

C

Sears

**Simpsons-Sears Limited Annual Report 1978**



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SEP 1979  
MCGILL UNIVERSITY

# Simpsons-Sears Limited Annual Report for the Fiscal Year Ended January 31, 1979

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### **Edition française du rapport annuel.**

On peut se procurer l'édition française de ce rapport en écrivant au Vice-président, Finances, Simpsons-Sears Limitée, 222 Jarvis Street, Toronto, Ontario, Canada M5B 2B8

## Directors and Officers

### **Directors**

Jack C. Barrow	Douglas J. Peacher
*Thomas J. Bell	John D. Taylor
*G. Allan Burton	Edward R. Telling
*Edgar G. Burton	James M. Tory
James W. Button	William P. Wilder
John F. Gallagher	Arthur M. Wood
†Charles L. Gundy	
Jack F. Kincannon	Crowdus Baker (Honorary Director)

\* Resigned January 1979

† Deceased September 1978

### **Officers**

Jack C. Barrow	Chairman of The Board and Chief Executive Officer
John D. Taylor	President
C. Lester Bishop	Vice-President, Finance
Alex Campbell	Vice-President, Operating
David S. Chapman	Vice-President, Merchandise Distribution
Frank R. Hammond	Vice-President, Retail
Morgan Reid	Vice-President, Planning and Development
C. Richard Sharpe	Vice-President, Merchandising
Leslie Visosky	Vice-President, Personnel
James E. Copland	Corporate Comptroller
Larry E. Ginther	Treasurer
J.J. Michael Eagan	Secretary

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# Catalogue Centres Catalogue Sales Offices Retail Stores

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## Catalogue Centres

Halifax, Nova Scotia  
Toronto, Ontario  
Regina, Saskatchewan  
Vancouver, British Columbia

## 923 Catalogue Sales Offices

## 63 Retail Stores

Barrie, Ontario  
Belleville, Ontario  
Brantford, Ontario  
Burlington, Ontario  
Burnaby, British Columbia  
Calgary, Alberta  
    Chinook-Centre  
    Marlborough  
    North Hill  
Chicoutimi, Quebec  
Chilliwack, British Columbia  
Dundas, Ontario  
Edmonton, Alberta  
    Bonnie Doon  
    Kingsway  
    Meadowlark  
Fredericton, New Brunswick  
Guelph, Ontario

Hamilton, Ontario  
Hull, Quebec  
Kamloops, British Columbia  
Kelowna, British Columbia  
Kingston, Ontario  
Kitchener, Ontario  
Lethbridge, Alberta  
Levis, Quebec  
Markham, Ontario  
Mississauga, Ontario  
Montreal, Quebec  
    les Galeries d'Anjou  
    Mail Champlain  
    Place Vertu  
Moncton, New Brunswick  
Moose Jaw, Saskatchewan  
Nanaimo, British Columbia  
Newmarket, Ontario  
North Vancouver, British Columbia  
Oshawa, Ontario  
Ottawa, Ontario  
    Carlingwood  
    St. Laurent  
Peterborough, Ontario  
Prince Albert, Saskatchewan  
Prince George, British Columbia

Quebec City, Quebec  
    Fleur de Lys  
    Place Laurier  
Red Deer, Alberta  
Richmond, British Columbia  
Richmond Hill, Ontario  
Saint John, New Brunswick  
Sarnia, Ontario  
Saskatoon, Saskatchewan  
Sault Ste. Marie, Ontario  
Sherbrooke, Quebec  
St. Catharines, Ontario  
St. Jerome, Quebec  
St. John's, Newfoundland  
Sudbury, Ontario  
Surrey, British Columbia  
Thunder Bay, Ontario  
Toronto, Ontario  
Trois-Rivières, Quebec  
Vancouver, British Columbia  
Victoria, British Columbia  
Windsor, Ontario  
Winnipeg, Manitoba  
    Garden City  
    Polo Park

**Sears**

## Simpsons-Sears Limited

Head Office,  
222 Jarvis Street,  
Toronto, Ontario, Canada  
M5B 2B8

## Transfer Agent and Registrar

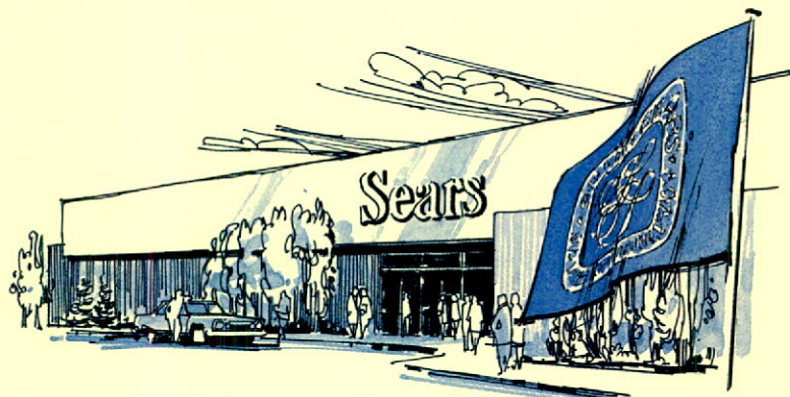
The Royal Trust Company,  
Toronto, Ontario;  
Montreal, P.Q.;  
Calgary, Alberta

## Financial Highlights

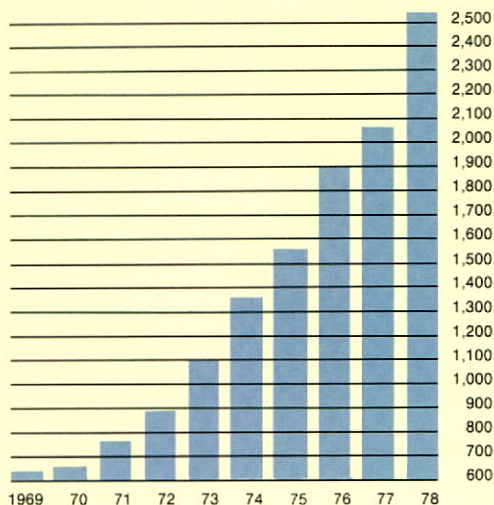
	1978 56 Weeks	1977 52 Weeks
Net sales .....	<b>\$2,541,669,000</b>	\$2,093,378,000
Net earnings .....	<b>57,725,000</b>	44,926,000
*Per share .....	<b>.76</b>	.60
Dividends declared .....	<b>20,526,000</b>	18,077,000
Per share .....	<b>.27</b>	.24
Shareholders' equity .....	<b>436,137,000</b>	390,461,000
Per share .....	<b>5.72</b>	5.18
Municipal realty and business taxes .....	<b>25,793,000</b>	21,170,000
Federal and provincial income taxes .....	<b>37,503,000</b>	27,700,000
Depreciation .....	<b>31,923,000</b>	28,992,000
Contributions to Simpsons-Sears Plan for Sharing Profits and Company and Government Pension Plans .....	<b>21,029,000</b>	15,938,000
Expenditures for fixed assets .....	<b>34,986,000</b>	42,046,000

\*Based on weighted average number of shares outstanding during the period.

*Guelph, Ontario  
Enlarged and relocated  
March 1, 1978*



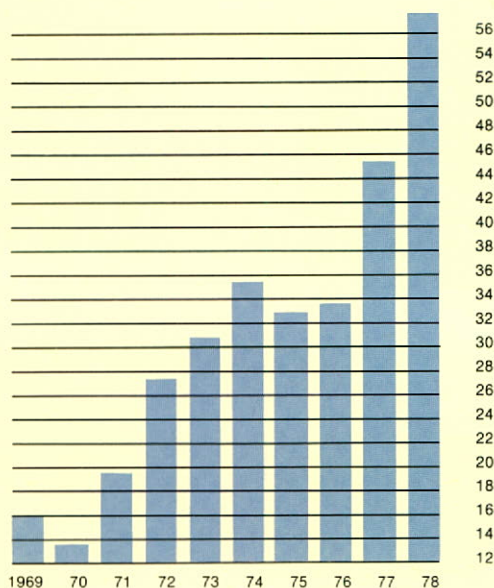
# Simpsons-Sears Limited



## Sales millions of dollars

Consolidated net sales of \$2,541,669,000 in 1978 (56 weeks) showed an increase of 21.4% over 1977 (52 weeks). The compounded average increase for the ten-year period 1968 to 1978 was 16.7% per year.

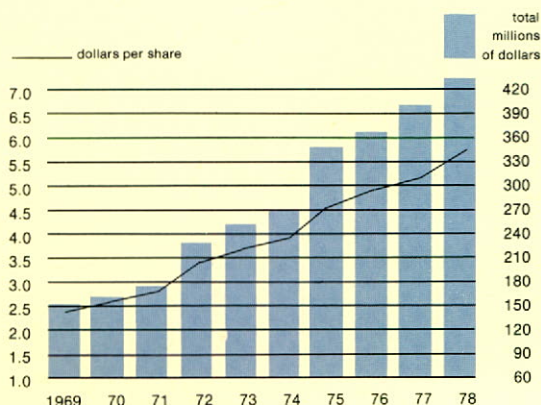
Net sales for the 52 weeks ended January 31, 1979 were \$2,390,651,000, an increase of 14.2%.



## Earnings millions of dollars

Consolidated net earnings, after taxes, which amounted to \$57,725,000 in 1978 (56 weeks) showed an increase of 28.5% from 1977 (52 weeks). The compounded average increase for the ten years 1968 to 1978 was 14.9% per year.

Earnings per share, based on the weighted average number of shares outstanding during the year, were 76¢ in 1978 compared with 60¢ in 1977 and 24¢ in 1968.



## Shareholders' Equity

Total shareholders' equity increased from \$135,937,000 at the end of 1968 to \$436,137,000 at the end of 1978 and shows a compounded average annual growth of 12.4% over the ten-year period. Equity per share which was equivalent to \$2.22 at the end of 1968 increased to \$5.72 at the end of 1978.

Year 1974 includes 53 weeks

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# Report to the Shareholders

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The overall performance of Simpsons-Sears Limited in 1978 was one of the best in our 26-year history.

At the same time, the year presented us with a difficult and complex evolution of events that resulted in the separation of Simpsons-Sears Limited and Simpsons, Limited and the acquisition of a minority interest in our Company by the Hudson's Bay Company.

It is appropriate, we feel, that our message to shareholders be expanded to reflect some of these events. We will review the year 1978 in financial terms, and comment on the present status and the future direction of our business as we now see them.

## The year in review

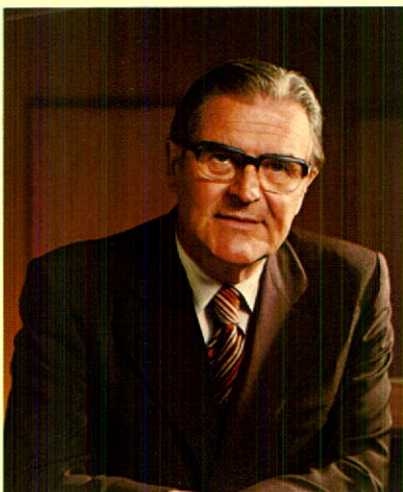
In 1978 the Company changed its year end from the end of December to the end of January. Net sales for the 56 weeks were \$2,541,669,000. To compare with last year, net sales for

the 52 weeks ended January 31, 1979 were \$2,390,651,000, an increase of 14.2%. Net earnings were \$57,725,000 for the 56 weeks compared with \$44,926,000 for the 52 weeks of 1977. This represents earnings of 76¢ per share in 1978 compared with 60¢ per share in the previous year. The earnings for the 52 weeks ended January 31, 1979 were substantially the same as the 56 weeks and are \$58,398,000, an increase of 30.0% and equivalent to 77¢ per share. The improved results in 1978 are a return to more normal levels compared with recent years.

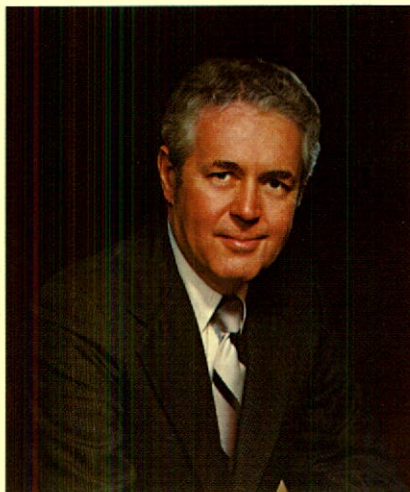
Improvements in both sales and earnings in 1978 were due to a number of factors, among them sales stimulation created by our 25th Anniversary celebrations in all divisions of the Company, from coast to coast. While some of these events are outlined and illustrated in the editorial section of this report, it should be noted that they were basically sales, merchandising and profit oriented projects and thereby provided a distinct incentive to improved performance.

As stated in our interim reports, results in the first six months of the year were adversely affected by a first quarter that yielded after tax earnings of \$1,240,000 on net sales of \$497,076,000. While sales were 11.9% higher than the first quarter of the previous year, the results were nevertheless disappointing. Sales and therefore earnings were affected by unseasonably cold weather in March and by the early Easter, both of which depressed seasonal merchandise sales.

A strong second quarter brought consolidated net sales to \$1,034,299,000 for the first six months, an increase of 14.7% over the same period in 1977. Aggressive promotional activity in both catalogue and retail operations contributed to the strong second quarter.



Jack C. Barrow Chairman of the Board



John D. Taylor President

Net earnings for the first half were \$7,110,000 compared with \$5,545,000 the previous year, and net earnings per share of 9¢ compared with 7¢ in the first half of 1977.

We continued to hold our percentage increase in sales in the third quarter. Consolidated earnings in that quarter reached \$10,976,000 or 15¢ per share.

Nine month consolidated net sales were \$1,609,000,000, an increase of 14.8% over the same period in 1977. Net earnings in the first nine months were \$18,086,000 or 24¢ per share, compared with \$13,348,000 or 18¢ per share in the same period of 1977.

As will now be evident, the strength shown in the second and third quarters continued through to year end, generating record sales and earnings.

Quarterly dividends of 6¢ per share were paid during 1978 for a total of 24¢ per share. In December 1978 a quarterly dividend of 9¢ per share was declared for payment in March 1979, an increase of 50%.

Simpsons-Sears equity in earnings of associated companies contributed 7¢ per share to the earnings of the Company, compared with 5¢ per share in 1977. These associated companies are Allstate Insurance Company of Canada, Allstate Life Insurance Company of Canada, Photo Engravers & Electrotypers Limited, Inglis Limited and interests in shopping centres in which our stores are located.

The Company contributed \$10,791,000 to the employees' Guaranteed Retirement Income Plan. This was in addition to \$6,631,000 paid by the Company to the Canada and Quebec Pension Plans. Comparable contributions in 1977 were \$7,962,000 to the Guaranteed Retirement Income Plan and \$5,228,000 to the Canada and Quebec Pension Plans. In addition, \$3,607,000 was contributed by the Company to the Plan for Sharing Profits with Employees to be added to employee deposits for the purchase of Simpsons-Sears Limited Class A shares. The 1977 Company contribution was \$2,748,000. The total contribution by the Company to these plans amounted to \$21,029,000 compared with \$15,938,000 in 1977.

Our expansion target for 1978 was met, with the opening of three retail stores—enlarged and relocated units at Guelph, Ontario and St. John's, Newfoundland, and a new store at Red Deer, Alberta. In addition 104 Catalogue Sales Offices were added, bringing our total to 923 at year end. Capital investment for expansion in 1978 was \$16,434,000.

It is with regret that we announce the resignations from our Board of Directors of G. Allan Burton, Edgar G. Burton and Thomas J. Bell and with sadness that we note the passing of Charles L. Gundy, who was a strong and constructive force in the direction of Simpsons-Sears from the time of the Company's inception in 1953.

Three Officers of the Company retired during 1978—H. Alexander King, Vice-President, Personnel, Joseph R. O'Kell,

Vice-President and Secretary and Norman S. Cuthbert, Vice-President, Public Relations. Each made a valuable contribution to the success of the Company from its beginnings in 1953. We express our appreciation to them and wish them well in the years to come.

Leslie Visosky was appointed Vice-President, Personnel, and J.J. Michael Eagan was appointed Secretary of the Company.

### **The future direction of your company**

No recapitulation is necessary of events leading to the end of our 26-year association with Simpsons, Limited, which we look upon with deep regret, and of the Hudson's Bay Company's subsequent acquisition of a minority interest in our business. These events were well publicized.

The Hudson's Bay Company, under agreements made with the Federal Government, will not be active in the short or long-term management or control of our Company.

Our first challenge is to continue to improve sales and profits and to continue the growth of our Company through our anticipated expansion programme of three new retail stores and 20 new Catalogue Sales Offices each year for the next five years. Long-range store location plans will now reflect the fact that we are no longer subject to the geographical restrictions contained in the former agreement with Simpsons, Limited.

Our second challenge is to implement the significant changes reflecting the complete but gradual separation of our operations from those of Simpsons, Limited. The philosophy of our disengagement with Simpsons can be characterized by the words "gradual and orderly" involving, as it does, many areas in which Simpsons, Limited and Simpsons-Sears Limited became interlocked over our 26-year partnership. Task forces of both companies are at work on this undertaking, and we do not expect any significant difficulties during this period of transition.

We are reporting regularly to all employees as to the changes we anticipate and particularly on matters which directly affect customer relations during this period of transition. The prevailing policy, over the months of change that lie ahead, is that in all decisions our first consideration will be to protect the interests of Simpsons-Sears, its employees, its shareholders and our millions of customers throughout Canada.



Chairman of the Board



President

April 16, 1979

# What happens to our sales dollars?

## The major costs of our business

### \$511 MILLION—Wages, Salaries and Benefits

Including all benefits, such as company participation in pension plans, profit sharing, sick pay, vacation pay, group life insurance and extended health care.

### \$1.8 BILLION—Merchandise, Other Operating and Administrative Costs

Included in our operating and administrative costs are advertising and catalogue production, transportation of goods, our buying organization, etc.

## With the remainder we pay and earn

### \$71 MILLION—Interest

On money borrowed for expansion and other financing requirements of the business.

### \$66 MILLION—Taxes

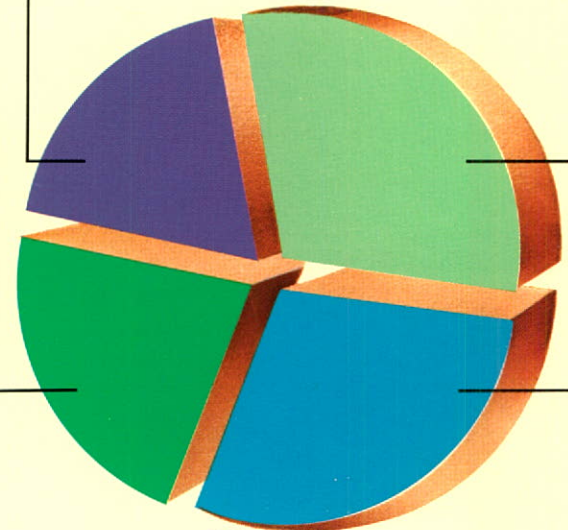
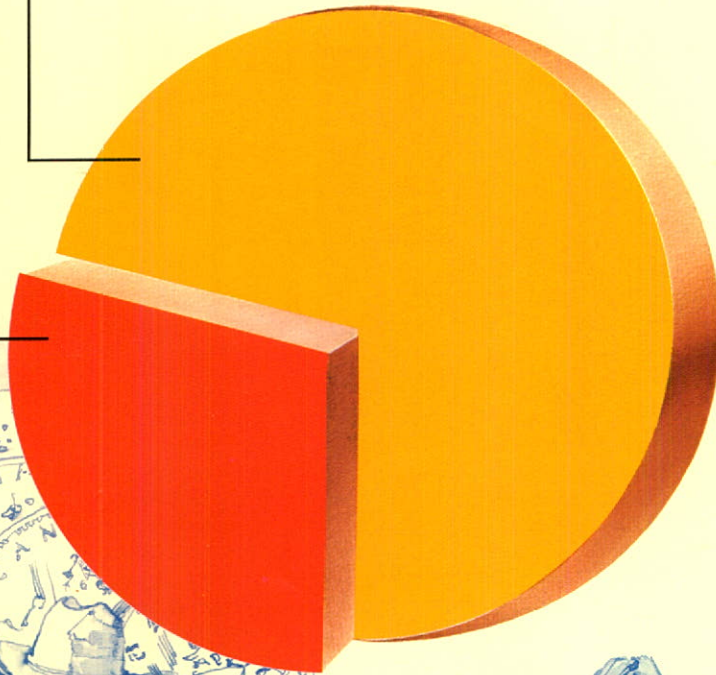
Corporate Federal and Provincial income taxes, provincial capital taxes... municipal realty and business taxes.

### \$32 MILLION—Depreciation

Provision for replacement of our buildings and equipment.

### \$58 MILLION—Net Earnings

For reinvestment in the business (\$37 million) and payment of dividends to shareholders (\$21 million).

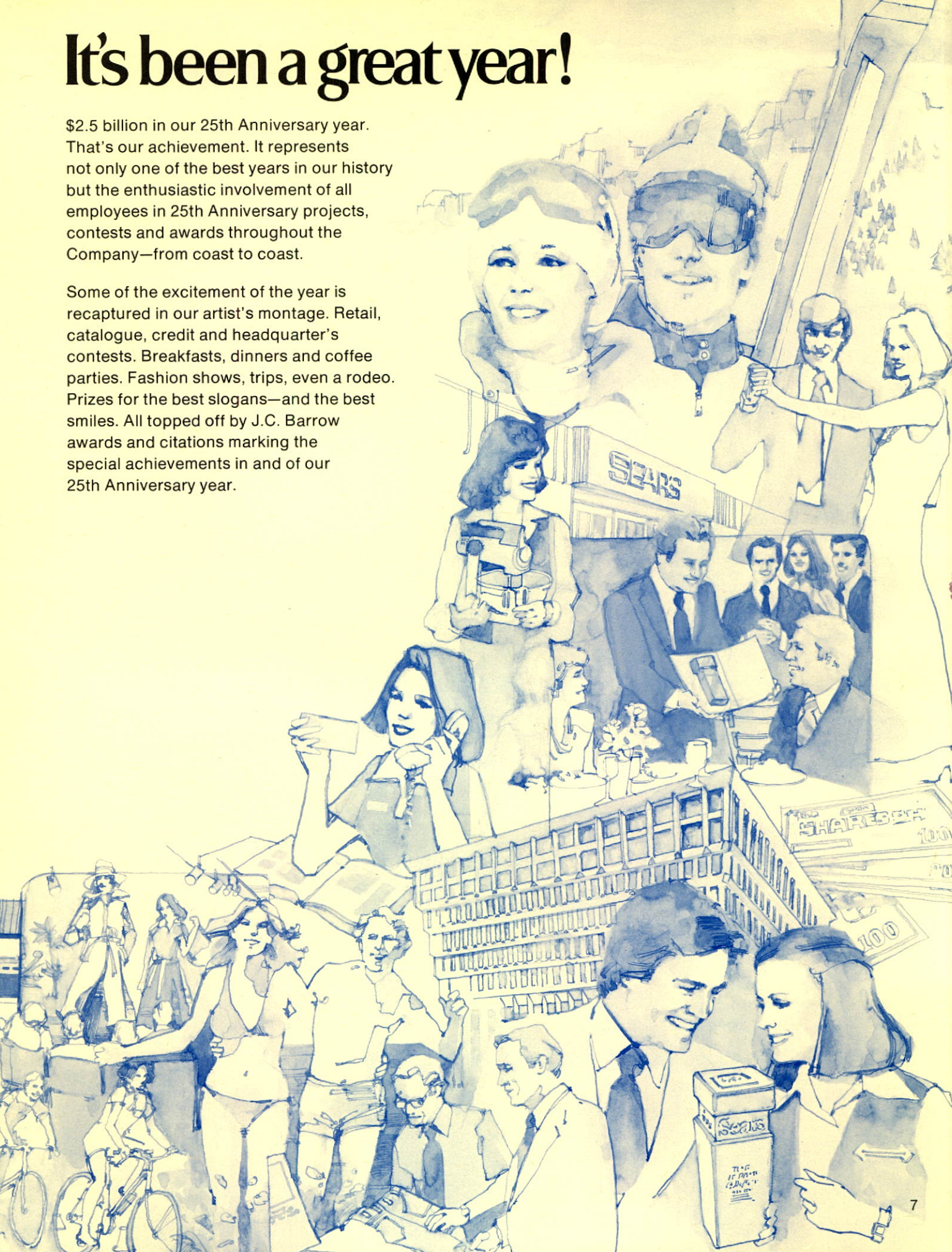




# It's been a great year!

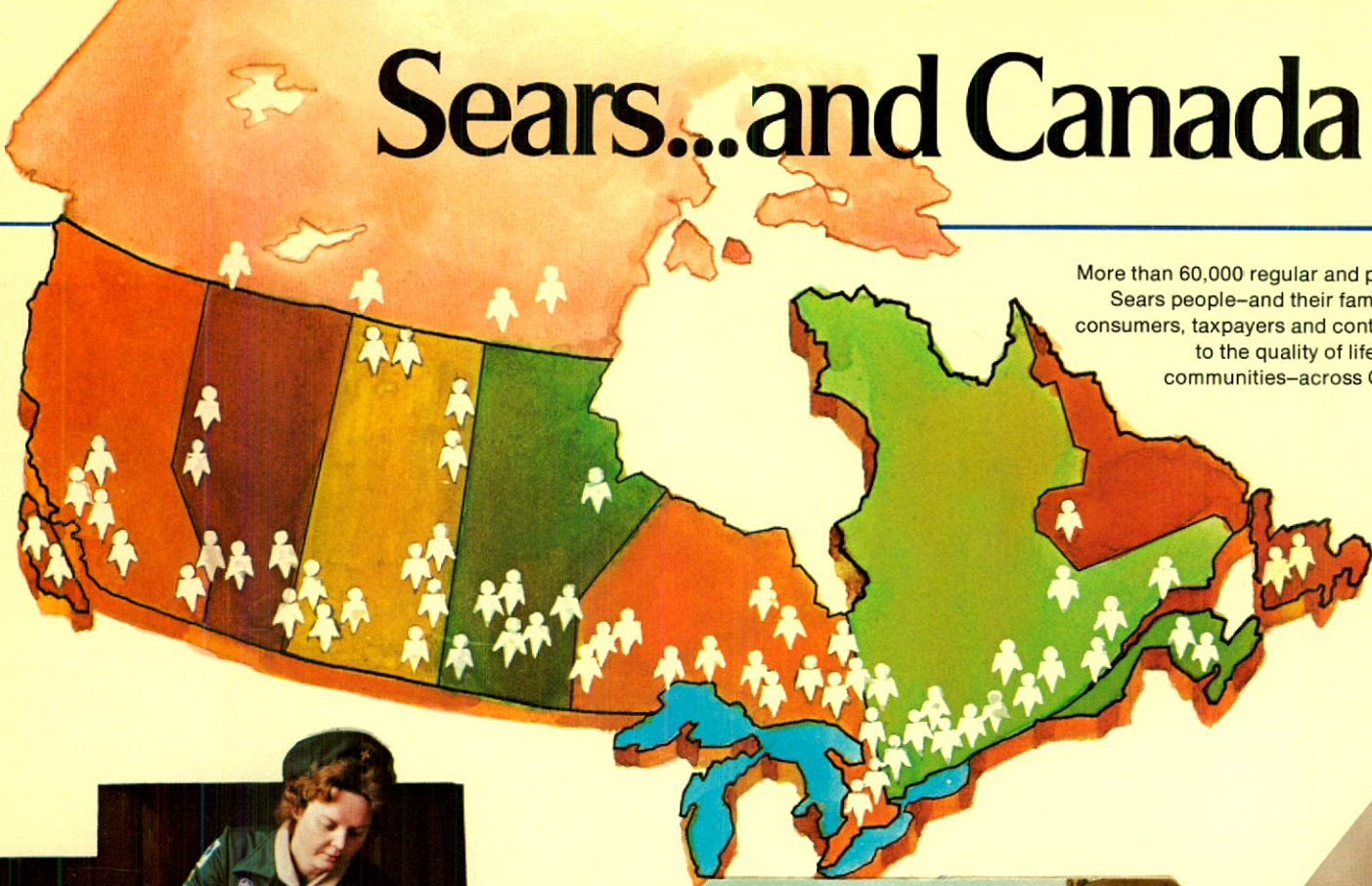
\$2.5 billion in our 25th Anniversary year. That's our achievement. It represents not only one of the best years in our history but the enthusiastic involvement of all employees in 25th Anniversary projects, contests and awards throughout the Company—from coast to coast.

Some of the excitement of the year is recaptured in our artist's montage. Retail, catalogue, credit and headquarter's contests. Breakfasts, dinners and coffee parties. Fashion shows, trips, even a rodeo. Prizes for the best slogans—and the best smiles. All topped off by J.C. Barrow awards and citations marking the special achievements in and of our 25th Anniversary year.



# Sears...and Canada

More than 60,000 regular and part time Sears people—and their families are consumers, taxpayers and contributors to the quality of life in their communities—across Canada.



You will find Sears people involved, active in their communities. Sears and its people voluntarily support cultural and humanitarian causes across Canada.



45,000,000 catalogues a year make Sears one of the largest customers of Canada's vital forest products industry. An example of our purchasing of goods and services, over and above the products we buy and merchandise.



Sears is a major Canadian advertiser in all media, including over 65 newspapers, 100 radio stations, 50 television stations from coast to coast, and in other publications.

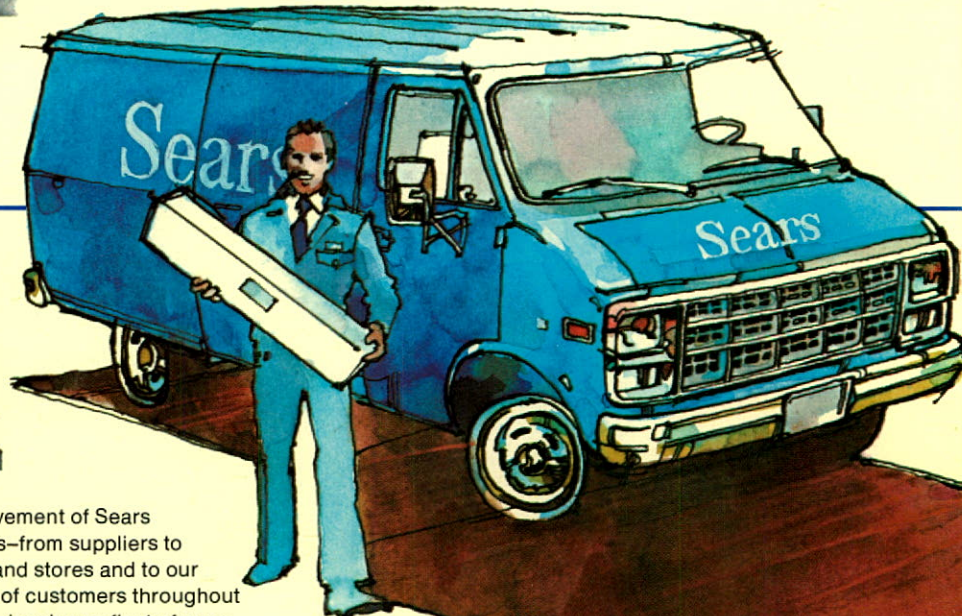
85% of Sears purchasing is done in Canada. Our impact is to some extent measurable by employment opportunities of more than 10,000 Canadian suppliers with whom we do business over the year.



Sears pays approximately \$26,000,000 in local taxes in 550 Canadian communities where our facilities are located. (This figure is equal to all tax revenue for a city of 84,000 people.)



Sears expansion provides future local employment in the construction and staffing of new facilities, 15 full-line department stores and 100 Catalogue Sales Offices over the next five years, added to the 63 retail stores and 923 Catalogue Sales Offices already in operation.



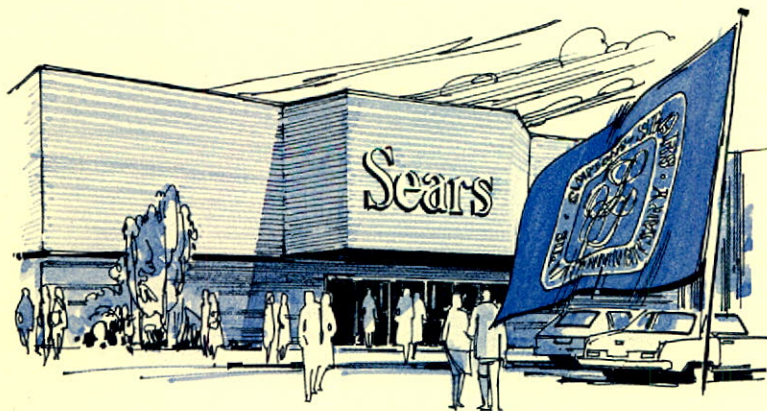
The movement of Sears products—from suppliers to depots and stores and to our millions of customers throughout Canada—involves a fleet of more than 1400 trucks, from light vans to tractor trailers.

## Consolidated Statements of Earnings and Retained Earnings

	Fifty-Six Weeks Ended January 31, 1979	Fifty-Two Weeks Ended January 31, 1979 (unaudited)	Fifty-Two Weeks Ended January 4, 1978
<b>Consolidated Earnings</b>			
Net sales, including service charges on instalment sales	<b>\$2,541,669,000</b>	<b>\$2,390,651,000</b>	\$2,093,378,000
Rentals and other income	<b>4,882,000</b>	<b>4,882,000</b>	2,895,000
	<b><u>2,546,551,000</u></b>	<b><u>2,395,533,000</u></b>	<u>2,096,273,000</u>
Deduct:			
Cost of merchandise sold and selling, operating and administrative expenses	<b>2,327,702,000</b>	<b>2,182,641,000</b>	1,916,152,000
Depreciation	<b>31,923,000</b>	<b>30,171,000</b>	28,992,000
Interest on long-term debt (including amortization of discount and expense)	<b>52,446,000</b>	<b>48,954,000</b>	43,995,000
Other interest	<b>18,766,000</b>	<b>17,878,000</b>	17,345,000
Municipal realty and business taxes	<b>25,793,000</b>	<b>23,939,000</b>	21,170,000
	<b><u>2,456,630,000</u></b>	<b><u>2,303,583,000</u></b>	<u>2,027,654,000</u>
Earnings from operations before income taxes	<b><u>89,921,000</u></b>	<b><u>91,950,000</u></b>	<u>68,619,000</u>
Income taxes:			
Current (Note 10)	<b>31,628,000</b>	<b>32,984,000</b>	23,265,000
Deferred	<b>5,875,000</b>	<b>5,875,000</b>	4,435,000
	<b><u>37,503,000</u></b>	<b><u>38,859,000</u></b>	<u>27,700,000</u>
Earnings from operations	<b>52,418,000</b>	<b>53,091,000</b>	40,919,000
Equity in earnings of associated companies	<b>5,307,000</b>	<b>5,307,000</b>	4,007,000
Net earnings for the period	<b><u>\$ 57,725,000</u></b>	<b><u>\$ 58,398,000</u></b>	<u>\$ 44,926,000</u>
Net earnings per share	<b><u>\$ .76</u></b>	<b><u>\$ .77</u></b>	<u>\$ .60</u>
	Fifty-Six Weeks Ended January 31, 1979	Fifty-Two Weeks Ended January 31, 1979 (unaudited)	Fifty-Two Weeks Ended January 4, 1978
<b>Consolidated Retained Earnings</b>			
Balance at beginning of period	<b>\$ 204,697,000</b>	<b>\$ 204,024,000</b>	\$ 177,848,000
Net earnings for the period	<b>57,725,000</b>	<b>58,398,000</b>	44,926,000
	<b><u>262,422,000</u></b>	<b><u>262,422,000</u></b>	<u>222,774,000</u>
Dividends declared (27¢ per share; 1977-24¢)	<b>20,526,000</b>	<b>20,526,000</b>	18,077,000
Balance at end of period	<b><u>\$ 241,896,000</u></b>	<b><u>\$ 241,896,000</u></b>	<u>\$ 204,697,000</u>

## Consolidated Statement of Changes in Financial Position

	Fifty-Six Weeks Ended January 31, 1979	Fifty-Two Weeks Ended January 4, 1978
<b>Source of Working Capital</b>		
Net earnings for the period .....	<b>\$ 57,725,000</b>	\$ 44,926,000
Non-cash charges deducted in arriving at net earnings, principally depreciation and deferred income taxes .....	<b>35,338,000</b>	31,069,000
Equity in earnings of associated companies less dividends received of \$762,000 (1977—\$869,000) .....	<b>(4,545,000)</b>	(3,138,000)
Working capital from operations .....	<b>88,518,000</b>	72,857,000
Proceeds from issue of long-term debt .....	<b>31,675,000</b>	57,950,000
Receipts on sales of capital stock .....	<b>8,496,000</b>	2,060,000
Decrease in investments and advances .....	<b>7,947,000</b>	4,597,000
Disposal of fixed assets .....	<b>454,000</b>	281,000
	<b><u>137,090,000</u></b>	<u>137,745,000</u>
<b>Use of Working Capital</b>		
Expenditures for fixed assets .....	<b>34,986,000</b>	42,046,000
Retirement of long-term debt .....	<b>33,846,000</b>	3,698,000
Increase in investments and advances .....	<b>2,129,000</b>	3,006,000
Dividends declared .....	<b>20,526,000</b>	18,077,000
	<b><u>91,487,000</u></b>	<u>66,827,000</u>
Resulting in an increase in working capital of .....	<b>\$ 45,603,000</b>	\$ 70,918,000
Working capital at end of period .....	<b><u>\$603,194,000</u></b>	<u>\$557,591,000</u>

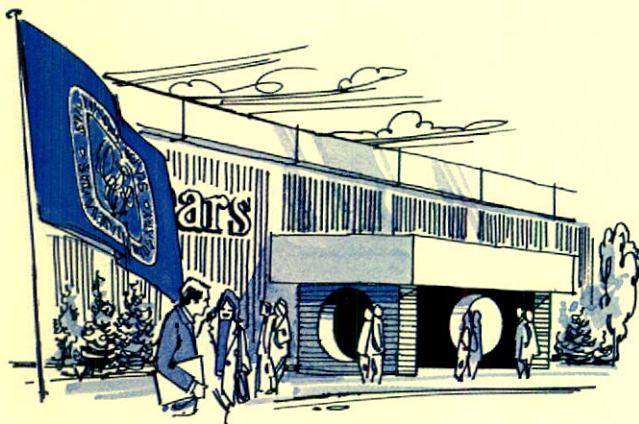


*St. John's, Newfoundland  
Enlarged and relocated  
September 27, 1978*

## Consolidated Balance Sheet

### Assets

	January 31, 1979	January 4, 1978
<b>Current Assets</b>		
Cash .....	\$ 4,120,000	\$ 5,909,000
Accounts receivable (Note 4) .....	555,842,000	522,612,000
Inventories .....	433,621,000	402,398,000
Prepaid advertising and other charges .....	47,706,000	42,340,000
	<u>1,041,289,000</u>	<u>973,259,000</u>
<b>Investments and Other Assets</b>		
Investments and advances (Note 5) .....	33,143,000	34,416,000
Notes receivable on sales of Class A shares of Simpsons-Sears Limited under the Employees' Stock Purchase Plan .....	3,563,000	3,582,000
	<u>36,706,000</u>	<u>37,998,000</u>
<b>Fixed Assets, at cost</b>		
Land .....	23,614,000	23,473,000
Buildings and improvements .....	264,515,000	260,407,000
Equipment and fixtures .....	176,693,000	157,934,000
	<u>464,822,000</u>	<u>441,814,000</u>
Less accumulated depreciation .....	139,107,000	118,708,000
	<u>325,715,000</u>	<u>323,106,000</u>
<b>Unamortized Bond and Debenture Discount and Expense and Unrealized Foreign Exchange Losses .....</b>	<b>6,481,000</b>	<b>5,564,000</b>
	<u>\$1,410,191,000</u>	<u>\$1,339,927,000</u>



Red Deer, Alberta  
Opened October 4, 1978

## Liabilities

### Current Liabilities

	January 31, 1979	January 4, 1978
Bank advances and short-term notes (Note 6) .....	<b>\$ 176,043,000</b>	\$ 183,061,000
Accounts payable .....	<b>112,667,000</b>	115,104,000
Accrued liabilities .....	<b>72,171,000</b>	65,464,000
Income and other taxes .....	<b>42,280,000</b>	42,132,000
Contribution payable to Simpsons-Sears Plan for Sharing Profits .....	<b>3,607,000</b>	2,748,000
Principal payments on long-term debt due within one year (Note 7) .....	<b>24,459,000</b>	2,640,000
Dividend payable March 15, 1979 .....	<b>6,868,000</b>	4,519,000
	<u><b>438,095,000</b></u>	<u>415,668,000</u>
<b>Long-Term Debt (Note 7)</b> .....	<u><b>512,003,000</b></u>	<u>512,176,000</u>
<b>Deferred Income Taxes</b> .....	<u><b>23,956,000</b></u>	<u>21,622,000</u>
	<u><b>974,054,000</b></u>	<u>949,466,000</u>

## Shareholders' Equity

### Capital Stock (Note 8)

Authorized shares of no par value—		
16,000,000 Class A shares		
32,000,000 Class B shares		
32,000,000 Class C shares		
Issued—		
14,690,776 Class A shares (January 4, 1978—13,701,249) .....	<b>65,297,000</b>	56,820,000
30,811,000 Class B shares .....	<b>64,472,000</b>	64,472,000
30,811,000 Class C shares .....	<b>64,472,000</b>	64,472,000
	<u><b>194,241,000</b></u>	<u>185,764,000</u>
<b>Retained Earnings</b> .....	<u><b>241,896,000</b></u>	<u>204,697,000</u>
	<u><b>436,137,000</b></u>	<u>390,461,000</u>
	<u><b>\$1,410,191,000</b></u>	<u>\$1,339,927,000</u>

Approved by the Board:    J. C. Barrow Director    J. D. Taylor Director

# Notes to Consolidated Financial Statements

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

### Principles of Consolidation:

The consolidated financial statements include the accounts of Simpsons-Sears Limited and all subsidiaries. Net assets and net earnings attributable to minority interests are not significant and are not separately reported in the consolidated financial statements.

### Inventories:

Inventories are valued at the lower of approximate cost and realizable value. Cost is determined for catalogue order inventories on a first-in, first-out or average cost basis applied by individual items, for retail store inventories on a first-in, first-out basis applied by the retail inventory method, and for supplies and miscellaneous inventories on a first-in, first-out or average cost basis applied by individual items.

### Investments:

Investments in associated companies are carried at cost plus the equity in undistributed earnings since dates of acquisition. All other investments are carried at cost.

### Depreciation, Amortization, Repairs and Maintenance:

Depreciation and amortization provisions are generally computed by the straight-line method at rates based on the estimated useful lives of the depreciable assets. The depreciation rates range from 2% to 2½% for buildings and improvements and from 10% to 25% for equipment and fixtures.

Temporary equipment (short-lived equipment such as wood shelving, stock boxes, display equipment, awnings, shades and certain types of floor coverings) acquired for a retail store on or prior to opening are amortized over a period of five years and, with some exceptions, the costs of other temporary equipment are amortized over a twelve month period.

Expenditures for maintenance and repairs are charged to earnings as incurred and expenditures for major renewals and betterments are capitalized.

The cost and accumulated depreciation in respect of property retired or sold are eliminated from the asset and related depreciation accounts. Profits and losses on such retirements or sales are included in earnings.

### Unamortized Bond and Debenture Discount and Expense:

Bond and debenture discount and expense are amortized by the reducing balance method or by the straight-line method, as applicable, to the due dates of the respective bonds and debentures.

### Income Taxes:

Income taxes are accounted for on the tax allocation basis which relates income taxes to the accounting income for the year.

### Profits on Instalment Sales:

Profits on instalment sales, but not the service charges on such sales, are taken into earnings at the time of sale. The service charges are taken into earnings as earned.

### Foreign Currency Translation:

Long-term debt payable in U.S. dollars is translated at the exchange rate in effect at the balance sheet date. Unrealized foreign exchange gains and losses are deferred and amortized over the remaining life of the debt.

### Pensions:

Current service costs under the Company's Guaranteed Retirement Income Plan are charged to operations as they accrue. Prior service costs are charged to operations as they are funded.

### Net Earnings per Share:

The calculation of net earnings per share shown on the consolidated statement of earnings is based on the weighted average number of shares outstanding during the period.

### The Companies Act of British Columbia:

The consolidated financial statements do not purport to comply with certain disclosure requirements unique to the Companies Act of British Columbia.

## 2. CHANGE OF FISCAL YEAR END:

On December 15, 1978, shareholders approved a change in the fiscal year end of the Company from the first Wednesday to the fifth Wednesday following the first day of January. As a consequence of this change, the consolidated statements of earnings, retained earnings and changes in financial position cover the fifty-six weeks ended January 31, 1979 and, for comparative purposes, unaudited amounts are also shown for the fifty-two weeks ended on that date in the consolidated statements of earnings and retained earnings.

## 3. CHANGE OF ACCOUNTING POLICY:

In 1978 the Company adopted the accounting policy of translating long-term debt payable in U.S. dollars at the exchange rate in effect at the balance sheet date. Previously long-term debt was translated at historical exchange rates. The effect of this change was to decrease net earnings in 1978 by \$273,000. There was no material effect on prior years and accordingly this change has not been applied retroactively.

4. ACCOUNTS RECEIVABLE:	January 31, 1979	January 4, 1978
Customer instalment accounts	\$511,193,000	\$483,844,000
Miscellaneous accounts	59,659,000	53,946,000
	<u>570,852,000</u>	<u>537,790,000</u>
Less allowance for doubtful accounts	15,010,000	15,178,000
	<u>\$555,842,000</u>	<u>\$522,612,000</u>

In accordance with recognized trade practices, customer instalment accounts include amounts which will not become due within one year.

5. INVESTMENTS AND ADVANCES:	January 31, 1979	January 4, 1978
Associated companies	\$ 30,606,000	\$ 24,532,000
Other, principally real estate advances	2,537,000	9,884,000
	<u>\$ 33,143,000</u>	<u>\$ 34,416,000</u>

The Company's equity in the net assets of the associated companies as shown in their financial statements approximates the carrying value thereof. The investments in associated companies include a 25% share interest in each of Allstate Insurance Company of Canada and Allstate Life Insurance Company of Canada, a 45% share interest in Photo Engravers & Electrotypers Limited and a 20% share interest in Inglis Limited and interests in shopping centres in which the Company's stores are located.

## 6. BANK ADVANCES AND SHORT-TERM NOTES:

Bank advances include demand notes of \$6,000,000 at January 31, 1979 and at January 4, 1978 secured by the pledge of Secured Debentures Series A, payable on demand, of Simpsons-Sears Acceptance Company Limited.

The Company has agreed to give its bankers a charge on inventories to secure its short-term bank loans which were outstanding in the amount of \$31,346,000 at January 31, 1979.



## 7. LONG-TERM DEBT:

	January 31, 1979	January 4, 1978
Simpsons-Sears Limited		
First Mortgage Bonds—		
4½% Series B due April 1, 1979	\$ 625,000	\$ 849,000
5% Series C due August 15, 1985	5,295,000	5,995,000
7% Series D due February 15, 1991	24,598,000	25,213,000
8¼% Series E due May 1, 1993	25,000,000	25,000,000
Debentures—		
10¼% Series A due August 15, 1979	15,000,000	15,000,000
11% Series B due August 15, 1994	35,000,000	35,000,000
10% Series C due June 15, 1982	35,000,000	35,000,000
11¼% Series D due June 15, 1995	35,000,000	35,000,000
4½% Convertible due October 15, 1988 (Note 8)	1,764,000	9,343,000
Floating rate Series E due December 31, 1987	25,000,000	25,000,000
10½% Unsecured Notes due May 28, 1979	5,000,000	5,000,000
	<u>207,282,000</u>	<u>216,400,000</u>
Simpsons-Sears Acceptance Company		
Limited Secured Debentures—		
6% Series B due February 1, 1980	20,000,000	20,000,000
5% Series C due February 1, 1980 (U.S. \$5,000,000) (Note 3)	5,988,000	4,880,000
5% Series D due July 1, 1981	15,000,000	15,000,000
5½% Series E due March 1, 1985	10,000,000	10,000,000
6¼% Series F due March 1, 1986	10,000,000	10,000,000
7% Series G due November 1, 1986	12,200,000	12,200,000
7¼% Series H due August 15, 1987	12,400,000	12,400,000
8% Series I due June 15, 1989	8,700,000	8,700,000
9½% Series J due February 1, 1990	6,670,000	6,670,000
8% Series K due May 15, 1992	25,000,000	25,000,000
9¼% Series L due March 15, 1994	24,800,000	25,000,000
11½% Series M due November 15, 1994	18,920,000	19,565,000
11½% Series N due November 15, 1994	6,800,000	7,225,000
9¾% Series O due August 1, 1983	19,230,000	19,930,000
10% Series P due November 15, 1996	35,000,000	35,000,000
10% Series Q due November 15, 1988	10,000,000	10,000,000
9¼% Series R due March 15, 1984	30,000,000	30,000,000
10% Series S due July 15, 1998	32,000,000	—
	<u>302,708,000</u>	<u>271,570,000</u>
Simpsons-Sears Properties Limited		
mortgage and bond indebtedness—		
4% to 6% payable in monthly instalments of principal and interest and maturing at various dates from 1985 to 1998, including \$7,594,000 (U.S. \$6,342,000) at January 31, 1979 and \$7,233,000 (U.S. \$6,738,000) at January 4, 1978 payable in U.S. funds. (Note 3)	9,573,000	9,262,000
St. Laurent Shopping Centre Limited—		
8% First Mortgage Sinking Fund Bonds due June 1, 1993	13,431,000	14,084,000
10% General Mortgage Bonds Series A due June 1, 1993	3,468,000	3,500,000
	<u>16,899,000</u>	<u>17,584,000</u>
	536,462,000	514,816,000
Less principal payments due within one year included in current liabilities	24,459,000	2,640,000
	<u>\$512,003,000</u>	<u>\$512,176,000</u>

The First Mortgage Bonds of Simpsons-Sears Limited, the mortgage and bond indebtedness of Simpsons-Sears Properties Limited, and the First Mortgage Sinking Fund Bonds of St. Laurent Shopping Centre Limited are primarily secured by first charges on the fixed assets of those companies. The 10½% General Mortgage Bonds Series A of St. Laurent Shopping Centre Limited are secured primarily by a second charge on the fixed assets of the company. The Debentures of Simpsons-Sears Limited are secured, subject to the security given on its First Mortgage Bonds, by a floating charge on all the assets of the Company. The Secured Debentures of Simpsons-Sears Acceptance Company Limited are secured by an assignment of the customer instalment accounts receivable referred to in Note 4.

The 4½% Convertible Debentures were convertible at the holder's option at any time up to October 16, 1978 into 113 Class A shares per \$1,000 principal amount of debentures.

The Series E Debentures of the Company, which are redeemable at its option subsequent to December 31, 1982, bear interest for each interest period at a rate equal to the aggregate of the average daily prime lending rate of the Company's two principal bankers for the interest period and ½%.

Subsequent to 1979, principal payments required on long-term debt for the years shown are as follows:

1980—\$32,607,000	1982—\$47,179,000
1981—\$27,027,000	1983—\$29,270,000

## 8. CAPITAL STOCK:

During the fifty-six weeks ended January 31, 1979, \$7,579,000 principal amount of 4½% Convertible Debentures were converted into 856,427 Class A shares. A further 133,100 Class A shares were issued under the Employees' Stock Purchase Plan for \$898,000, being their market value at time of issue.

All classes of shares rank equally in all respects except that the Class A shares are non-voting and are entitled to a non-cumulative preferential dividend of 2½¢ per share in any year. After payment of a similar dividend to the holders of the Class B and Class C shares all three classes rank equally as to dividends.

## 9. COMMITMENTS:

The charge against earnings for the Company's Guaranteed Retirement Income Plan was \$10,791,000 for the fifty-six weeks ended January 31, 1979 (\$7,962,000 for the fifty-two weeks ended January 4, 1978). The unfunded obligation for past service under this plan, estimated by independent actuaries to be approximately \$64,600,000 at January 31, 1979, is to be funded and charged to earnings by annual payments to 1990.

Minimum fixed rentals, exclusive of property taxes, insurance and other expenses payable directly by the Company, under leases having an initial term of more than one year are as follows:

1979—\$29,928,000	1984-1988—\$92,566,000
1980—\$26,750,000	1989-1993—\$84,404,000
1981—\$24,790,000	1994-1998—\$73,959,000
1982—\$22,017,000	1999- and
1983—\$20,284,000	thereafter—\$91,348,000

Total rentals charged to earnings under all leases for the fifty-six weeks ended January 31, 1979 amounted to \$34,668,000 (\$28,849,000 for the fifty-two weeks ended January 4, 1978).

continued on next page

**10. INCOME TAXES:**

Current income taxes for the fifty-six weeks ended January 31, 1979 have been reduced by approximately \$6,400,000, and for the fifty-two weeks ended January 4, 1978 by approximately \$5,600,000, as a result of the 3% inventory allowance for income tax purposes.

**11. REMUNERATION OF DIRECTORS AND OFFICERS:**

For the fifty-six weeks ended January 31, 1979, seven (1977—six) directors received remuneration amounting to \$35,000 (\$35,000 for the fifty-two weeks ended January 4, 1978); the remaining seven (1977—eight) directors received no remuneration as directors. The remuneration of fourteen officers, two of whom are also directors, amounted to \$1,642,000 (\$1,426,000 for the fifty-two weeks ended January 4, 1978).

**12. ANTI-INFLATION PROGRAM:**

The Company and its subsidiaries were subject to, and believe that they have complied with, controls on prices, profits, compensation and dividends under the Federal Government's anti-inflation program.

**13. CAPITAL EXPENDITURES:**

Capital expenditures for the fiscal year ending January 30, 1980 are estimated at approximately \$43,000,000.

## Ten Year Summary

Years 1969 to 1972 inclusive are restated for accounting changes applied retroactively in 1973.

	<b>1978</b>	1977
<b>Results for the year</b> (in thousands)	56 Weeks	
Net sales .....	<b>\$2,541,669</b>	\$2,093,378
Depreciation .....	<b>31,923</b>	28,992
Income taxes .....	<b>37,503</b>	27,700
Net earnings .....	<b>57,725</b>	44,925
Dividends declared .....	<b>20,526</b>	18,077
Expenditures for fixed assets .....	<b>34,986</b>	42,046
<hr/>		
<b>Year-end position</b> (in thousands)		
Inventories .....	<b>433,621</b>	402,398
Fixed assets (net) .....	<b>325,715</b>	323,106
Total assets .....	<b>1,410,191</b>	1,339,927
Working capital .....	<b>603,194</b>	557,591
Long-term debt .....	<b>512,003</b>	512,176
Shareholders' equity .....	<b>436,137</b>	390,461
<hr/>		
<b>Per share of capital stock</b> (in dollars)		
Net earnings .....	<b>.76</b>	.60
Dividends declared .....	<b>.27</b>	.24
Shareholders' equity .....	<b>5.72</b>	5.18

# Auditors' Report

To the Shareholders of Simpsons-Sears Limited:

We have examined the consolidated balance sheet of Simpsons-Sears Limited as at January 31, 1979 and the consolidated statements of earnings, retained earnings and changes in financial position for the fifty-six weeks 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 January 31, 1979 and the results of its operations and the changes in its financial position for the fifty-six weeks then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

*Price Waterhouse & Co*

Chartered Accountants

Toronto, April 6, 1979

1976	1975	1974 53 Weeks	1973	1972	1971	1970	1969
\$1,890,827	\$1,548,600	\$1,341,128	\$1,073,467	\$894,066	\$765,778	\$646,888	\$615,011
26,566	23,795	18,583	14,876	12,618	11,313	7,884	6,508
26,906	28,993	34,620	27,974	23,868	19,409	12,637	15,530
33,174	32,118	34,454	30,275	26,659	19,703	12,710	15,837
18,037	17,159	14,914	13,516	7,991	7,562	7,497	7,404
40,305	69,664	70,270	35,996	34,598	29,545	36,380	24,257
381,653	279,503	268,738	203,885	164,142	136,564	114,201	120,167
310,333	298,389	254,106	204,442	183,462	163,962	147,088	106,557
1,238,070	1,050,597	941,083	775,598	654,868	564,039	499,528	450,150
486,673	431,586	343,799	286,154	274,565	228,123	202,928	194,035
457,407	402,573	342,423	254,073	246,603	227,225	199,138	163,981
362,597	345,066	269,476	248,043	220,379	175,101	160,531	150,537
.44	.47	.51	.45	.41	.31	.21	.26
.24	.24	.22	.20	.12	.12	.12	.12
4.82	4.60	3.97	3.67	3.31	2.78	2.56	2.44



**Simpsons-Sears Limited  
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