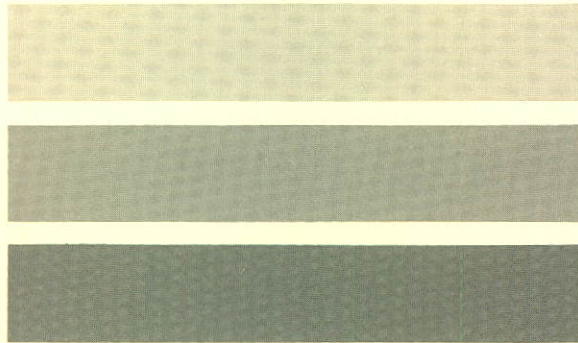


Sklar-Peppler



HOWARD ROSS LIBRARY
OF MANAGEMENT
APR 10 1981
MCGILL UNIVERSITY

SKLAR MANUFACTURING LIMITED
ANNUAL REPORT 1980

300-1542

**SKLAR
MANUFACTURING
LIMITED**

**CONSOLIDATED STATEMENT
OF EARNINGS**

FOR THE YEARS ENDED
DECEMBER 31, 1980 and 1979

	1980	1979
Net sales	<u>\$69,795,000</u>	<u>\$59,634,000</u>
Operating costs and expenses		
Cost of goods sold	53,901,000	47,137,000
Marketing, general and administrative	10,107,000	8,523,000
Depreciation	481,000	421,000
Interest on long term debt net of interest income of \$591,000 (1979 - \$419,000)	300,000	876,000
	<u>64,789,000</u>	<u>56,957,000</u>
Earnings before income taxes and extraordinary income	<u>5,006,000</u>	<u>2,677,000</u>
Income taxes		
Current	1,566,000	1,253,000
Deferred	829,000	—
	<u>2,395,000</u>	<u>1,253,000</u>
Earnings before extraordinary income	<u>2,611,000</u>	<u>1,424,000</u>
Extraordinary income		
Reduction in current income taxes as a result of loss carry forward	516,000	1,253,000
	<u>\$ 3,127,000</u>	<u>\$ 2,677,000</u>
Net earnings		
Basic earnings per share (note 5)		
Before extraordinary income	\$ 1.09	\$.59
Net earnings	1.30	1.11

See accompanying notes to consolidated financial statements.

AUDITORS' REPORT

To the Shareholders of
Sklar Manufacturing Limited

We have examined the consolidated balance sheet of Sklar Manufacturing Limited as at December 31, 1980 and the consolidated statements of earnings, retained earnings (deficit) 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.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at December 31, 1980 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.

Soberman, Isenbaum and Colomby
Chartered Accountants

Toronto, Canada
February 23, 1981

SKLAR MANUFACTURING LIMITED

CONSOLIDATED TEN YEAR SUMMARY

(in thousands of
dollars except
per common share
calculations and
other statistics)

	1980	1979	1978	1977	1976	1975	1974	1973	1972	1971
OPERATIONS										
Net sales (excluding discontinued operations)	\$69,795	\$59,634	\$51,907	\$47,401	\$47,082	\$41,404	\$43,429	\$38,116	\$28,213	\$19,753
Earnings (loss) before taxes and extraordinary items	5,006	2,677	1,765	(3,458)	(692)	(4,025)	1,093	4,276	3,071	949
Earnings (loss) before extraordinary items	2,611	1,424	950	(3,355)	(770)	(2,781)	385	2,377	1,597	462
Net earnings (loss)	3,127	2,677	1,879	(4,434)	26	(2,781)	385	2,377	1,770	640
CAPITAL EXPENDITURES										
	1,148	379	245	198	480	2,322	3,414	1,405	1,458	472
FINANCIAL POSITION										
Working capital	13,127	12,117	11,026	3,337	8,042	4,026	7,382	6,630	4,302	3,394
Current ratio	2.68:1	3.22:1	2.84:1	1.20:1	1.52:1	1.26:1	1.49:1	1.69:1	1.56:1	1.72:1
Fixed assets (net)	3,865	3,198	3,258	6,474	7,131	7,935	6,806	4,436	3,923	2,964
Total assets	25,617	21,885	21,436	26,338	30,747	27,765	29,153	20,621	15,891	11,064
Long term debt	7,800	10,000	11,700	7,952	8,973	5,885	4,291	1,943	1,868	3,110
Shareholders' equity	9,433	6,415	3,738	1,859	6,293	6,149	8,930	8,537	5,997	3,065
PER COMMON SHARE										
Basic net earnings (loss) before extraordinary items	1.09	0.59	0.40	(1.40)	(0.32)	(1.16)	0.16	1.02	0.72	0.25
Basic net earnings (loss)	1.30	1.11	0.78	(1.85)	0.01	(1.16)	0.16	1.02	0.79	0.35
Shareholders' equity	3.92	2.67	1.56	0.77	2.62	2.56	3.72	3.56	2.59	1.67
OTHER STATISTICS										
Approximate number of shareholders	1,360	1,500	1,900	2,100	2,150	1,900	1,900	1,900	1,700	1,800
Common shares outstanding at year end (000's)	2,408	2,403	2,403	2,403	2,403	2,403	2,403	2,400	2,319	1,836

SKLAR MANUFACTURING LIMITED

DIRECTORS

- * DOUGLAS R. ANNETT
** Don Mills, Ontario
President, Annett Partners Limited
- * ALLAN L. BEATTIE, Q.C.
Toronto, Ontario
Managing Partner, Osler, Hoskin & Harcourt
- PAUL A. BIENVENU
Montreal, Quebec
President, Howard Bienvenu Inc.
- PAUL F. BLACK
Toronto, Ontario
President, Black, Galper & Heessels Limited
- EDWIN T. COHEN
Willowdale, Ontario
*Managing Director, ECO Markets Research
and Advisory Associates Ltd.*
- JOSEPH SKLAR
Toronto, Ontario
*Senior Vice-President
Sklar Manufacturing Limited*
- * LOUIS SKLAR
** Oshawa, Ontario
*President
Sklar Manufacturing Limited*
- SAMUEL SKLAR
Toronto, Ontario
*Chairman of the Board
Sklar Manufacturing Limited*
- ** JACK B. WHITELEY
Oakville, Ontario
*Chairman and Chief Executive Officer,
Calvert-Dale Estates Ltd.*

* Member of Executive Committee

** Member of Audit Committee

OFFICERS

- SAMUEL SKLAR
Chairman of the Board
- LOUIS SKLAR, B.A.Sc.,
President
- JOSEPH SKLAR
Senior Vice-President
- R.E.G. WILSON, B. Comm., C.A.,
Vice-President, Finance and Secretary
- J.E.R. DEMERS, R.I.A.,
Treasurer

HEAD OFFICE

617 Victoria Street East, Whitby, Ontario L1N 5S7 Telephone (416) 668-3315 or (416) 924-7463

PLANTS

Whitby, Ontario
Weston, Ontario
Hanover, Ontario
Southampton, Ontario

SHOWROOMS

Downsview, Ontario
Montreal, Quebec

TRANSFER AGENT AND REGISTRAR

Montreal Trust Company, Toronto and Montreal

BANKERS

The Royal Bank of Canada

AUDITORS

Soberman, Isenbaum & Colomby

STOCK LISTING

Toronto Stock Exchange (SKM)

SKLAR MANUFACTURING LIMITED

PRESIDENT'S REPORT TO SHAREHOLDERS

1980 was a landmark year for our company, for two reasons. First, it recorded the highest sales and profits in its history. Second, and perhaps more important, the accomplishments of 1980 have clearly completed the recovery process that began in 1977 when the company was in severe financial difficulty.

During 1980, we made major progress in a number of areas. Some of the highlights are as follows:

- Sales were \$69,795,000, which represents an increase of 17% over 1979 sales of \$59,634,000. At the same time, profits before taxes and extraordinary income, which is the figure that reflects the effectiveness of the company's operations were \$5,006,000. This represents an increase of 87% over the 1979 figure of \$2,677,000.
- Long-term debt was reduced from \$10,000,000 to \$7,800,000 as a result of a prepayment of \$2,200,000. Also, during 1980, the company undertook capital projects involving a total cost of approximately \$1,150,000 for the purpose of upgrading its existing production facilities. After this prepayment and the investment in capital projects, the company remains in an excellent working capital position, with a current ratio of better than 2.6:1.
- On November 27th, 1980, the company announced that for the first time, it will begin paying a dividend on its common shares. The first half-yearly dividend of 5¢ per share was paid on January 20th, 1981.
- As a result of the improvement in the financial position of the company, management was successful in negotiating the termination of the federal and provincial government guarantees on \$4,750,000 of term loan. This will result in a reduction of debt servicing costs because there was a 1% charge attached to these guarantees.
- The company began a national advertising program for the purpose of telling the consumer what Sklar-Pepler represents. We have established a position of industry leadership in terms of style, comfort, quality, and, indeed, in "value" in the broadest sense. We have now come to the point where we must firmly establish the public image that this position of leadership warrants.
- We negotiated the purchase of all of the outstanding shares of Heintzman Limited, a well-known manufacturer of quality pianos. Heintzman had encountered severe financial difficulties as a result of losses which had accumulated over the past number of years, and at the time of the purchase, it was in receivership. We believe that this acquisition will prove to be a benefit to our company. The acknowledged high standard of quality of its products is in keeping with the Sklar-Pepler image. Also its manufacturing facilities, located in Hanover, Ontario, are larger than required to produce pianos for the foresee-

able future. This will permit us to implement a much needed increase in production of Sklar-Pepler wood furniture products.

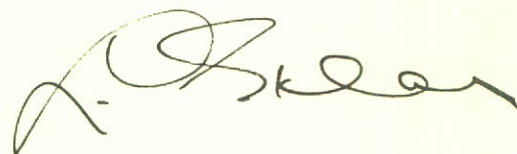
- The company's manufacturing facilities were able to improve levels of productivity and efficiency, notwithstanding the fact that they were faced with a significantly more complex product mix, resulting from an increased emphasis on variety and fashion.

There appears to be unanimous agreement in the business community that the economy will perform poorly in the first half of 1981. Some recovery is anticipated for the second half, but for the year as a whole, there will be, at best, insignificant growth. Although this does not augur well for our industry, we, at Sklar, have reason to be optimistic. Our backlog of orders was at relatively high levels for all divisions as we entered 1981, and in addition, our annual January Show was one of the most successful in our history. We are, therefore, in an excellent position to cope with the poor economic conditions that our industry is facing at this time. Barring a further deterioration in the economy, or disruptions in production arising out of labour contract negotiations, 1981 should be a good year for the company.

Because of uncertainties in the North American economy for at least the next two or three years following 1981, we believe that the prudent approach is to plan our course cautiously. Major capital expenditures will be incurred only when necessary, or in those cases where management believes that there will be a high return on investment. We are confident that by proceeding carefully, and continuing to improve our marketing programs and manufacturing efficiencies, the company will continue to strengthen, even if the economy remains sluggish for the first half of the 1980's. Of course, if conditions improve, a more aggressive approach to growth may become appropriate.

I take considerable pride in identifying the fact that the four year turnaround of the company, culminating with the accomplishments of 1980, is a direct reflection of the high quality of the Sklar-Pepler people in all functions and at all levels. They accepted a difficult challenge with enthusiasm and confidence, and they certainly deserve to be commended for the successes they have achieved.

LOUIS SKLAR
President



February 23, 1981

**SKLAR
MANUFACTURING
LIMITED**

(Incorporated under the Laws of Ontario)

**CONSOLIDATED
BALANCE SHEET**

AS AT DECEMBER 31, 1980 and 1979

ASSETS

Current

Cash and short term deposits
Accounts receivable
Inventories (note 2)
Prepaid expenses

Long term receivable (note 3)

Fixed - at cost

Land
Buildings and leasehold improvements
Machinery and equipment

Less: accumulated depreciation

**LIABILITIES AND
SHAREHOLDERS' EQUITY**

Current

Accounts payable and accrued charges
Income and other taxes payable
Dividend payable
Deferred income taxes - current

Long term debt (note 4)

Deferred income taxes

Shareholders' equity

Capital stock (note 5)
Authorized
3,500,000 common shares without par value
Issued
2,407,569 (1979 - 2,402,969 shares)
Retained earnings (deficit)

	1980	1979
Cash and short term deposits	\$ 3,929,000	\$ 3,196,000
Accounts receivable	7,372,000	5,959,000
Inventories (note 2)	9,438,000	8,259,000
Prepaid expenses	213,000	173,000
	<u>20,952,000</u>	<u>17,587,000</u>
Long term receivable (note 3)	800,000	1,100,000
Fixed - at cost		
Land	62,000	62,000
Buildings and leasehold improvements	4,018,000	3,727,000
Machinery and equipment	5,662,000	4,923,000
	<u>9,742,000</u>	<u>8,712,000</u>
Less: accumulated depreciation	5,877,000	5,514,000
	<u>3,865,000</u>	<u>3,198,000</u>
	<u>\$25,617,000</u>	<u>\$21,885,000</u>
Current		
Accounts payable and accrued charges	\$ 5,379,000	\$ 4,740,000
Income and other taxes payable	2,055,000	730,000
Dividend payable	121,000	—
Deferred income taxes - current	270,000	—
	<u>7,825,000</u>	<u>5,470,000</u>
Long term debt (note 4)	7,800,000	10,000,000
Deferred income taxes	559,000	—
Shareholders' equity		
Capital stock (note 5)		
Authorized		
3,500,000 common shares without par value		
Issued		
2,407,569 (1979 - 2,402,969 shares)	7,503,000	7,491,000
Retained earnings (deficit)	1,930,000	(1,076,000)
	<u>9,433,000</u>	<u>6,415,000</u>
	<u>\$25,617,000</u>	<u>\$21,885,000</u>

See accompanying notes to consolidated financial statements.

Approved on behalf of the Board



Director



Director

**SKLAR
MANUFACTURING
LIMITED**

**CONSOLIDATED STATEMENT
OF RETAINED EARNINGS
(DEFICIT)**

FOR THE YEARS ENDED
DECEMBER 31, 1980 and 1979

	1980	1979
Deficit, beginning of year	(\$1,076,000)	(\$3,753,000)
Net earnings	<u>3,127,000</u>	<u>2,677,000</u>
	2,051,000	(1,076,000)
Dividend	<u>121,000</u>	<u>—</u>
Retained earnings (deficit), end of year	<u>\$1,930,000</u>	<u>(\$1,076,000)</u>

See accompanying notes to consolidated financial statements.

**CONSOLIDATED STATEMENT
OF CHANGES IN
FINANCIAL POSITION**

FOR THE YEARS ENDED
DECEMBER 31, 1980 and 1979

	1980	1979
Source of funds		
Earnings before extraordinary income	\$ 2,611,000	\$ 1,424,000
Add charges not involving funds		
Depreciation	481,000	421,000
Deferred income taxes	559,000	—
Loss on disposal of fixed assets	—	18,000
Funds provided by operations	<u>3,651,000</u>	<u>1,863,000</u>
Reduction in current income taxes as a result of loss carry forward	516,000	1,253,000
Reduction in long term receivable	300,000	54,000
Issue of common shares on exercise of employees' stock options	12,000	—
	<u>4,479,000</u>	<u>3,170,000</u>
Application of funds		
Additions to fixed assets - net	1,148,000	379,000
Repayment of long term debt	2,200,000	1,700,000
Dividend	121,000	—
	<u>3,469,000</u>	<u>2,079,000</u>
Increase in working capital	1,010,000	1,091,000
Working capital, beginning of year	<u>12,117,000</u>	<u>11,026,000</u>
Working capital, end of year	<u>\$13,127,000</u>	<u>\$12,117,000</u>

See accompanying notes to consolidated financial statements.

**SKLAR
MANUFACTURING
LIMITED**

**NOTES TO
CONSOLIDATED FINANCIAL
STATEMENTS**

DECEMBER 31, 1980

1 Summary of significant accounting policies

(a) Principles of consolidation

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

(b) Translation of foreign currencies

Current assets and liabilities in foreign currencies are translated into Canadian dollars at the year end exchange rates. The exchange adjustment arising from such translation has been reflected in earnings.

(c) Inventories

Inventories are valued at the lower of cost and net realizable value, with cost determined on a first in, first out basis.

(d) Depreciation

Depreciation is provided in the accounts on the straight line method over the estimated useful lives of the fixed assets as follows:

Buildings —	
20 - 40 years	
Leasehold improvements —	
over the unexpired terms of	
the leases	
Machinery and equipment —	
7 to 10 years	

(e) Pensions

Substantially all of the company's employees are covered by company pension plans as well as by compulsory government plans. The unfunded past service obligation is being amortized annually to 1989.

(f) Leases

The company's leases qualify as operating leases and accordingly, all rental payments are expensed as incurred.

2 Inventories

These consist of:

	1980	1979
Raw materials	\$5,022,000	\$4,145,000
Work in progress	3,123,000	2,623,000
Finished goods	1,293,000	1,491,000
	<u>\$9,438,000</u>	<u>\$8,259,000</u>

3 Long term receivable

This is secured by a debenture and bears interest at prime plus 1%. The principal is payable as follows:

1981	\$ —
1982	100,000
1983	100,000
1984	100,000
1985	500,000

4 Long term debt

At December 31, 1980 this represented a bank income debenture with interest at 13/4% above one half of the lender's prime rate, the interest not deductible for income tax purposes.

On February 2, 1981 the income debenture was converted to a bank term loan with interest at prime plus 3/4%. The terms and conditions under the new term loan are outlined below and remain unchanged except for certain of the restrictions.

(a) Payments

Payments required to retire long term debt are as follows:

1981	\$ —
1982	1,600,000
1983	1,600,000
1984	1,600,000
1985	3,000,000

(b) Security

The long term debt is secured by accounts receivable, inventories and the long term receivable as well as a fixed and floating charge debenture on all other assets.

(c) Restrictions

The restrictions relating to the long term debt require the company to maintain both working capital and shareholders' equity of \$8,000,000 each. There are certain other conditions and restrictions including limitations on the purchase of fixed assets, lease commitments and dividend payments.

5 Capital stock

(a) Options

As at December 31, 1980, 123,400 common shares were reserved for possible issue under the 1979 Key Employees' Stock Option Plan at a price of \$2.52 per share.

**SKLAR
MANUFACTURING
LIMITED**

NOTES TO
CONSOLIDATED FINANCIAL
STATEMENTS

DECEMBER 31, 1980

These options may be exercised in annual amounts for six years and no shares subject to option may be purchasable after March 15, 1986. During 1980, options were exercised for the purchase of 4,600 common shares at a price of \$2.52 per share.

(b) Earnings per share

The exercise of all outstanding options would result in fully diluted earnings per share as follows:

Before extraordinary income	\$1.04
Net earnings	\$1.24

6 Remuneration of directors and senior officers

The total remuneration paid or payable by the company and its subsidiaries to its directors and senior officers amounted to \$652,000 in 1980 and \$602,000 in 1979.

7 Pension plans

Pension costs, including amounts for compulsory government pension plans, were \$775,000 in 1980 and \$637,000 in 1979. These amounts include current service costs and payments on account of the unfunded liability in respect of past service.

Based on the actuarial reviews in 1980 the unfunded liability for past service at December 31, 1980 amounted to approximately \$375,000.

8 Long term leases

The company is committed under long term operating leases with various expiry dates to 1995. Minimum rentals (exclusive of taxes, insurance and maintenance costs) for the next five years under these leases are approximately \$535,000 annually.

9 Comparative figures

Comparative figures for 1979 have been reclassified to conform to the 1980 presentation.

10 Subsequent Events

(a) Acquisition of Heintzman Limited (In Receivership)

On January 19, 1981 the company acquired all the outstanding common shares of Heintzman Limited, a company engaged in the manufacture of pianos. Details

of the acquisition, which is to be accounted for by the purchase method, are as follows:

Assets acquired, at fair value	
Current assets	\$ 180,000
Fixed assets	1,040,000
Future income tax benefits	<u>575,000</u>
	1,795,000

Liabilities assumed	
Current	\$225,000
Non-current	<u>765,000</u>
	990,000

Net purchase price to be settled for cash	<u>\$ 805,000</u>
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In addition to the losses recognized as future income tax benefits in the above purchase price there remains available loss carry forwards for income tax purposes of approximately \$2,070,000 for deduction against future profits.

(b) Reorganization of subsidiaries

On February 2, 1981 the subsidiary companies were reorganized with the result that Sklar Furniture Limited was wound up and its furniture manufacturing operations continued as divisions of Heintzman Limited.

(c) Showroom

In 1981 the company entered into an agreement to purchase 6.4 acres of land in Metropolitan Toronto for \$928,000 as a future showroom site.

