DEFENDANT'S EXHIBIT

CASE NO. C04-0360P

EXHIBIT NO. 448

Resp to Costco RFP
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WASHINGTON STATE LIQUOR CONTROL BOARD

Chairman of Board.....Jack C. Hood

Member of Board.....Garland Sponburgh

Member of Board.....Leroy M. Hittle

Secretary to Board.....Ruth C. Taylor

Accounting Division, Controller.....James E. Hoing

Advertising Control, Supervisor.....Katherine Jacox

Beer and Wine Division, Supervisor.....I. W. (Bob) Hilson

Enforcement Division, Chief Enfcmt. Officer.....Paul Sylvester

Hearing Division, Chief Examiner.....William Nightingale

Inspection Division, Chief Inspector.....Ed F. Schaller

Legal Division, Asst. Attorney General.....Arthur F. Mickey

License Division, Supervisor.....Ray V. Sullivan

Main Office Services, Supervisor.....Virginia E. Harder

Personnel Division, Supervisor.....Len Walters

Purchasing Division, Liquor Purch. Agent.....Richard W. King

Stores and Agencies Division, Supervisor.....Earl Schade

Warehouse Superintendent.....M. F. O'Hara

WASHINGTON STATE LIQUOR CONTROL BOARD
REPORT ON OPERATIONS

July 1, 1968 through June 30, 1969

The Washington State Liquor Control Board submits its thirty-sixth annual report of operations for the fiscal year ended June 30, 1969. This report is made in accordance with requirements of RCW 66.08.028. (Section 72 of the Washington State Liquor Act.)

SUMMARY

New Laws

Administration of the state liquor act underwent major changes during the fiscal year as a result of numerous amendments enacted by the 41st Legislature.

In eight laws directly affecting liquor, the Legislature made more changes in liquor operations than any other Legislature since the basic liquor law was enacted in 1934.

Previous major changes, including the one in 1948 authorizing sale of liquor by the drink, had been made by initiatives approved by the people.

Most significant measure enacted by the 41st Legislature was the one known as the California wine bill. It brought about substantial changes in the methods of importing and distributing out-of-state wines within the State of Washington.

In another action, the legislators voted to let the people drink while standing, unless there is a house rule against it. They eliminated a portion of law prohibiting women from sitting at bars in cocktail lounges. They repealed a 1909 law which required the interior of taverns to be visible from the street. And they made other changes listed hereafter under the section entitled "Administration of Act".

Liquor Sales Up

Enactment of the wine bill came at a time when the sale of wines showed a larger increase in volume than any other group of liquors sold in state stores. The case sales of table wines were up 24.91 per cent over the 1968 fiscal year. Sparkling wine sales were up 20.31 per cent, Canadian whisky 19.13 per cent and Scotch whisky 10.94 per cent.

The largest customer demand, however, was for bourbon, followed by table wines, blended whiskey, vodka and Canadian whisky.

Washington residents bought 71.4 million gallons of alcoholic beverages from state liquor stores and agencies and licensed retail outlets during the fiscal year ended June 30, 1969, an increase of 5.32 per cent over the previous 12-month period.

Some of the increase was attributed to an increase in the state's population and to a more affluent society. Even so, the 5.32 per cent increase in fiscal 1969 over 1968 was less, percentagewise, than the 8.77 per cent increase in 1968 over 1967.

Based on an estimated population of 3,417,330 persons, the total sales amounted to a per capita consumption of all alcoholic beverages of 20.88 gallons in fiscal 1969, as compared to 20.32 gallons in 1968, when the population was estimated at 3,335,600 persons, a 2.76 per cent increase in per capita consumption.

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The all inclusive sales figures included 5.7 million gallons of spirituous liquors, an increase of 6.58 per cent over the previous fiscal year; 61.3 million gallons of beer and other malt beverages, up 4.83 per cent; and 4.3 million gallons of wines, up 10.94 per cent.

Sales by the state liquor stores and agencies (excluding discounts and exempt tax) amounted to 157 million, an increase of 7.55 per cent. As a result, the Board reported a profit of $32.3 million, up 6.06 per cent. Of this amount $31 million was distributed, as provided by law, to the state's general fund, the counties, cities and towns, an increase of 6.02 per cent.

In addition, the Board collected $31.4 million in sales taxes, an increase of 6.72 per cent over the previous fiscal year.

Stores Upgraded

The Board continued to upgrade the state liquor stores, adding 19 self-service outlets by conversion of existing stores or agencies and the opening of six new ones. This gave the state 75 self-service outlets out of a total of 107 retail stores. The number of agencies was increased by one, to 164.

A program was inaugurated to identify state liquor stores with large signs reading "State Liquor Store". A total of 31 signs were installed on store fronts during the fiscal year.

Warehouse and License Division Modernized

Modernization of the warehouse was undertaken. Three areas were involved: pallet utilization on incoming shipments of liquor; an automated conveyor system for outgoing shipments; and planning for an addition to increase the storage capacity of the warehouse.

Changes were made in the license division to reduce the requirement for filing cabinet space, streamline procedures for handling paperwork, and effect greater utilization of data processing equipment.

Liquor Advertising Liberalized

Regulations governing advertising were changed to permit liquor advertising on the inside and outside of public transit busses; to eliminate the prohibition against Sunday liquor advertising; and to eliminate the prohibition against beer and wine advertising on television before 8 p.m.

Teenage Drinking Discouraged

The Board continued its educational program to show minors the hazards of drinking alcoholic beverages before they are 21 years of age. In October, 1968, the Board purchased five copies of a film entitled "There's A Message In Every Bottle" for showing to teenage groups. An estimated 83,000 viewers saw the film on five television stations which aired it as a public service, usually immediately before or after popular teenage programs. Two copies of the film were loaned to the State Patrol, one in Spokane for showing in Eastern Washington high school driver education courses, and one in Olympia for showing in Western Washington high schools.

ADMINISTRATION OF ACT

Changes in the Law

The following laws relating to liquor and affecting the Liquor Control Board were enacted by the Forty-first Legislature:

Beer and Professional Sports

Chapter 117, which amended RCW 66.24.320, authorized the Board to issue Class A beer retailers' licenses for sale of draft beer at sports arenas or race tracks during recognized professional athletic events. The law was drafted to accommodate entrepreneurs and fans of Seattle's major league baseball team, The Pilots, but it was worded so it also could be applicable to other professional athletic events.

Wine Bill

Chapter 21, extraordinary session, commonly referred to as the "wine bill", amended numerous sections of the liquor law effective July 1, 1969. The new law authorized the Board to license wine importers to bring approved brands of out-of-state wines into the state for sale to licensed wholesalers. The wholesalers, in turn, were allowed to sell to licensed retailers. Before the law was passed, only Washington produced wines could be distributed through wholesalers. Retailers had to buy their out-of-state wines for resale from state liquor stores at the same retail price paid by the general public. The new law permitted retailers to buy all wines—Washington, out-of-state and foreign—from licensed wholesalers, at wholesale prices, or from state liquor stores, as in the past, at regular retail prices. The new act imposed a tax of 26 per cent of the retail selling price on all wines, replacing the previous taxes of 10 per cent on Washington wines and 15 per cent on out-of-state wines. The tax was imposed to cover the state's anticipated loss of revenue because a certain percentage of out-of-state wines previously purchased at state liquor stores would, under the new act, be purchased from licensed wholesalers and retailers. In addition, several features were drafted into the new law to make certain that the Board would have and could exercise proper control over all aspects of the wine business in Washington.

Minor Employees at Groceries

Chapter 38, extraordinary session, added a new section to the liquor act. It authorized holders of Class E and/or F licenses exclusively (generally grocery stores and super markets) to allow minor employees 18 to 21 years of age to sell beer or wine at their premises, providing they are under direct supervision of an adult employee 21 years of age or older, stationed in an adjacent check stand.

Service: To Women; While Standing

Chapter 112, extraordinary session, amended RCW 66.24.410(4); added a new section to the liquor act; and repealed RCW 66.44.220. The amended section eliminated a part of the law that had made it unlawful for any Class H licensee to sell liquor to women except when seated at tables. The new section authorized patrons of retail licensees to carry their drinks within the licensed premises and to drink while standing; *Provided, however,* that any retail licensee was authorized, by house rule, to require his customers to be seated when they are served or when they drink in his premises. The section

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of law that was repealed did away with a 1909 law requiring taverns to have an unobstructed view into the interior of their premises from the outside.

Airport Master License

Chapter 136, extraordinary session, amended RCW 66.24.420, by adding a new section (e) which authorized the Board to issue a master license and subordinate licenses to any qualified applicant operating a bona fide restaurant in an air terminal facility. The master license, with a fee the same as for a regular Class H license, permits the sale of liquor by the drink in the main restaurant. Each subordinate license, carrying a fee of 25 per cent of the master license, permits the sale of liquor by the drink at an additional, designated place in the air terminal facility.

Departmental Request Bill

Chapter 178, extraordinary session, commonly referred to as the Board's departmental request measure, amended 10 sections of the liquor act and added one new section. **It amended RCW 66.080.050(2)** to authorize the Board to appoint liquor vendors to operate liquor agencies in unincorporated communities. **The bill amended RCW 66.20.200** to make it a misdemeanor for a person to possess a Liquor Control Board card of identification which had not been issued to him. **The act amended RCW 66.24.010(2)** by deleting subsection (f) in order to eliminate a disparity of treatment and penalties imposed on retail licensees for the same violation, the disparity depending principally on whether the case was filed in city or state court. The same section of **the new bill also amended RCW 66.24.010(3)** to bring into conformity with the Administrative Procedure Act that part of the liquor law relating to hearings; to authorize payment of witness fees at the rate of $4 a day rather than $2; and to authorize payment of mileage at the rate of 10 cents a mile rather than 5 cents. **Another section of the new law amended RCW 66.24.270(2)** to require licensed importers of foreign beer to obtain certificates of approval; agree to furnish the Board certain reports on imports and sales; and agree to comply with all state liquor laws and regulations. **The new act amended RCW 66.24.380** to increase the fee for a Class G license, which is a special retail license for a society or organization to sell beer at picnics or other special occasions at a specified date, from $5 to $10 a day. **The new law amended RCW 66.24.420(2) and (3)** to authorize the Board to issue Class H licenses in the business districts of unincorporated communities. **Another section amended RCW 66.24.490** to broaden the scope of Class I licenses to permit their use by holders of Class H licenses to cater to members and guests of a society or organization on special occasions at places other than the Class H licensees' own regularly licensed premises. **The new law added a section** to the liquor act to establish a new Class J retail license for a society or organization to sell wine at a special occasion at a specified date at a fee of $10 a day. **The last section of the new law amended RCW 66.28.020** to eliminate the prohibition against anyone having a financial interest in the distilled spirits business from having a financial interest in a licensed Washington brewery; to prohibit anyone having a financial interest in the distilled spirits business from having a financial interest in a Washington licensed wine importer, wine wholesaler, beer importer or beer wholesaler; and, finally, to make exceptions to the foregoing for any Washington winery or brewery which also was licensed as a wine or beer wholesaler as of the date of passage of the act. The last section of the new law was drafted to preclude

distilleries or conglomerates from obtaining importer and wholesaler licenses which could be used to control the distribution of wine and beer within the state. In contrast, another change permitted distillery interests to have a financial interest in a Washington brewery, and that brewery to retain its beer wholesaler license, in order to accommodate Rainier Brewing Co., Seattle, which acquired a California winery with a distillery operation to produce brandy.

Minor Musicians

Chapter 250, extraordinary session, added a new section to the liquor act to authorize the employment of professional musicians 18 years of age and older to enter and remain in licensed retail liquor establishments, but only during and in the course of their employment as musicians. **The same law also amended RCW 66.24.481** to bring unlicensed restaurants and other public places under the existing statute which prohibits the so-called bottle clubs from allowing liquor to be kept, served, sold or consumed on their premises unless they have a valid license issued by the Board.

Liquor, Beer, Wine Importers

Chapter 275, extraordinary session, amended the aforementioned amendment to RCW 66.28.020 to extend the exceptions from provisions of RCW 66.28.020 to liquor or beer importers who were licensed as of the date of passage of the new law. The amendment to the amendment provided that persons previously holding liquor or beer importer licenses could retain such licenses and also could obtain one of the new wine importer's licenses. Licensed Washington wineries and breweries were excepted from provisions of RCW 66.28.020 in the original amendment. **Chapter 275 also amended Section 14 of the previously enacted Chapter 21** (the wine bill) to permit manufacturers of wine to extend customary credit allowances to wholesalers on purchases of wine inventories. **Chapter 275 also amended RCW 66.24.160** to increase the fee for a liquor importer's license from $250 to $300 a year, principally to qualify Chapter 275 as a revenue measure so it could be considered by the Legislature after its regular deadline, and thus be used as a vehicle to make the aforementioned corrections to RCW 66.28.020 and Chapter 21, the wine bill.

Changes in the Regulations

Advertising

On petition of Washington Transit Advertising, Seattle, the Board on May 1, 1969, amended Regulation (122) (b), effective June 2, 1969, to allow advertising of malt beverages, wines and spirituous liquor on the inside and outside of rail transits, transit busses and auto stages affording transportation to the general public. (See report on Advertising Control for details.)

Wine

To implement provisions of the new wine law, Chapter 21, extraordinary session, the Board on June 11, 1969, adopted a comprehensive series of wine regulations on an emergency basis effective July 1, 1969, the same date the new wine law went into effect. The new regulations covered items relating to licensing, wine price posting, standards of identity, quality standards and other items pertaining to various aspects of the wine industry.

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ACCOUNTING DIVISION

The Accounting Division performed the usual duties associated with accounting, auditing, budgeting, data processing and supply purchasing for the Board during the fiscal year.

Revenues

Total receipts from all sources collected by the Board in fiscal 1969 increased $11,358,970.89 up to 162,446,634.67, or 7.52 per cent. Greater sales receipts which totaled $157,023,244.24, up 7.55 per cent over fiscal 1968, accounted for 97.05 per cent of the increase. Beer tax receipts increased $118,456.05, or 4.55 per cent while wine tax receipts were up $11,235.59 or 6.61 per cent. License fees totaled $1,997,694.28, an increase of $64,993.97, or 3.36 per cent.

Interest income continued to show a large increase from year to year with $349,705.00 being earned in fiscal 1969, an increase of 39.28 per cent over the previous year. Other receipts increased $42,257.05 over fiscal 1968.

Net profit and sales taxes collected totaled $63,645,109.21 for a collective increase of 6.38 per cent over fiscal 1968. Net profits increased 1,842,606.37 while sales taxes collected increased 1,976,582.35.

Consumption of Alcoholic Beverages

Sales of all alcoholic beverages in the State of Washington totaled 71,366,149 gallons in fiscal 1969. This represented a 5.32 per cent increase over fiscal 1968. Distilled spirits sales showed an increase of 8.58 per cent, out-of-state manufactured wine sales were up 14.21 per cent, and Washington wine sales increased 6.70 per cent. Malt liquor sold by the Board increased 10.71 per cent and beer sales were up 4.82 per cent.

Budget

The legislative appropriation to the board for the 1967-1969 biennium was $19,477,170.00 for administrative expenses. Of this amount the board expended $19,470,358.86, leaving an unexpended balance of $6,811.14. This unexpended amount remained in the Liquor Revolving Fund where it was available for distribution in profits to the cities, counties and state.

ADVERTISING CONTROL

Continued study of advertising rules, regulations and guides resulted in public hearings and some changes during the fiscal year. The changes included: (1) permission to advertise liquor on the inside and outside of public transit busses; (2) elimination of the prohibitions against Sunday liquor advertising; and (3) elimination of the prohibition against beer and wine advertising on television before 8:00 p.m.

Liquor Ads On Busses

On petition of Washington Transit Advertising, Seattle, the Board on May 1, 1969 amended Regulation (122)(b), effective June 2, 1969, to allow advertising of malt beverages, wines and spirituous liquor on the inside and outside of rail transits, transit busses and auto stages affording transportation to the general public. The amendment provided that the content of such advertising must conform to all laws, rules and guides applicable to other advertising media, and outside displays must receive prior approval of the Board. Before the amendment was adopted, spirituous liquor advertising was

not allowed on transit busses, and the advertising of malt beverages and wines was restricted to the inside of the vehicles. At a public hearing, spokesmen for Washington Transit Advertising testified that liquor advertising would provide an additional source of income for the financially hard-pressed municipal transit systems in Seattle, Tacoma, Spokane and Yakima. They estimated that in 1970 the additional income would amount to $50,000 for Greater Seattle; $10,000 for Greater Tacoma; $8,000 for Spokane; and $1,500 for Yakima.

Sunday Liquor Advertising

In response to a separate petition from the Washington Advertising Guide Committee, the Board on June 20, 1969 approved the committee's proposal to eliminate prohibitions against Sunday liquor advertising effective July 1, 1969 by deleting paragraph 1 x. from the "Guide to Advertising" and paragraph K.2. from the "Broadcaster's Guide to Liquor Advertising". Spokesmen for the Washington Advertising Guide Committee testified at a public hearing that since the Board in 1967 had permitted sale and consumption of liquor at licensed premises on Sunday, it was inconsistent to continue the prohibition against Sunday liquor advertising. They said their committee was composed of representatives of Washington State newspaper, radio and television stations who believed that the ban against Sunday liquor advertising had put them at a disadvantage, competitively, with out-of-state media whose publications and broadcasts can reach Washington residents with Sunday liquor advertising.

Beer and Wine Ads On TV

At the same time, in response to a request from the Washington State Association of Broadcasters, the Board approved the broadcasters' proposal to modify paragraph N. of the "Broadcasters Guide to Liquor Advertising", effective July 1, 1969, to eliminate the television industry's self-imposed ban on beer and wine advertising on television before 8:00 p.m. Spokesmen for the Broadcasters said the ban had been adopted several years ago on an assumption that children would not be exposed to liquor advertising if it did not appear on television until after 8:00 p.m. They said the ban was not realistic. Elimination of the ban was accompanied by another change, directing all radio and television stations to make certain that no beer or wine advertising appeared immediately before, during, or after programs which appeal primarily to children. The ban against spirituous liquor advertising on radio and television remained in effect under provisions of the advertising code of the National Association of Broadcasters.

The Board deferred action, pending further study, on another major proposal of the Washington Advertising Guide Committee. The committee, at a public meeting with the Board, February 18, 1969, renewed its previous requests that the Board adopt the "Uniform Standards for Advertising of Alcoholic Beverages in Newspapers and Magazines" in lieu of its existing regulations and guides on liquor advertising in such publications. The so-called uniform standards for liquor advertising were drafted in 1963 by the Joint Committee of the States to Study Alcoholic Beverage Laws, but a survey shows that several states have not yet adopted them in the form in which they were drafted.

In addition to the foregoing, the Board rescinded a long-standing policy against the placement of beer signs containing the words "On Tap" or "Draft" in the windows of taverns.

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STORES AND AGENCIES DIVISION

New Stores

Eight new state liquor stores were opened during the 1969 fiscal year, making a total of 107 retail stores and one wholesale outlet in operation as the year ended June 30.

New stores were opened in Tukwila, East Kent, Fircrest, West Seattle, 8th and Pine, Tacoma, Vancouver Heights, Boulevard Park, Seattle and Hazeldell-Vancouver.

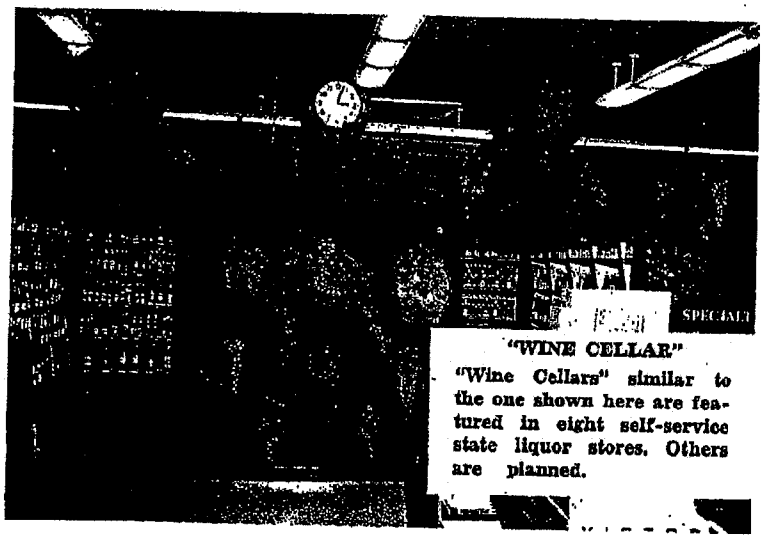
In addition, there were 164 state liquor agencies in operation, an increase of one over the last fiscal year.

Self Service

The Board continued its program of self-service stores, adding 19 during the fiscal year, either by conversion of old counter-type stores or by establishment of new stores. They brought the number of self-service stores in the state system to 75 as of June 30, 1969.

The self-service stores have been well received by the consumers who consider them to be a substantial improvement over the conventional counter-type store. They also permit more efficient operations as shown by the better results that have been noted in not only the cost of operation but in the general cost of inventory shortages, as well as pilferage.

The distinctive new type "wine cellar" was included in some of the new self-service stores, increasing to eight the number of stores with "wine cellars". The "wine cellars" have been popular with wine connoisseurs and the public generally.



"WINE CELLAR"

"Wine Cellars" similar to the one shown here are featured in eight self-service state liquor stores. Others are planned.

Training

A training film entitled "A Sale in 16 Steps" was purchased by the Board April 8, 1969, along with a portable, self-contained projector, for use among employees of the stores and agencies division.

The film, originally produced for the Pennsylvania Liquor Control Board, and an instruction sheet relative to Washington requirements, were scheduled to be taken to the state stores by area supervisors to give liquor store employees a fresh view on proper customer relations, sales and cash receipt operations.

Employees in more than 20 stores had seen the film as the fiscal year ended. Others were scheduled to see it in the new fiscal year. Those who saw the film generally expressed the belief that it gave them a new insight into smoother techniques in selling to, and meeting the public. Some suggested they would like to see other films on various other phases of working with, and selling to, the public.

Losses

Losses attributable to burglaries and holdups were becoming a serious problem at the beginning of the fiscal year. But, with extra added protection, burglar alarm devices and the alertness of employees in the stores, the problem was noticeably reduced in the last half of the year.

Most of the burglaries involved the theft of liquor, but with the cooperation of the enforcement division and local law enforcement agencies, most of the merchandise was recovered or restitution was made by the persons involved.

Two men were detached from the enforcement division to study store security and make recommendations to the Board.

Civil Disturbances

In compliance with Tacoma Mayor A. L. Rasmussen's proclamation relative to civil disturbances, the Board ordered 11 liquor stores and two agencies in the Tacoma area closed early May 12, 1969. Regular hours of operation were resumed next day.

In response to a request from Frank C. Ramon, Seattle Chief of Police, relative to civil disturbances, the Board ordered Store No. 38 in Seattle closed early May 26, 1969. Regular hours of operation were resumed next day.

Earlier in the year, the Board had requested the Department of General Administration, through its division of engineering and architecture, to investigate protective and security materials and techniques available for windows and entrances to liquor stores in an effort to minimize breakage and other damage that might be caused by rioting or other civil disturbances.

Two men detached from the enforcement division to study store security were directed to study and make recommendations to the Board relative to security of personnel, merchandise and stores during times of civil disturbances.

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