

Leon's Furniture Limited
Annual Report
1981

Corporate Directory

Board of Directors

LEWIE LEON,
Chairman of the Board, Port Colborne

ANTHONY T. LEON,
Thornhill

EDWARD M. LEON,
Thornhill

GEORGE LEON, JR.
Legal Counsel, Toronto

JOSEPH M. LEON,
Doctor of Medicine, Welland

PETER B. EBY,
Director of Corporate and Government Services,
Burns Fry Limited, Toronto

RICHARD E. SHIBLEY,
Barrister,
Partner in Shibley, Righton & McCutcheon

Officers

LEWIE LEON,
Chairman of the Board

ANTHONY T. LEON,
President

EDWARD M. LEON,
Vice-President

MARJORIE LEON,
Secretary-Treasurer

Corporate Offices

88 Gordon Mackay Road,
P.O.Box 460
Weston, Ontario M9N 3N2

Auditors

CLARKSON GORDON
Chartered Accountants—Toronto

Registrar & Transfer Agent

NATIONAL TRUST COMPANY, LIMITED,
Toronto

Listing

Leon's shares are listed on The Toronto
Stock Exchange
Ticker Symbol is LNF

Annual Meeting

Royal York Hotel—Toronto
Wednesday, April 28, 1982— 10:00 a.m.,
Prince Edward Island Room

Financial Highlights

	1981	1980	% Increase from 1980
Sales	<u>\$116,188,000</u>	<u>\$91,277,000</u>	27.3%
Income before items shown below	<u>7,752,000</u>	<u>6,279,000</u>	23.5%
Income taxes	<u>4,016,000</u>	<u>3,616,000</u>	11.1%
Income before extraordinary item	<u>3,736,000</u>	<u>2,663,000</u>	40.3%
Extraordinary item: Gain on expropriation of land (net of tax)		<u>363,000</u>	
Net income	<u>\$ 3,736,000</u>	<u>\$ 3,026,000</u>	23.5%
Number of shares outstanding*	1,222,850	1,205,500	
Earnings per share:			
Income before extraordinary item	\$3.06	\$2.21	38.5%
Net income per share	3.06	2.51	21.9%
Dividends per share	.90	.75	20.0%
Shareholders' equity per share	19.16	17.17	11.6%
Share price on Toronto Stock Exchange			
-High	\$20.00	\$22.00	
-Low	17.00	11.00	
-Close	17.50	17.50	
Total assets	<u>\$ 50,371,000</u>	<u>\$51,944,000</u>	(3.0%)
Number of employees	864	828	

*Weighted average

Chairman's and President's Message



1981 was indeed a banner year for the Company. Sales for the first time in our history exceeded \$100,000,000 and at \$116,188,000 represented a 27.3% increase over 1980. There were no new store openings in the year, which further underscores this achievement.

Profit for the year also set a record. An increase was achieved from \$2,663,000 or \$2.21 per share in 1980 (before a 1980 extraordinary gain of 30¢ per share) to \$3,736,000 or \$3.06 per share in 1981.

Noteworthy improvement was attained in the results of our two U.S. stores in Tempe, Arizona and Houston, Texas, with the consolidated loss having been reduced from \$1,207,000 in 1980 to \$435,000 in 1981. While not satisfactory yet, providing the U.S. economy does not weaken considerably further, we should turn the corner in the United States.

We are also pleased to report in November 1981 the annual dividend was increased from 75¢ to 90¢ per common share.

In a negative vein it must be noted the Company encountered a sluggish retail climate in the last quarter of the year and the situation has further deteriorated early into 1982. The current year will be a difficult one and we believe it probable

we will experience a decline in sales and profits in the first six months of the year.

There are no new store openings presently planned for 1982 but we are continuing to evaluate new store location opportunities as well as suitable acquisition candidates.

It is with sadness that we record the death of George Leon, a beloved brother and Director who died on December 15, 1981. George was an inspiration for all who knew him and we are going to greatly miss his example of determination and courage as well as his counsel.

We would like to express our heartfelt appreciation to all our employees for their efforts in the past year.

LEWIE LEON

ANTHONY T. LEON

Review of Operations

FINANCIAL

Sales in 1981 of \$116,188,000 increased by \$24,911,000 or 27.3% over 1980. The entire gain came from existing stores as there were no new store openings in 1981. However, most of the increase occurred during the first six months of the year (traditionally the weaker half of the year) while the fourth quarter (traditionally a strong quarter) produced only a 7.6% sales increase over the corresponding quarter in 1980. This can be attributed primarily to the fact that in Ontario, where most of the Company's stores are located, the government eliminated retail sales tax on furniture and most appliances during the first six months of the year. In addition the Company's merchandising and advertising programmes were received in a generally better retail climate in the first half.

While gross margins in 1981 decreased by approximately 1% due to a greater mix of appliance sales, operating costs as a percentage of sales declined slightly, producing a record profit level of \$3,736,000 or \$3.06 per share. The most significant operating expenditure increase was advertising, which increased by 65%. Provisions were necessary in 1981 for warranty and other costs that may result from the bankruptcy of several suppliers, particularly Admiral Corporation.

Working capital increased to \$8,058,000 from \$4,724,000 in 1981, mainly represented by an increase in inventory. Subsequent to the year end, inventories have been reduced in line with the difficult sales environment being experienced in 1982. Deposit receipts declined but this was due to repayment of mortgages that fell due in the year and which management elected not to renew at prevailing high rates. It is noteworthy that in contrast to many companies saddled with large debts at high rates, the Company's interest expense actually declined during the year.

Shareholders' equity of \$23,490,000 represents 46.6% of total assets up from 40% in 1981. Return on average shareholders' equity was 16.9% compared to 13.6% last year.

Expressed in share value, shareholders' equity increased to \$19.16 from \$17.17 in 1980.

U.S.A.

The Company operates an 86,000 sq. ft. outlet in Houston, Texas and a 126,000 sq. ft. outlet in Tempe, Arizona. While these operations suffered a loss in 1981, the loss was substantially reduced from the previous year (\$435,000 compared to \$1,207,000) due to a number of operational changes instituted during the year. The Houston store made a slight profit for the year with a loss occurring in the Tempe operation. Assuming the U.S. economy does not deteriorate too much further, we expect continued improvement in performance.

NEW DEVELOPMENTS

WELLAND

Substantial renovations were undertaken on our 48,000 sq. ft. building in Welland, Ontario. Welland is where the business first started in 1909 and the operation there has always been quite successful. The premises are now modern and beautiful and the Company is looking forward to being able to better serve the Niagara Peninsula.

BURLINGTON

A carpet department has been added to the Burlington outlet. Excess storage area was re-organized to accommodate this department and only a minimal capital expenditure was required. Sales from this department are meeting expectations. The Company now retails carpets from four locations.

FURNITURE, APPLIANCES AND CARPETS

All three divisions registered satisfactory sales gains during the year.

DIVIDENDS

In November 1981 the Directors declared an annual dividend of 90¢ per share payable January 5, 1982 with a record date of December 11, 1981. The dividend was increased from last year's rate of 75¢ per share and 1981 is the eighth year in succession that the Company has paid a dividend.

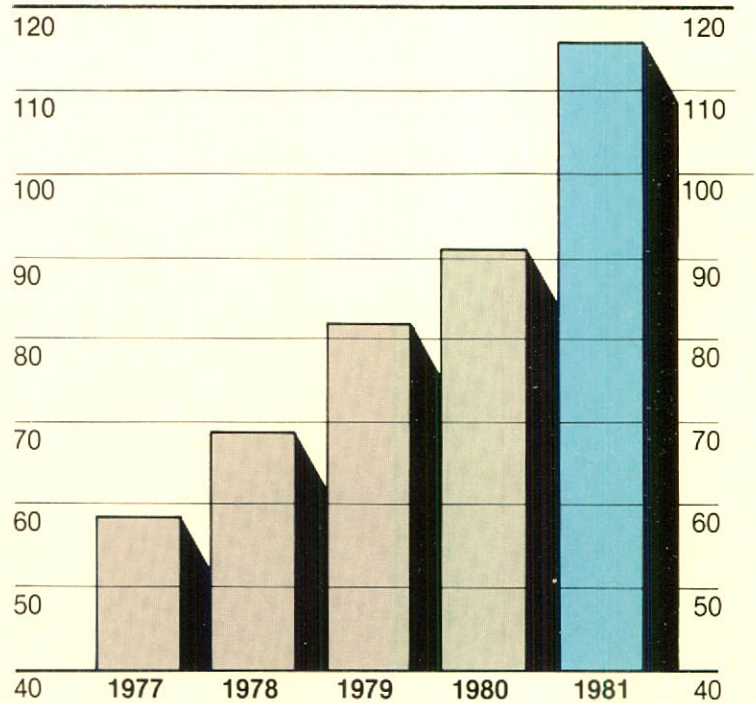
The Dividend record is as follows:

1974, 1975	20¢ per share
1976, 1977	49¢ per share
1978, 1979, 1980	75¢ per share
1981	90¢ per share

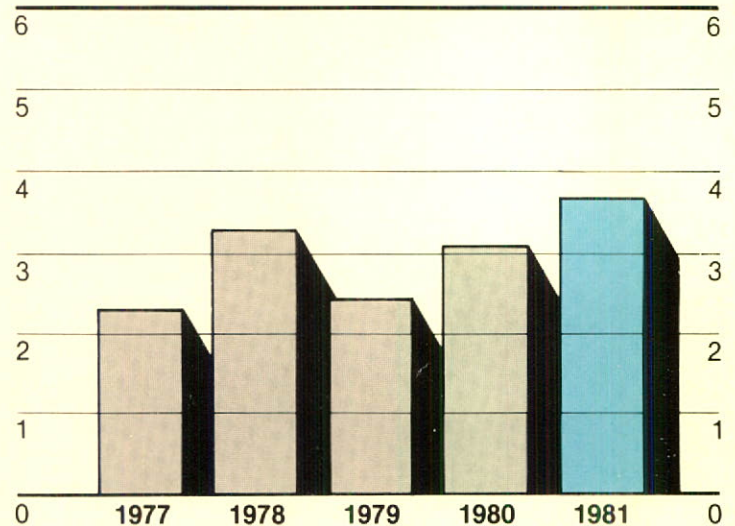
EARNINGS PER SHARE FOR EACH QUARTER

	MAR 31	JUNE 30	SEPT 30	DEC 31	TOTAL
From operations:					
1981	46¢	\$1.25	83¢	52¢	\$3.06
1980	26¢	51¢	73¢	71¢	\$2.21
1979	35¢	66¢	98¢	6¢	\$2.05
From extraordinary item:					
1980		30¢			30¢

SALES IN MILLIONS



NET INCOME IN MILLIONS



Income Statistics (in thousands)

	1971*	1977	1978	1979	1980	1981
Sales	\$20,815	\$59,540	\$69,620	\$81,312	\$91,277	\$116,188
Cost of sales	13,128	39,057	44,804	52,548	56,940	73,739
Gross Profit	7,687	20,483	24,816	28,764	34,337	42,449
Operating expenses (net of interest and sundry income)	4,835	13,206	15,301	19,417	23,265	30,189
Rent and property taxes	1,092	1,106	1,107	1,199	1,296	1,395
Depreciation and amortization	91	962	1,241	1,555	1,887	1,823
Interest on long-term debt	87	1,188	1,157	1,246	1,610	1,290
	6,105	16,462	18,806	23,417	28,058	34,697
Income before items shown below	1,582	4,021	6,010	5,347	6,279	7,752
Income taxes	810	1,754	2,733	2,896	3,616	4,016
Income before extraordinary item	772	2,267	3,277	2,451	2,663	3,736
Extraordinary item: Expropriation of land (net of tax)					363	
Net income	\$ 772	\$ 2,267	\$ 3,277	\$ 2,451	\$ 3,026	\$ 3,736
Shares outstanding (000's) (weighted average)	1,167	1,186	1,194	1,197	1,206	1,223
Earnings per share						
Income before extraordinary item	\$0.66	\$1.91	\$2.75	\$2.05	\$2.21	\$3.06
Net income for the year	\$0.66	\$1.91	\$2.75	\$2.05	\$2.51	\$3.06
Percent annual increase in sales	14.8%	5.6%	16.9%	16.8%	12.3%	27.3%
Income before extraordinary item as a percentage of sales	3.7%	3.8%	4.7%	3.0%	2.9%	3.2%
Dividends	Nil	\$ 585	\$ 898	\$ 898	\$ 906	\$ 1,103

Balance Sheet Statistics (in thousands)

Shareholders' equity	\$ 4,982	\$14,586	\$16,989	\$18,544	\$20,746	\$23,490
Total assets	9,322	35,664	41,673	48,406	51,944	50,371
Additions to fixed assets	1,824	222	7,009	8,900	599	872
Increase(decrease)in long-term debt-net	1,059	(362)	(255)	2,344	(3,699)	(368)
Working capital	3,738	11,570	8,057	4,777	4,724	8,058
Current ratio	2.2:1	2.3:1	1.6:1	1.3:1	1.2:1	1.5:1
Shareholders' equity per share	\$4.27	\$12.22	\$14.20	\$15.49	\$17.17	\$19.16
Share price range on Toronto Stock Exchange						
High	\$7.38	\$8.50	\$16.88	\$18.00	\$22.00	\$20.00
Low	4.70	6.50	7.38	13.50	11.00	17.00

* 1971 figures provided for historical perspective.

LEON'S FURNITURE LIMITED

(Incorporated under the laws of Ontario)

December 31, 1981

(with comparative figures at December 31, 1980)

ASSETS

	1981	1980
Current assets:		
Deposit receipts	\$ 393,000	\$ 5,642,000
Accounts receivable and prepaid expenses	921,000	1,218,000
Inventory	23,536,000	18,569,000
Total current assets	<u>24,850,000</u>	<u>25,429,000</u>
Fixed assets (note 1):		
Buildings and leasehold improvements	20,820,000	20,389,000
Vehicles	2,250,000	2,069,000
Equipment, signs and paving	4,845,000	4,688,000
	<u>27,915,000</u>	<u>27,146,000</u>
Less accumulated depreciation and amortization	<u>10,373,000</u>	<u>8,612,000</u>
	<u>17,542,000</u>	<u>18,534,000</u>
Land, including \$542,000 (1980-\$537,000) for future outlets	<u>7,802,000</u>	<u>7,795,000</u>
Net fixed assets	<u>25,344,000</u>	<u>26,329,000</u>
Sundry investments and advances, at cost	<u>177,000</u>	<u>186,000</u>
	<u>\$50,371,000</u>	<u>\$51,944,000</u>

Auditors' Report

To the Shareholders of
Leon's Furniture Limited:

We have examined the consolidated balance sheet of Leon's Furniture Limited as at December 31, 1981 and the consolidated statements of income and retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

Toronto, Canada,
February 24, 1982.

Consolidated Balance Sheet

LIABILITIES AND SHAREHOLDERS' EQUITY

Current liabilities:

Accounts payable and accrued liabilities
 Customers' deposits
 Current portion of long-term debt
 Dividend payable
 Income taxes payable

Total current liabilities

Long-term debt (note 3)

Deferred taxes

Shareholders' equity:

Capital stock (note 4) -

Authorized:

3,000,000 shares without par value

Issued:

1,225,700 shares (1,208,300 in 1980)

Retained earnings

Total shareholders' equity

(See accompanying notes)

	1981	1980
Accounts payable and accrued liabilities	\$14,333,000	\$14,287,000
Customers' deposits	728,000	796,000
Current portion of long-term debt	340,000	3,860,000
Dividend payable	1,103,000	906,000
Income taxes payable	288,000	856,000
Total current liabilities	16,792,000	20,705,000
Long-term debt (note 3)	9,976,000	10,344,000
Deferred taxes	113,000	149,000
Shareholders' equity:		
Capital stock (note 4) -		
Authorized:		
3,000,000 shares without par value		
Issued:		
1,225,700 shares (1,208,300 in 1980)	3,442,000	3,331,000
Retained earnings	20,048,000	17,415,000
Total shareholders' equity	23,490,000	20,746,000
	\$50,371,000	\$51,944,000

On behalf of the Board :

Rewie Leon

Director

Anthony Deon

Director

In our opinion, these consolidated financial statements present fairly the financial position of the company as at December 31, 1981 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Clarkson Gordon

Chartered Accountants

LEON'S FURNITURE LIMITED
CONSOLIDATED STATEMENT OF INCOME AND RETAINED EARNINGS
FOR THE YEAR ENDED DECEMBER 31, 1981

(with comparative figures for the year ended December 31, 1980)

	1981	1980
Sales	\$116,188,000	\$91,277,000
Cost of sales	<u>73,739,000</u>	<u>56,940,000</u>
Gross profit	<u>42,449,000</u>	<u>34,337,000</u>
Operating expenses (income):		
Salaries and commissions	14,452,000	12,115,000
Employee deferred profit-sharing plan (note 6)	408,000	339,000
Advertising	10,637,000	6,424,000
Rent and property taxes	1,395,000	1,296,000
Depreciation and amortization	1,823,000	1,887,000
Interest on long-term debt	1,290,000	1,610,000
Interest income on deposit receipts	(305,000)	(166,000)
Other operating expenses and income (net)	<u>4,997,000</u>	<u>4,553,000</u>
	<u>34,697,000</u>	<u>28,058,000</u>
Income before items shown below	7,752,000	6,279,000
Income taxes	<u>4,016,000</u>	<u>3,616,000</u>
Income before extraordinary item	3,736,000	2,663,000
Extraordinary item:		
Gain on expropriation of land (net of tax) (note 2)		<u>363,000</u>
Net income	3,736,000	3,026,000
Retained earnings, beginning of year	17,415,000	15,295,000
Dividends	<u>(1,103,000)</u>	<u>(906,000)</u>
Retained earnings, end of year	<u>\$ 20,048,000</u>	<u>\$17,415,000</u>
Shares outstanding (weighted average)	<u>1,222,850</u>	<u>1,205,500</u>
Earnings per share (note 4):		
Income before extraordinary item	<u>\$3.06</u>	<u>\$2.21</u>
Net income for the year	<u>\$3.06</u>	<u>\$2.51</u>

(See accompanying notes)

LEON'S FURNITURE LIMITED
CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION
FOR THE YEAR ENDED DECEMBER 31, 1981
(with comparative figures for the year ended December 31, 1980)

	1981	1980
Working capital was provided from:		
Operations -		
Income before extraordinary item	\$3,736,000	\$2,663,000
Add (deduct) amounts not requiring an outlay of funds:		
Depreciation and amortization	1,823,000	1,887,000
Deferred taxes	(36,000)	4,000
Gain on sale of fixed assets	(4,000)	(14,000)
Funds from operations	<u>5,519,000</u>	<u>4,540,000</u>
Gain on expropriation of land (net of tax)		363,000
Mortgages obtained (repaid)	(28,000)	161,000
Proceeds on sale of fixed assets	38,000	159,000
Reduction in sundry investments and advances	9,000	7,000
Proceeds on stock options exercised	111,000	82,000
Total funds provided	<u>5,649,000</u>	<u>5,312,000</u>
Working capital was applied to:		
Purchase of fixed assets	872,000	599,000
Current maturities of long-term debt	340,000	3,860,000
Dividends	1,103,000	906,000
Total funds applied	<u>2,315,000</u>	<u>5,365,000</u>
Increase (decrease) in working capital	3,334,000	(53,000)
Working capital, beginning of year	4,724,000	4,777,000
Working capital, end of year	<u>\$8,058,000</u>	<u>\$4,724,000</u>
Changes in components of working capital:		
Deposit receipts	\$(5,249,000)	\$4,642,000
Accounts receivable and prepaid expenses	(297,000)	372,000
Inventory	4,967,000	(36,000)
Accounts payable and accrued liabilities	(46,000)	(464,000)
Customers' deposits	68,000	(317,000)
Income taxes payable	568,000	(781,000)
Current portion of long-term debt	3,520,000	(3,461,000)
Dividend payable	(197,000)	(8,000)
Increase (decrease) in working capital	<u>\$3,334,000</u>	<u>\$ (53,000)</u>

(See accompanying notes)

LEON'S FURNITURE LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 1981

1. Summary of significant accounting policies

Principles of consolidation -

The consolidated financial statements include the accounts of the company and its subsidiaries, all of which are wholly-owned.

Foreign exchange translation -

Merchandise imported from the United States is recorded at its equivalent Canadian dollar value upon receipt; United States dollar accounts payable are translated at the year-end exchange rate.

The company's U.S. subsidiaries maintain their accounts in United States dollars and their statements are translated into Canadian dollars as follows: fixed assets at historical rates of exchange, all other assets and liabilities at exchange rates prevailing at the end of the year, depreciation at historical rates of exchange and income and all other expenses at average rates for the year. Foreign exchange gains and losses are included in income.

Inventory -

Inventory is valued at the lower cost on a first-in, first-out basis and net realizable value less normal profit margin.

Fixed assets -

Property and equipment are initially recorded at cost and normal maintenance and repair expenditures are charged to expense as incurred. Depreciation is provided over estimated service lives:

Buildings	- 5% per annum, straight line
Parking lots	- 4% per annum, straight line
Equipment and signs	- 20% - 30% per annum, declining balance
Vehicles	- 30% per annum, declining balance
Leasehold improvements	- Over the terms of the leases to a maximum of 15 years

Store pre-opening costs -

Store pre-opening costs are charged to expense as incurred.

Income taxes -

The company follows the tax allocation method of providing for income taxes. Under this method, timing differences between reported and taxable incomes (which occur when revenues and expenses recognized in the accounts in one year are taxed or claimed for tax purposes in another year) result in deferred or prepaid taxes.

The company's U.S. subsidiaries have incurred losses aggregating U.S. \$2,122,000 which may be carried forward and applied against such taxable income as may be earned by the companies in future years to 1996. The potential tax benefits of carrying forward these costs will not be reflected in earnings until they are actually recovered.

2. Expropriation of land

During 1980 court-awarded proceeds on land expropriated in 1975 were \$363,000, after providing for tax of \$157,000.

3. Long-term debt

	1981	1980
Mortgages on land and buildings		
- payable in U.S. dollars	\$ 3,498,000	\$ 3,596,000
- payable in Canadian dollars	5,718,000	9,408,000
8% Sinking Fund Debentures, due May 1, 1987		
- payable in Canadian dollars	<u>1,100,000</u>	<u>1,200,000</u>
	<u>10,316,000</u>	<u>14,204,000</u>
Less current portion of long-term debt	<u>340,000</u>	<u>3,860,000</u>
	<u>\$ 9,976,000</u>	<u>\$10,344,000</u>

The mortgage loans are secured by certain fixed assets, bear interest at rates varying from 9.25% to 11.50% per annum and mature at varying dates to 1999. The 8% Sinking Fund Debentures are secured by a specific charge on all the shares of Leon Holdings (1967) Limited, a subsidiary, and are held by shareholders.

The long-term debt matures as follows:

1983	-	\$ 364,000
1984	-	390,000
1985	-	418,000
1986	-	450,000
1987-1991	-	3,162,000
1992-1996	-	4,680,000
1997-1999	-	<u>512,000</u>
		<u>\$9,976,000</u>

4. Stock options

The company has an incentive stock option plan pursuant to which non-assignable options to purchase shares in the capital of the company have been granted to officers and key employees. No further options may be granted under the plan.

In 1981, options on 17,400 shares for \$111,000 were exercised.

Options outstanding under the plan are exercisable on a cumulative basis as to 20% thereof during each twelve-month period following the first anniversary of the date

granted. Options on 10,400 shares were outstanding at December 31, 1981:

Year	Price	Number of shares
1978	\$10.13	3,000
1979	13.16	<u>7,400</u>
		<u>10,400</u>

5. Commitments

The company is obligated, under leases expiring at varying dates to the year 2004, to minimum annual rentals for land and buildings from December 31, 1981 as follows:

1982	—	\$ 275,000
1983	—	267,000
1984	—	274,000
1985	—	281,000
1986	—	284,000
1987-1991	—	1,395,000
1992-1996	—	1,064,000
Subsequent	—	364,000

Annual rental income from leases to others will be approximately \$143,000 in 1982. The company may, at its option, renew most of the leases expiring in the next five years.

6. Employee deferred profit-sharing plan

Under the company's registered employee deferred profit-sharing plan, \$408,000 was set aside in 1981 (1980 - \$339,000). The plan provides that the directors are to determine annually the amount of the contribution, and that it may be a maximum of 10% and a minimum of 1% of the income before income taxes, excluding any unusual items, plus the deferred profit-sharing plan contribution.

7. Directors' and senior officers' remuneration

The remuneration paid or payable by the company and its subsidiaries to its directors as such was \$2,300 for 1981. The aggregate direct remuneration paid or payable by the company and its subsidiaries to the senior officers of the company (as defined in The Business Corporations Act) was \$566,000 for 1981.

8. Segmented information

The company sells home furnishings, appliances and carpets through a chain of retail facilities located in Canada and the United States. Operations and identifiable assets by geographic region are presented below.

	1981 (thousands of dollars)		
	Canada	U.S.	Consolidated
Sales	<u>\$105,619</u>	<u>\$10,569</u>	<u>\$116,188</u>
Profit (loss) before income taxes and extraordinary item	<u>\$ 8,187</u>	<u>\$ (435)</u>	<u>\$ 7,752</u>
Identifiable assets	<u>\$ 42,176</u>	<u>\$ 8,195</u>	<u>\$ 50,371</u>
	1980 (thousands of dollars)		
	Canada	U.S.	Consolidated
Sales	<u>\$84,009</u>	<u>\$7,268</u>	<u>\$91,277</u>
Profit (loss) before income taxes and extraordinary item	<u>\$ 7,486</u>	<u>\$(1,207)</u>	<u>\$ 6,279</u>
Identifiable assets	<u>\$44,231</u>	<u>\$7,713</u>	<u>\$51,944</u>

Company Facilities

CANADA		Gross Space
ALBERTA		(sq. ft.)
Calgary*	Leon's Furniture	65,000
Edmonton	Leon's Furniture Warehouse and Showroom	150,000
ONTARIO		
Burlington	Leon's Furniture Warehouse and Showroom	150,000
Kitchener	Leon's Furniture	50,000
London	Leon's Furniture	50,000
Ottawa	Leon's Furniture	75,000
St. Catharines	Leon's Furniture	15,000
Toronto	Leon's Furniture/Carpet/Appliance Warehouse and Showroom	226,000
Toronto*	New Era Furniture and Appliances	55,000
Toronto*	New Era Furniture and Appliances	26,000
Toronto*	Carriage House Fine Furniture	50,000
Toronto	Head Offices	25,000
Toronto	Leon's Furniture/Carpet/Appliance Warehouse, Showroom and Distribution Centre	230,000
Welland	Leon's Furniture	48,000
QUEBEC		
Montreal	Leon's Furniture Warehouse and Showroom	150,000
U.S.A.		
TEXAS		
Houston	Leon's Furniture Warehouse and Showroom	86,000
ARIZONA		
Tempe	Leon's Furniture Warehouse and Showroom	126,000
		<hr/>
		1,577,000
		<hr/>

*Leased premises; all others are company-owned.

Leon's Furniture Limited, 88 Gordon Mackay Road, P.O.Box 460, Weston, Ontario. M9N 3N2