changes in the amount of the Company's $1.00 par value common stock outstanding during the fiscal year ended February 27, 1971:

	Shares	Amount
Balance, February 28, 1970	4,950,000	$4,950,000
Exercise of stock options, April 1970 and February 1971	77,000	77,000
Purchase of stock from terminated employees, various dates	(1,000)	(1,000)
Balance, February 27, 1971	5,026,000	$5,026,000

For additional information on the Company's qualified stock option plan, reference should be made to Note 5 to the Company's financial statements in the attached printed annual report and to the supplementary information contained in the second paragraph on page S-3 hereof.

Shares sold pursuant to the qualified stock option plan have not been registered under the Securities Act of 1933. The issuance of such shares is exempt from registration under said Act pursuant to Section 4(2) thereof as not involving any public offering. Said shares have been issued on exercise of options granted to 16 officers and key employees pursuant to said Plan, which requires optionees upon exercise of options to represent that the shares are acquired for investment.

Item 7. Approximate Number of Equity Security Holders.

Title of Class	Number of record holders as of April 15, 1971
Common stock, par value $1.00 per share	3,451

Item 8. Executive Officers of the Registrant.

Following is a list of the Company's executive officers, whose ages range from 53 to 38 years:

Name	Position
Donald A. Koeppel	Chairman of the Board and President
William F. Ramsey	Executive Vice President
Raymond H. Allen	Vice President, Information Systems
James D. Carter	Vice President, Operations
William K. Klepper	Vice President, Merchandise
Robert H. Bird	Secretary and Treasurer

Item 9. Indemnification of Directors and Officers.

Reference is made to Item 29 of Part II of the Company's Registration Statement (Form S-1) No. 2-35318 dated December 17, 1969.

Item 10. Financial Statements And Exhibits Filed

(a) Financial statements:

Index to Financial Statements

The February 28, 1970 and February 27, 1971 financial statements, together with the opinion thereon of Price Waterhouse & Co. dated April 13, 1971, appearing on pages 6 to 11 of the accompanying 1971 printed annual report are incorporated in this Form 10-K Annual Report. With the exception of the aforementioned information, the 1971 printed annual report is not to be deemed filed as part of this report. The following additional financial data should be read in conjunction with the financial statements in the 1971 printed annual report. Schedules not included with this additional financial data have been omitted because they are not applicable or the required information is shown in the financial statements or notes thereto.

(b) Exhibits:

(1) Incorporated by reference to current report (Form 8-K) for May 1970 -

Exhibit	3.	Charter and by-laws
	3.1-2	Amendment to articles of incorporation of May 28, 1970
	3.2-2	Amendment to by-laws of May 28, 1970

(2) Filed herewith -

Exhibit	11.	Pension plan
	11.1-2	Amendment to pension plan dated as of June 1, 1969
Exhibit	13.	Material contracts
	13.1-1	Amendment to lease of principal offices and Los Angeles distribution center of January 21, 1971

Items 11 to 15 Inclusive:

These items are omitted pursuant to General Instruction H to Form 10-K. The Company has filed with the Securities and Exchange Commission a proxy statement pursuant to Regulation 14A for its annual meeting of stockholders scheduled for May 27, 1971.

SIGNATURES

Pursuant to the requirements of Section 13 of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on i. behalf by the undersigned, thereunto duly authorized.

BLUE CHIP STAMPS

Dated May 27, 1971

By [illegible]
R. H. Bird
Secretary and Treasurer

CONSENT OF INDEPENDENT ACCOUNTANTS

We hereby consent to the application of our opinion, which appears on page 11 of the 1971 printed annual report of Blue Chip Stamps, to the additional financial data listed in the foregoing index when this data is read in conjunction with the financial statements in such annual report; our opinion and the financial statements have been incorporated in this Form 10-K Annual Report. The examinations referred to in our opinion included examinations of the additional financial data.

Price Waterhouse & Co.
PRICE WATERHOUSE & CO.

606 South Olive Street
Los Angeles 90014
April 13, 1971

SUPPLEMENTARY INFORMATION TO NOTES TO FINANCIAL STATEMENTS

	February 27, 1971	February 28, 1970
Income from marketable securities -		
Interest	$2,440,000	$3,374,000
Dividends	3,763,000	1,334,000
Gains (losses) on sale of securities, net	(217,000)	40,000
	$5,986,000	$4,748,000

The cost of securities sold is determined by the first-in, first-out method.

Included in interest on debentures is amortization of debenture discount amounting to $358,000 per year. Debenture discount is being amortized over the term of the debentures by use of the debentures outstanding method.

Provisions for income taxes include state taxes of $688,000 and $876,000 for the fiscal years ended February 27, 1971 and February 28, 1970, respectively.

Opening and closing inventories for the two fiscal years ended February 27, 1971 are as follows:

March 1, 1969	$12,742,000
February 28, 1970	19,011,000
February 27, 1971	17,197,000

The estimated useful lives used in computing depreciation are as follows:

Buildings	20 to 33 years
Furniture, fixtures and equipment	3 to 10 years
Leasehold improvements	Lives of leases

Expenditures for renewals and betterments of property, fixtures and equipment are capitalized; maintenance and repair costs are charged to income as incurred. When assets are retired or otherwise disposed of, the accounts are relieved of applicable cost and accumulated depreciation and amortization, and any gain or loss on disposal is credited or charged to income.

Under the Company's qualified stock option plan, options for 332,500 shares were granted in February 1969 at $6.10 per share, and options for 7,500 shares were granted in March 1970 at $14.75 per share, fair market values at dates granted. The options are exercisable in four annual instalments beginning one year after date of grant and expire five years after such date.

The following table summarizes information relating to such stock option plan during the two fiscal years ended February 27, 1971:

	Year ended February 27, 1971	Year ended February 28, 1970
Options which became exercisable during the period:		
Number of shares	76,750	81,250
Option price -		
Per share	$6.10	$6.10
Total	$468,175	$495,625
Market price at date first exercisable -		
Per share	$17.00	$16.50
Total	$1,304,750	$1,340,625
Options exercised during the period:		
Number of shares	77,000	79,000
Option price -		
Per share	$6.10	$6.10
Total	$469,700	$481,900
Market price at dates exercised -		
Per share range	$14.50-$17.13	$15.00-$16.50
Total	$1,205,600	$1,302,000

At February 27, 1971 options to purchase 163,000 shares were outstanding at an aggregate price of $1,059,175 (including options for 2,000 shares currently exercisable for $12,200).

Increases (decreases) in the components of working capital are set forth below:

	1971	1970
Current assets:		
Cash	$ 63,000	($ 1,947,000)
Marketable securities	880,000	18,387,000
Accounts receivable	1,089,000	337,000
Inventories	(1,814,000)	6,269,000
Prepaid expenses	(55,000)	691,000
	163,000	23,737,000
Less - current liabilities:		
Accounts payable and accrued expenses	2,455,000	(2,414,000)
Income taxes payable	5,561,000	(6,193,000)
Liability for unredeemed trading stamps	(1,240,000)	(7,548,000)
	6,776,000	(16,155,000)
Working capital	$6,939,000	$ 7,582,000

SCHEDULE I - MARKETABLE SECURITIES
FEBRUARY 27, 1971

Name of issuer and title of issue	Number of shares or units - principal amount of bonds and notes	Amount at which carried in balance sheet	Value based on current market quotations at February 27, 1971
Time deposits	$ 2,500,000	$ 2,500,000	$ 2,500,000
Commercial paper	$16,500,000	$16,428,000	$16,455,000
Securities issued by states and municipalities and intrumentalities thereof, maturing:			
Five to fifteen years (5 issues)	$ 2,900,000	$ 2,883,000	$ 2,650,000
Over fifteen years (44 issues)	30,940,000	29,420,000	23,852,000
	$33,840,000	$32,303,000	$26,502,000
Stocks of corporations ~~listed on United States~~ exchanges or having quoted market values:			
Preferred stocks -	Shares		
American Can Co., 7% Cum.	15,000	570,000	420,000
Duke Power Co., 6-3/4% Cum. Conv.	10,000	1,000,000	1,010,000
Duquesne Light Co., $8.64 Cum.	20,000	2,000,000	2,140,000
E. I. du Pont de Nemours, $4.50 Cum.	7,500	721,000	546,000
General Motors, $3.75 Cum.	7,700	630,000	448,000
Natural Gas Pipeline Co. of America, 9.20% Cum.	40,000	4,000,000	4,160,000
Natural Gas Pipeline Co. of America, 7.90% Cum.	14,500	1,334,000	1,436,000
New England Power Co., 8.68% Cum.	22,500	2,196,000	2,318,000
Pacific Power & Light Co., 8.92% Cum.	40,000	3,957,000	4,120,000

Name of issuer and title of issue	Number of shares or units - principal amount of bonds and notes	Amount at which carried in balance sheet	Value based on current market quotations at February 27, 1971
Preferred stock - (Continued)	Shares		
Panhandle Eastern Pipe Co., 8.60% Cum.	11,400	$ 1,146,000	$ 1,163,000
Potomac Electric Power, $4.50 Serial of 1970	35,110	1,755,000	2,054,000
Savannah Electric & Power Co., 8.32% Cum. Series C	20,000	2,004,000	2,100,000
Southern Calif. Edison, 8.96% Cum.	50,000	5,000,000	5,661,000
Texas Gas Transmission, 9.36% Cum.	10,000	1,000,000	1,040,000
Trunkline Gas Co., 9.12%	18,000	1,718,000	1,836,000
Tri-Continental Corp., $2.50 Cum.	10,000	550,000	379,000
Union Electric Co., 8.00% Cum.	30,000	2,768,000	2,940,000
Other	18,169	1,351,000	1,012,000
	379,879	$33,700,000	$34,783,000
Common stocks -			
Allegheny Power System	50,000	$ 1,088,000	$ 1,175,000
American Natural Gas	35,000	1,251,000	1,400,000
American Telephone & Telegraph	20,000	1,045,000	980,000
Colt Industries Inc.	9,800	633,000	194,000
Consumers Power Co.	38,634	1,292,000	1,260,000
Deere and Co.	20,000	1,107,000	855,000
Detroit Bank and Trust	9,000	577,000	580,000
Fansteel, Inc.	23,300	704,000	322,000
Harsco Corp.	20,000	538,000	438,000
Iowa Power and Light Co.	43,000	1,071,000	1,085,000

Name of issuer and title of issue	Number of shares or units - principal amount of bonds and notes	Amount at which carried in balance sheet	Value based on current market quotations at February 27, 1971
Common stocks - (Continued)	Shares		
Kansas City Power and Light Co.	34,000	$ 1,145,000	$ 1,215,000
Kansas Power and Light Co.	50,000	1,031,000	1,343,000
The Leisure Group, Inc.	21,000	472,000	232,000
Manufacturers National Bank of Detroit	26,000	1,304,000	1,352,000
Montana Power Co.	35,000	1,008,000	1,158,000
Northern States Power	50,000	1,291,000	1,354,000
Occidental Petroleum Corp.	20,000	928,000	373,000
Peoples Gas Co.	35,000	1,171,000	1,307,000
Philadelphia Electric	51,700	1,295,000	1,260,000
Signal Companies Inc.	15,000	554,000	237,000
Third National Bank of Nashville, Tennessee	194,000	4,555,000	5,430,000
Toledo Edison Co.	40,000	1,047,000	1,304,000
Union Electric	50,000	965,000	1,050,000
Witco Chemical Corp.	24,600	960,000	663,000
Other	34,800	1,205,000	1,258,000
	949,834	$28,237,000	$27,825,000
		$113,168,000	$108,065,000

SCHEDULE V - PROPERTY, FIXTURES AND EQUIPMENT

Classification	Balance at beginning of period	Additions at cost	Retirements or sales	Balance at close of period
Year ended February 28, 1970:				
Land	$ 195,000	$ 340,000		$ 535,000
Buildings	837,000	3,000		840,000
Furniture, fixtures and equipment	3,906,000	404,000	$108,000	4,202,000
Leasehold improvements	802,000	118,000	89,000	831,000
	$5,740,000	$ 865,000	$197,000	$6,408,000
Year ended February 27, 1971:				
Land	$ 535,000	$ 133,000	$ 10,000	$ 658,000
Buildings	840,000	1,029,000	39,000	1,830,000
Furniture, fixtures and equipment	4,202,000	801,000	193,000	4,810,000
Leasehold improvements	831,000	142,000	39,000	934,000
	$6,408,000	$2,105,000	$281,000	$8,232,000

SCHEDULE VI - ACCUMULATED DEPRECIATION AND AMORTIZATION OF PROPERTY, FIXTURES AND EQUIPMENT

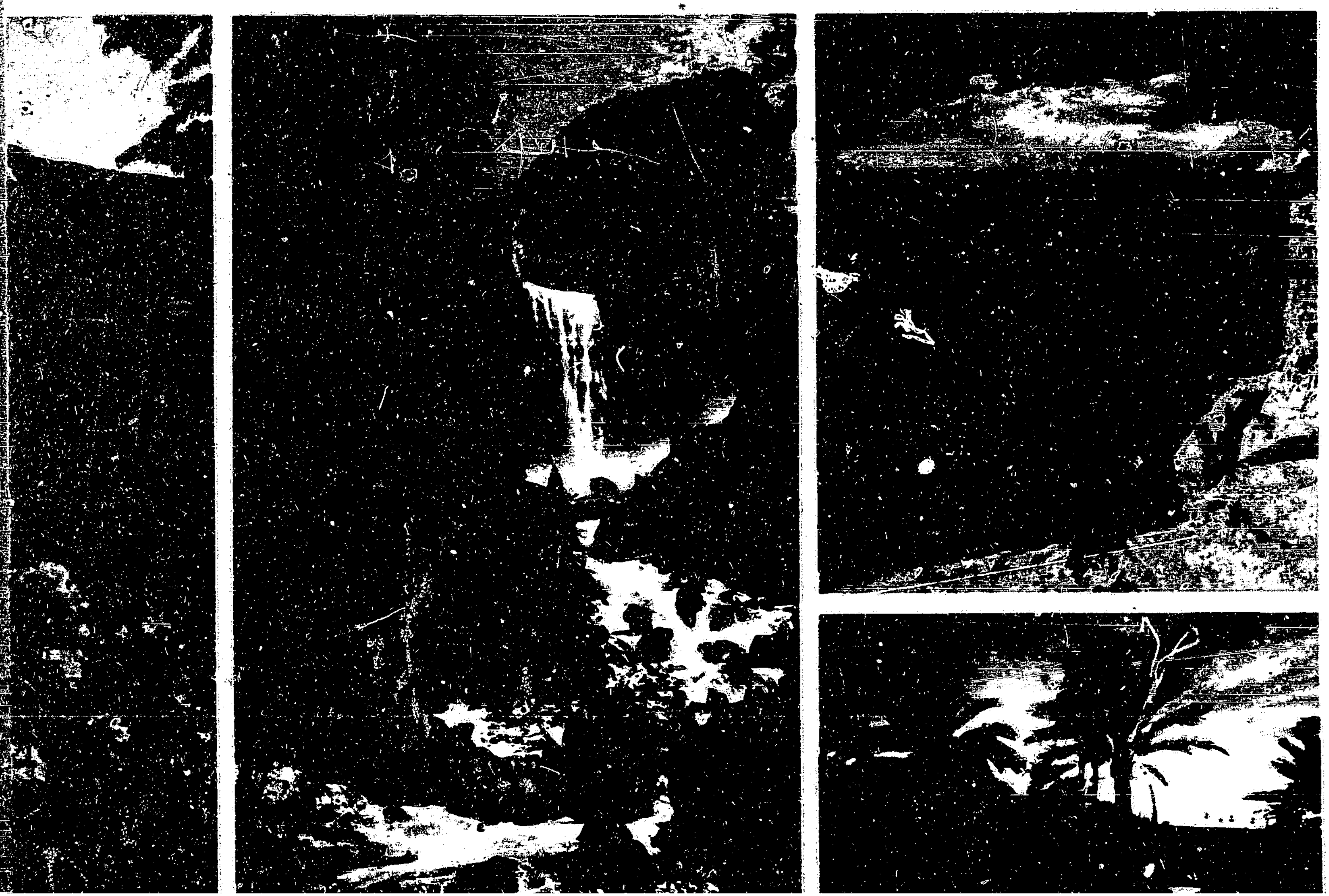
Classification	Balance at beginning of period	Additions charged to profit and loss or income	Retirements, renewals, and replacements	Balance at close of period
Year ended February 28, 1970:				
Buildings	$ 235,000	$ 36,000		$ 271,000
Furniture, fixtures and equipment	2,213,000	560,000	$ 82,000	2,691,000
Leasehold improvements	523,000	81,000	86,000	518,000
	$2,971,000	$677,000	$168,000	$3,480,000
Year ended February 27, 1971:				
Buildings	$ 271,000	$ 50,000	$ 15,000	$ 306,000
Furniture, fixtures and equipment	2,691,000	605,000	165,000	3,131,000
Leasehold improvements	518,000	103,000	39,000	582,000
	$3,480,000	$758,000	$219,000	$4,019,000

SCHEDULE XVI - SUPPLEMENTARY PROFIT AND LOSS INFORMATION

	Cost of redemptions	Selling, general and administrative expenses	Total
Year ended February 28, 1970:			
Maintenance and repairs	$ 475,000	$52,000	$ 527,000
Depreciation and amortization	631,000	46,000	677,000
Taxes other than income taxes:			
Payroll	499,000	90,000	589,000
Property taxes	292,000	13,000	305,000
Other	60,000	9,000	69,000
Rents	1,621,000	19,000	1,640,000
Year ended February 27, 1971:			
Maintenance and repairs	464,000	56,000	520,000
Depreciation and amortization	708,000	50,000	758,000
Taxes other than income taxes:			
Payroll	492,000	98,000	590,000
Property taxes	384,000	23,000	407,000
Other	76,000	5,000	81,000
Rents	1,815,000	19,000	1,834,000

No royalties or management and service contract fees were incurred.

1971
ANNUAL REPORT
BLUE CHIP STAMPS



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HIGHLIGHTS

Fifty-two Weeks Ended February 27, 1971 and February 28, 1970

	1971	1970
Revenues	$127,567,000	$132,060,000
Income before extraordinary charge	8,584,000	7,765,000
Extraordinary charge	—	(378,000)
Net income	8,584,000	7,387,000
Average shares outstanding	4,957,000	4,877,000
Per share		
Income before extraordinary charge	$1.69	$1.54
Net income	1,69	1.46

TO OUR STOCKHOLDERS

Earnings for the fiscal year were $8,584,000 or $1.69 per share as compared to $1.54 for the prior year. The prior year figure is before an eight cent extraordinary charge representing settlement of a lawsuit.

The increase resulted from a higher after-tax yield on our investment portfolio. Income from investments, net of related expenses, accounted for 52% of current after-tax earnings compared with 39% for the prior year.

Total revenues for the year declined from $132,060,000 to $127,567,000 due primarily to the elimination of trading stamps by certain grocery chains.

Many people ask me, "What are the long-range prospects for trading stamps?" My answer is, "Excellent."

Trading stamps are the most viable retail continuity program ever devised. They have been for 70-plus years and will continue to be. Trading stamps, particularly Blue Chip stamps, make sense economically in terms of value received, by retailers who use them to stimulate sales, and by consumers who receive them as a reward for patronage.

Saving Blue Chip stamps enables consumers to acquire wanted and needed items of merchandise at values lower than discount store prices. Stamp savers can prove this fact for themselves by multiplying the number of books for any of the items in our catalog by $1.90 per book (the average amount paid by merchants for a book of stamps). This amount compared with a retailer's selling price plus sales tax will demonstrate that stamp savers receive better values by saving Blue Chip stamps.

This merchandising miracle is possible because of Blue Chip's volume purchasing power and efficient distribution system. The values offered stamp savers are all the more remarkable in light of the fact that the fees merchants pay for our service are lower than they were fifteen years ago. Very few businesses can make that statement.

The United States Department of Justice and certain private litigants have attributed Blue Chip's success to the fact that it was organized by nine retail chains. The claim has been asserted that other merchants were obliged to use Blue Chip's service because the organizers used it.

We have never believed that, but until now we lacked concrete evidence to substantiate our disbelief. Of the nine chains that organized Blue Chip, six no longer give Blue Chip stamps. Only three of the nine still own stock (11% collectively) in the Company. One of the three is among the six chains no longer giving our stamps and another has significantly curtailed issuance.

If other merchants followed the organizers into the Blue Chip program you might wonder why they did not follow them out. The obvious answer is that from inception Blue Chip has stood on its own two feet providing the best trading stamp program available anywhere.

Our success is based on the solid foundation of consumer acceptance. This acceptance is earned by constantly striving to offer consumers maximum value for the stamps they redeem and superior service exemplified by computerized inventory control in two huge warehouses and 88 beautiful, conveniently located redemption stores. Were that not true, we would not have served 13,000,000 stamp savers during the past year. Were that not true, our service would be of little value to the merchants who give Blue Chip stamps.

For all these reasons, I am convinced that long-range prospects for Blue Chip stamps are excellent. Revenue and earnings prospects for the 1971-1972 fiscal year are not as favorable due to the elimination of trading stamps by several grocery chains which are experimenting with other forms of sales promotion. However, seven decades of industry experience indicates that some of these chains will eventually return to the use of trading stamps. Because Blue Chip stamps offer both sound values to shoppers and proven sales stimulation to merchants, we think our program will continue to enjoy wide popularity.

We remain under the requirement of presenting to the United States District Court by October 6, 1972 a plan for the sale of one-third of our California trading stamp business. The market changes of the past 15 months have increased tremendously the difficulty of developing such a plan with fairness to our stockholders, customers, and stamp savers. We now face aggressive competition from rival forms of promotions and from a major trading stamp company which has converted its California operations to our low-price, non-franchised manner of doing business. Nevertheless, we will continue our good-faith efforts to satisfy the consent judgment.

Cordially yours,

Donald A. Koeppel

Donald A. Koeppel
Chairman of the Board and President

COMPARATIVE HIGHLIGHTS

	2/27/71
TOTAL FOR THE FISCAL YEAR	
Total revenues	$127,567,000
Income before extraordinary charges	8,584,000
Extraordinary charges	—
Net income	8,584,000
TOTAL AT FISCAL YEAR END	
Working capital	47,852,000
Total assets	148,422,000
Stockholders' equity	43,296,000
Number of employees	1,514
AVERAGE SHARES OUTSTANDING*	4,957,000
PER SHARE*	
Income before extraordinary charges	$1.69
Net income	1.69

*Adjusted for 5-for-1 stock split, October 1969.

Westminster, one of Blue Chip's new stores. Anaheim facility opened during 1971. Richmond warehouse addition under construction. South Bay customers have a new store in Torrance.

2/28/70	3/1/69	3/2/68	3/4/67	2/26/66	2/27/65	2/29/64
$132,060,000	$112,483,000	$94,664,000	$94,676,000	$83,801,000	$74,560,000	$70,490,000
7,765,000	5,644,000	3,418,000	4,284,000	4,466,000	2,504,000	1,815,000
(378,000)	(3,651,000)	—	—	—	—	—
7,387,000	1,993,000	3,418,000	4,284,000	4,466,000	2,504,000	1,815,000
40,913,000	33,331,000	20,438,000	17,235,000	13,212,000	8,646,000	5,734,000
147,333,000	123,796,000	95,772,000	81,999,000	77,713,000	65,207,000	59,924,000
35,431,000	28,049,000	23,060,000	19,487,000	15,202,000	10,736,000	8,232,000
1,633	1,379	1,160	1,485	1,176	830	842
4,877,000	3,530,000	3,108,000	3,108,000	3,108,000	3,108,000	3,108,000
$1.54	$1.60	$1.10	$1.38	$1.44	$ .81	$ .58
1.46	.57	1.10	1.38	1.44	.81	.58

BLUE CHIP STAMPS

BALANCE SHEET

February 27, 1971 and February 28, 1970

Assets

	1971	1970
Current assets:		
Cash	$ 531,000	$ 468,000
Marketable securities (Note 2)	113,168,000	112,288,000
Accounts receivable	7,793,000	6,704,000
Merchandise and supplies inventories, at the lower of cost (first-in, first-out) or market	17,197,000	19,011,000
Prepaid taxes and other expenses (Note 1)	3,449,000	3,504,000
Total current assets	142,138,000	141,975,000
Property, fixtures and equipment, at cost, less accumulated depreciation and amortization (Note 3)	4,213,000	2,928,000
Unamortized debenture discount	2,071,000	2,430,000
	$148,422,000	$147,333,000

Liabilities and Stockholders' Equity

	1971	1970
Current liabilities:		
Accounts payable and accrued expenses	$ 5,396,000	$ 7,851,000
Income taxes payable	1,461,000	7,022,000
Liability for unredeemed trading stamps (Note 1)	87,429,000	86,189,000
Total current liabilities	94,286,000	101,062,000
6½% Subordinated Debentures due 1978 (Note 4)	10,840,000	10,840,000
Stockholders' equity (Notes 4, 5 and 9):		
Common stock, par value $1.00		
Shares authorized—7,000,000		
Shares outstanding—5,026,000 and 4,950,000	5,026,000	4,950,000
Paid-in capital	796,000	403,000
Retained earnings	37,474,000	30,078,000
Total stockholders' equity	43,296,000	35,431,000
	$148,422,000	$147,333,000

See accompanying notes to financial statements

STATEMENT OF INCOME

Fifty-two Weeks Ended February 27, 1971 and February 28, 1970

	1971	1970
Revenues:		
Stamp service income (Note 1)	$120,015,000	$125,888,000
Interest dividends and gains and losses on sale of securities	5,986,000	4,748,000
Other income	1,566,000	1,424,000
	127,567,000	132,060,000
Costs and expenses:		
Cost of redemptions, consisting of merchandise and related expenses (Note 1)	104,392,000	108,977,000
Selling, general and administrative expenses	8,558,000	7,275,000
Debenture interest and amortization	1,063,000	1,063,000
	114,013,000	117,315,000
Income before income taxes and extraordinary charge	13,554,000	14,745,000
Provision for income taxes (Note 1)	4,970,000	6,980,000
Income before extraordinary charge	8,584,000	7,765,000
Extraordinary charge (Note 9)	—	(378,000)
Net income	$ 8,584,000	$ 7,387,000
Per share (Note 6):		
Income before extraordinary charge	$1.69	$1.54
Extraordinary charge (Note 9)	—	(.08)
Net income	$1.69	$1.46

See accompanying notes to financial statements

BLUE CHIP STAMPS

STATEMENT OF STOCKHOLDERS' EQUITY

Fifty-two Weeks Ended February 27, 1971 and February 28, 1970

	Common Stock Shares	Common Stock Amount	Paid-in Capital	Retained Earnings
Balance at March 1, 1969	974,000	$ 325,000	$2,878,000	$24,846,000
Stock split and change in par value	3,897,000	4,546,000	(2,878,000)	(1,668,000)
Exercise of stock options	79,000	79,000	403,000	—
Cash dividends of $.10 per share (Note 4)	—	—	—	(487,000)
Net income	—	—	—	7,387,000
Balance at February 28, 1970	4,950,000	4,950,000	403,000	30,078,000
Exercise of stock options (Note 5)	77,000	77,000	393,000	—
Purchase of stock from terminated employees	(1,000)	(1,000)	—	—
Cash dividends of $.24 per share (Note 4)	—	—	—	(1,188,000)
Net income	—	—	—	8,584,000
Balance at February 27, 1971	5,026,000	$5,026,000	$ 796,000	$37,474,000

STATEMENT OF SOURCE AND APPLICATION OF FUNDS

Fifty-two Weeks Ended February 27, 1971 and February 28, 1970

	1971	1970
Source of funds:		
Net income for the year	$ 8,584,000	$ 7,387,000
Depreciation and amortization	1,116,000	1,036,000
	9,700,000	8,423,000
Exercise of stock options (Note 5)	470,000	482,000
	$10,170,000	$ 8,905,000
Application of funds:		
Property additions, net	$ 2,043,000	$ 836,000
Payment of dividends	1,188,000	487,000
Increase in working capital	6,939,000	7,582,000
	$10,170,000	$ 8,905,000

See accompanying notes to financial statements

NOTES TO FINANCIAL STATEMENTS

NOTE 1—Accounting practices:

The Company recognizes stamp service income upon issuance of its trading stamps and provides a liability account for unredeemed trading stamps consisting of the cost of merchandise and related redemption expenses. For a number of years the Company has made statistical evaluations of its redemptions. Based upon analysis of such evaluations the Company presently estimates that 97.5% of all stamps issued will ultimately be redeemed. The liability for unredeemed trading stamps of $87,429,000 at February 27, 1971 included $75,148,000 for the cost of merchandise and $12,281,000 for redemption expenses.

The Company deducts certain redemption expenses for income tax purposes when stamps are redeemed. The decrease in the provision for income taxes attributable to the difference between the provision for redemption expenses when stamps are issued and the redemption expenses incurred when stamps are redeemed amounted to $127,000 and $117,000 in the fiscal years ended February 27, 1971 and February 28, 1970, respectively. At February 27, 1971, the accumulated prepaid income taxes attributable to the difference described above amounted to $2,194,000.

NOTE 2—Marketable securities:

Marketable securities are stated at cost (less amortization of bond premium). Following is a summary of the portfolio:

	Cost	Market Value
February 27, 1971 —		
Short-term investments . . .	$ 18,928,000	$ 18,955,000
State and municipal bonds . .	32,303,000	26,502,000
Preferred and common stocks	61,937,000	62,608,000
Total	$113,168,000	$108,065,000
February 28, 1970 —		
Short-term investments . . .	$ 22,987,000	$ 23,068,000
State and municipal bonds .	38,280,000	26,232,000
Preferred and common stocks	51,021,000	46,502,000
Total	$112,288,000	$ 95,802,000

NOTE 3—Property, fixtures and equipment:

Following is a summary of property, fixtures and equipment:

	Feb. 27, 1971	Feb. 28, 1970
Land	$ 658,000	$ 535,000
Buildings	1,830,000	840,000
Furniture, fixtures and equipment .	4,810,000	4,202,000
Leasehold improvements	934,000	831,000
	8,232,000	6,408,000
Less accumulated depreciation and amortization	4,019,000	3,480,000
	$4,213,000	$2,928,000

The Company provides for depreciation and amortization of property, fixtures and equipment principally on the straight-line basis. Total provisions amounted to $758,000 and $677,000 for the 52 weeks ended February 27, 1971 and February 28, 1970, respectively.

NOTE 4—Debentures and dividend restrictions:

The debentures are subordinated to senior indebtedness and to claims or causes of action, both as defined in the indenture underlying their issuance. At least 20% of the debentures must be redeemed annually beginning December 1, 1974.

Under terms of the indenture, the Company may not declare or pay any dividend or make any distribution (except in stock) or purchase, redeem, or otherwise acquire or retire for consideration, any of its stock (a) if, during any fiscal year, such dividends or distributions would exceed 25% of the net income of the Company for the preceding fiscal year, or (b) if claims or causes of action, as defined, would exceed 50% of the Company's stockholders' equity or (c) if the Company were in arrears in any sinking fund payments.

NOTE 5—Stock options:

Under the Company's qualified stock option plan, options to purchase shares of the Company's common stock were outstanding at February 27, 1971, as follows: 155,500 shares at $6.10 (including 2,000 currently exercisable) and 7,500 shares at $14.75. During the current fiscal year, options for 77,000 shares were exercised at $6.10.

NOTE 6—Per share computations:

Per share amounts are based upon the weighted average number of shares of common stock outstanding during the fiscal year adjusted for the dilutive effect of all outstanding stock options. Such dilution is calculated assuming all such options have been exercised and the proceeds used to purchase shares at the average market price during the year.

Following is a summary of the shares used in per share computations:

	Fiscal Year Ended	
	Feb. 27, 1971	Feb. 28, 1970
Average shares outstanding	4,957,000	4,877,000
Dilution assuming exercise of outstanding stock options	123,000	180,000
	5,080,000	5,057,000

NOTE 7—Pension plan:

The Company has a noncontributory pension plan which covers employees meeting certain eligibility requirements. Pension costs charged to income include amortization of prior service costs over a thirty year period and are funded annually. The cost of the plan for the fiscal years ended February 27, 1971 and February 28, 1970 amounted to $400,000 and $397,000 respectively. At February 27, 1971 the liability for unfunded prior service costs amounted to approximately $396,000.

NOTES TO FINANCIAL STATEMENTS (CONT'D)

NOTE 8—Long-term lease commitments:

Minimum annual rental commitments under leases expiring through 1981 amounted to $1,700,000 at February 27, 1971, excluding taxes, insurance and other expenses payable directly by the Company.

NOTE 9—Legal proceedings:

During the fiscal year ended February 28, 1970, the Company settled a lawsuit for $853,000. The settlement, less $475,000 applicable income taxes, was charged against income as an extraordinary charge.

Pursuant to a consent final judgment entered in 1967 by the United States District Court, the Company within thirty months after April 6, 1970 is required to submit to the court a plan for the sale of one-third of its California trading stamp business located within a contiguous geographical area in Southern California. The Company believes that such a sale would have a materially adverse effect on revenues and earnings but not on its ability to continue its business or operations.

The Company and certain of its present and former stockholders and directors are defendants in a purported class action alleging breach of contract, fraud and misrepresentation brought on behalf of users of Blue Chip stamps who failed to purchase stock of Blue Chip Stamps in a 1968 offering to users. The complaint alleges damages to plaintiffs of $21,400,000, together with exemplary damages of $25,000,000, interest, attorneys' fees and costs, and prays that plaintiffs have the right to purchase stock, or units of stock and debentures, of Blue Chip Stamps on the terms of the 1968 offering. In the opinion of counsel for the Company, upon the facts known, the complaint is without merit and all defendants should prevail.

The Company is a defendant in nine private antitrust actions seeking treble damages together with attorneys' fees and costs. Damages aggregating $1,050,000 have been claimed in one of these actions; the plaintiffs in the other actions assert injuries in amounts not yet ascertained. Based on information currently available to them, in the opinion of counsel for the Company substantial defenses are available in all of these actions and it is unlikely that the aggregate ultimate liability of the Company, if any, with respect to such actions would have a materially adverse effect on its ability to continue its business or operations, but no prediction can be made as to their ultimate outcome.

The Company is a defendant in a purported class action to recover for stamp savers monies collected as reimbursement for California sales taxes on redemption of stamps. Plaintiffs claim that the redemption transaction is not taxable and all such collections should be returned, or alternatively that such collections exceeded the tax payable and such excess should be returned. The Company has paid sales taxes to the state equal to its reimbursement collections, which in recent years have averaged about $7,000,000 annually. In the opinion of counsel for the Company, substantial defenses are available and claims can be asserted against the state for reimbursement for all or part of any recovery by plaintiffs, but counsel cannot predict the ultimate outcome of the action.

ACCOUNTANTS' OPINION

PRICE WATERHOUSE & CO.

606 SOUTH OLIVE STREET

LOS ANGELES 90014

April 13, 1971

To the Board of Directors and
Stockholders of Blue Chip Stamps

In our opinion, the accompanying balance sheet , the related statements of income and stockholders' equity and the statements of source and application of funds present fairly the financial position of Blue Chip Stamps at February 27, 1971 and February 28, 1970, the results of its operations and the supplementary information on funds for the years then ended, in conformity with generally accepted accounting principles consistently applied. Our examinations of these statements 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.

Price Waterhouse & Co.
Price Waterhouse & Co.

ADMINISTRATION

BOARD OF DIRECTORS

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Personal Investments

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President of
California Federal Savings & Loan Association

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Owner of Charles J. Futterman and Associates,
management consultants;
Chairman of the Board
of Food Employers Council, Inc.

Z. WAYNE GRIFFIN
Chairman of Community Redevelopment Agency
of the City of Los Angeles;
Personal Investments

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General partner of
J. P. Guerin & Co., investors

JOSEPH P. HUGHES
President of Hughes Markets, Inc.;
Chairman of the Board
of Certified Grocers of California, Ltd.

EMMETT H. JONES
President of Terminal Oil Company,
Industrial Engineering & Equipment Corporation
and Westates Investment Co.

DONALD A. KOEPPEL
Chairman of the Board and President of the Company

ARTHUR D. MACDONALD
President of Coca-Cola Bottling Company
of Los Angeles

CHARLES T. MUNGER
General partner of Wheeler, Munger & Co., investors,
President of Spring Street Capital Co.

WILLIAM F. RAMSEY
Executive Vice President of the Company

RON STEVER
Chairman of the Board of The Stever Companies,
consulting actuaries and insurance brokers;
Chairman of the Executive Committee
of Crescent Wharf & Warehouse Co.

ANDREW J. WOLF
President of A & B Supermarkets, Inc.

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Chairman of the Board and President

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Vice President, Information Systems

JAMES D. CARTER
Vice President, Operations

WILLIAM K. KLEPPER
Vice President, Merchandise

ROBERT H. BIRD
Secretary and Treasurer

ERNEST P. PAULSON
Controller

ELEANOR REYNOLDS
Assistant Secretary

TRANSFER AGENTS

BANK OF AMERICA, N.T. & S.A.
Los Angeles

BANKERS TRUST COMPANY
New York

REGISTRARS

UNION BANK
Los Angeles

THE CHASE MANHATTAN BANK, N.A.
New York

BLUE CHIP STAMPS
5801 South Eastern Avenue
Los Angeles, California 90040

Cover scenes depict the four western states in which Blue Chip Stamps operates. From left to right, David Muench captures spring beauty of sprawling valley below 12,000 foot high Mt. Charleston outside Las Vegas. Marie Mainz provides a dramatic golden hued sunset along the Oregon coastline. Mt. Hood and Trillium Lake in the Oregon Cascades are highlighted by Muench's use of Rhododendrons at the shoreline. The glacial valley of the Merced River is accented by the roaring water off 317 foot high Vernal Falls in Yosemite National Park by Muench. A sandstone arch along the south rim of Grand Canyon enables Muench to frame the vast expanse of this brilliant National Park. Mainz uses the silhouette of palms in a Phoenix resort to mark the fading desert sun.

END