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1974 - \$21,680,000 • 1975 - \$22,280,000 • 1976 - \$26,580,000 • 1977 - \$31,365,000 • 1978 - \$34,968,000 • 1979 - \$39,180,000

HOWARD ROSS LIBRARY  
OF MANAGEMENT  
JUN 20 1980  
McMILL UNIVERSITY

ELKS STORES LIMITED  
1979 ANNUAL REPORT  
YEAR ENDED JANUARY 26, 1980

# Corporate Directory



## OFFICERS

MANUEL ELKIND  
*President and Chief Executive Officer*

WILLIAM B. ADAMS  
*General Manager*

J. FREDRIC DUNCAN  
*Secretary-Treasurer*

ROGER IBELL  
*General Merchandising Manager*

VINCENT NITTI  
*Manager of Real Estate*

## DIRECTORS

\*MANUEL ELKIND  
*President and Chief Executive Officer*

\*\*SAMUEL ELKIND  
*Chairman of the Board  
Elks Stores Limited*

\*PAUL HENRY  
*Independent Consultant*

\*E. JOHN KELLEHER  
*Business Consultant*

ARNOLD NAIMAN  
*Merchandising Consultant*

PHINEAS SCHWARTZ  
*Partner  
Goodman and Goodman*

\* *member of audit committee*  
\*\* *deceased*

HEAD OFFICE  
1198B Caledonia Road  
Toronto, Ontario M6A 2W5

TRANSFER AGENT  
The Royal Trust Company

BANKERS  
Bank of Montreal

AUDITORS  
Peat, Marwick, Mitchell & Co.

LEGAL COUNSEL  
Goodman and Goodman

SHARES LISTED  
Toronto Stock Exchange

## ANNUAL MEETING

The Annual Shareholders Meeting will be held at 10.00 a.m. Tuesday, July 8, 1980 at the Stuart Room, The Four Seasons Hotel, 21 Avenue Road, Toronto, Ontario.

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	<u>THIS YEAR</u>	<u>LAST YEAR</u>
SALES	\$39,180,000	\$34,968,000
NET EARNINGS (LOSS)	(1,264,000)	66,000
EARNINGS (LOSS) PER SHARE	(1.70)	0.09
CASH FLOW	178,000	1,187,000
WORKING CAPITAL	3,087,000	2,209,000
SHAREHOLDERS' EQUITY	3,424,000	3,960,000

## President's Message



### To Our Shareholders:

The year ending January 26, 1980 proved to be a more difficult year than management anticipated. The retail clothing industry experienced a broadly based and significant shortfall in projected consumer purchases and suffered increased costs which were not able to be compensated for in increased consumer prices. These factors, coincidental with the continuing necessity of integrating sizeable acquisitions in recent years and the introduction of computer control systems had a temporary but unusually detrimental effect on profits.

While short of projections, sales in the year rose by over 12% to \$39,180,000 from \$34,968,000 in the previous fiscal period. Operations however, recorded a net loss of \$1,264,000 for the year compared with a restated profit of \$66,000 a year earlier.

With respect to this loss, I should underscore the fact that a new and more appropriate approach has been adopted by management for establishing values in the financial statements. While the effects of this change impact negatively on the past year and previous performance, we believe our ongoing operations will benefit from this more realistic interpretation of values.

To improve the working capital position of the Company,

arrangements have been made to reclassify a major portion of its operating bank loans as long term debt. In addition, \$727,500 of new equity capital has been invested through the issuance of 7,275 convertible preference shares at \$100.00 par. A major shareholder has agreed to advance an additional \$500,000 as long term subordinated debt at 2% above the bank's prime lending rate. In the view of management, the above financial arrangements are more than adequate to meet the temporary cash problems of the Company.

Several important changes have been made in senior management. William B. Adams has joined us as General Manager, Vincent Nitti as Manager of Real Estate, and Roger Ibell as General Merchandising Manager. A new financial officer has been engaged and will be joining the Company during July. Each of these gentlemen has had broad experience and proven success in the retailing industry and their joining us in these difficult times is testimony to the optimism new management of our Company holds for the future.

An ambitious and strategic business plan devised by new management, and with the assistance of the business consulting arm of our new auditors, has already been implemented. Its major projects involve better control systems, emphasis on inventory turnover, the decreasing of store size, the elimination of unprofitable units, the more

efficient allocation of financial and human resources and a more accurate awareness of profitability levels at all times.

We believe the Company now has the financial stability, the requisite management talent and the necessary well defined objectives to allow it to succeed regardless of the climate in retailing in the foreseeable future.

It is with a heavy heart that I must note the passing of my beloved father Samuel Elkind, Chairman of the Board and Founder of this Company 52 years ago. His dedication, tireless efforts and wise counsel will be sorely missed by all of us. His relentless spirit will be an inspiration in the challenging times ahead.

On behalf of the Board of Directors, I thank all of our employees for their contribution in a very difficult and stressful year. Their performance in the face of adversity augurs well for the future.

A handwritten signature in blue ink, appearing to read "M. Elkind", with a long horizontal flourish extending to the right.

MANUEL ELKIND,  
*President and  
Chief Executive Officer.*

Toronto, Ontario  
June 11, 1980.

# Elks Stores Limited

## Consolidated Statement of Operations

Year ended January 26, 1980  
with comparative figures for the year  
ended January 27, 1979 (Note 2)

	1980	1979
Sales	\$ 39,179,542	\$34,967,514
Expenses:		
Cost of sales and operating expenses	38,022,405	33,006,289
Depreciation and amortization (note 6)	1,572,342	1,175,342
Interest on long-term debt and capitalized lease obligations	660,617	439,605
Other interest	520,974	433,833
	<u>40,776,338</u>	<u>35,055,069</u>
Loss before recovery of income taxes	(1,596,796)	(87,555)
Recovery of income taxes	333,000	154,000
Net earnings (loss) for the year	<u>\$( 1,263,796)</u>	<u>66,445</u>
Earnings (loss) per share (note 8)	<u>\$ (1.70)</u>	<u>0.09</u>

See accompanying notes to consolidated financial statements.

## Consolidated Statement of Retained Earnings

Year ended January 26, 1980  
with comparative figures for the year  
ended January 27, 1979 (Note 2)

	1980	1979
Retained earnings at beginning of year:		
As previously reported	\$ 3,254,556	\$2,998,977
Adjustments to prior years' figures (note 2):		
Inventory valuation	(833,417)	(544,322)
Deferred display costs	(333,768)	(239,745)
Income tax effects of these adjustments	512,696	318,712
Total adjustments	<u>(654,489)</u>	<u>(465,355)</u>
As restated	2,600,067	2,533,622
Net earnings (loss) for the year	<u>(1,263,796)</u>	<u>66,445</u>
Retained earnings at end of year	<u>\$ 1,336,271</u>	<u>\$2,600,067</u>

See accompanying notes to consolidated financial statements.

# Consolidated Balance Sheet

Year ended January 26, 1980  
with comparative figures for the year  
ended January 27, 1979 (Note 2)



## ASSETS

	<u>1980</u>	<u>1979</u>
Current assets:		
Cash	\$ 258,420	\$ 102,722
Receivables:		
Trade, net of allowance for doubtful accounts	207,531	490,131
Other	196,022	269,318
Income taxes recoverable	221,525	141,946
Inventory	11,197,794	10,334,278
Prepaid expenses and other current assets	<u>447,273</u>	<u>530,369</u>
Total current assets	12,528,565	11,868,764
Equipment and leasehold improvements (note 3)	6,902,731	5,770,037
Deferred costs	963,008	742,822
Total assets	<u>\$20,394,304</u>	<u>\$18,381,623</u>

*See accompanying notes to consolidated financial statements.*

On Behalf of the Board:  
MANUEL ELKIND (Director)  
PAUL HENRY (Director)

## LIABILITIES AND SHAREHOLDERS' EQUITY

	<u>1980</u>	<u>1979</u>
Current liabilities:		
Operating bank loan (note 4)	\$ 2,650,000	\$ 2,200,000
Accounts payable and accrued liabilities	6,291,238	6,898,872
Current portion of long-term debt and capitalized lease obligations	500,624	358,612
Deferred income taxes	—	202,081
Total current liabilities	<u>9,441,862</u>	<u>9,659,565</u>
Long-term debt and capitalized lease obligations (note 4)	7,517,875	4,620,346
Deferred income taxes	10,556	141,405
Total liabilities	<u>16,970,293</u>	<u>14,421,316</u>
Shareholder's equity:		
Capital stock (note 5)	2,087,740	1,360,240
Retained earnings	1,336,271	2,600,067
Total shareholders' equity	<u>3,424,011</u>	<u>3,960,307</u>
Total liabilities and shareholders' equity	<u>\$20,394,304</u>	<u>\$18,381,623</u>

## AUDITORS' REPORT

To the Shareholders of  
Elks Stores Limited

We have examined the consolidated balance sheet of Elks Stores Limited as at January 26, 1980 and the consolidated statements of operations, retained earnings and changes in financial position for the year then ended. Except as explained in the following paragraph, 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.

We were not able to observe the taking of physical inventory at the beginning of the year because the count date was prior to our appointment as auditors for the company and we were not able to satisfy ourselves concerning those inventory quantities by alternative means, and therefore we were unable to determine whether any adjustments to such inventory (including the adjustment referred to in note 2(a) to the consolidated financial statements) and to cost of sales, recovery of income taxes and net loss for the year ended January 26, 1980 might be necessary.

In our opinion, except for the effect of adjustments, if any, which we might have determined to be necessary had we been able to form an opinion as to the amount of the inventory at the beginning of the year, these consolidated financial statements present fairly the financial position of the company as at January 26, 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, after giving retroactive effect to the prior years' adjustments explained in note 2 to the consolidated financial statements.

The figures for the year ended January 27, 1979, included for comparative purposes, are based on the consolidated financial statements of that year which were reported on by other chartered accountants and which have been restated to give effect to the adjustments described in note 2.

May 2, 1980, except Note 11 as to which  
the date is June 9, 1980.  
Toronto, Ontario.

PEAT, MARWICK, MITCHELL & CO.  
Chartered Accountants

# Consolidated Statement of Changes in Financial Position

Year ended January 26, 1980  
with comparative figures for the year  
ended January 27, 1979 (Note 2)



	<u>1980</u>	<u>1979</u>
Source of funds:		
Net earnings (loss) for the year	\$(1,263,796)	66,445
Items not affecting working capital:		
Depreciation and amortization	1,572,342	1,175,342
Deferred income taxes	<u>(130,849)</u>	<u>(55,238)</u>
Funds provided from operations	177,697	1,186,549
Issue of preference shares	727,500	—
Issue of common shares	—	1,410
Increase in long-term debt and capitalized lease obligations	2,897,529	1,782,425
Reduction of debenture receivable	<u>—</u>	<u>68,500</u>
	<u>3,802,726</u>	<u>3,038,884</u>
Application of funds:		
Additions to equipment and leasehold improvements	2,147,867	3,109,915
Deferred costs	<u>777,355</u>	<u>620,577</u>
	<u>2,925,222</u>	<u>3,730,492</u>
Increase (decrease) in working capital	877,504	(691,608)
Working capital at beginning of year	<u>2,209,199</u>	<u>2,900,807</u>
Working capital at end of year	<u>\$3,086,703</u>	<u>\$2,209,199</u>

See accompanying notes to consolidated financial statements.



# Elks Stores Limited

## Notes to Consolidated Financial Statements

January 26, 1980

### 1. Significant accounting policies:

These consolidated financial statements were prepared by management in conformity with accounting principles generally accepted in Canada. The significant accounting policies are summarized below:

#### (a) Consolidation:

The consolidated financial statements include the accounts of the Company and its subsidiary companies, all of which are wholly-owned.

#### (b) Inventory:

Inventory is priced at the lower of average cost and market determined by the retail inventory method, market being net realizable value less normal profit margin.

#### (c) Depreciation and amortization:

Depreciation and amortization are provided at rates which will fully depreciate the assets over their estimated useful lives. No depreciation or amortization is taken on additions to equipment and leasehold improvements in new stores or existing stores with major renovations until the first day of the fiscal year following the year in which the store was opened or major renovation took place. The applicable methods and rates are as follows:

##### Assets owned:

Store, warehouse and office fixtures and equipment — straight-line method over seven years.

Automobiles — 30% per annum on declining balance method.

Leasehold improvements — straight-line method over the terms of the leases and initial option periods to a maximum of ten years.

##### Assets under capital leases:

Electronic data processing equipment — straight-line method over ten years.

Store fixtures and equipment — straight-line method over eight years.

#### (d) Deferred costs:

It is the Company's policy to capitalize as deferred costs certain expenditures related to new store openings. These costs are amortized over a thirty-six month period commencing in the first fiscal year following the store opening.

Certain display and promotional expenses are capitalized as deferred costs and are amortized over a twelve month period commencing in the first month following the month of expenditure.

### 2. Prior years' adjustments:

#### (a) Inventory valuation:

As described in note 1(b), the Company follows the retail method of determining inventory carrying values; under this method ratios are applied to reduce the value of the inventory from retail price to its carrying value in the financial statements. During a current review of these ratios, the Company determined that inventories of previous years should have been reduced to lower values. Accordingly reported earnings of previous years and retained earnings should also have been adjusted. Adjustments of the ratios used as of January 27, 1979 reduced the carrying value of inventory at that date by \$833,417.

#### (b) Deferred display costs:

The Company's present policy for amortizing deferred display costs is described in note 1(d). Previously such costs were written off over a thirty-six month period commencing in the first fiscal year following the year of expenditure. Figures for last year as shown in these consolidated financial statements have been restated to conform to the Company's current policy of providing amortization for display costs.

#### (c) Capital lease obligations:

Certain lease obligations under sale and leaseback arrangements entered into in prior years have been classified as capital leases in accordance with recent accounting recommendations of The Canadian Institute of Chartered Accountants. Retroactive adjustments of prior years' figures to reflect this change increased long-term liabilities, current liabilities and equipment and leasehold improvements at January 27, 1979 by \$1,106,563, \$119,554 and \$1,226,117, respectively, and resulted in reclassification

of certain figures in the statement of operations for the year then ended, although net earnings for that year were not affected.

#### (d) Effect of prior years' adjustments:

The retroactive adjustments noted above decrease previously reported net earnings for the year ended January 27, 1979 as indicated below:

Inventory valuation	\$289,095
Deferred display costs	94,023
Lease classification	—
Income tax effects of these adjustments	(193,984)

Adjustment to previously reported net earnings for the year ended January 27, 1979

\$189,134

#### (e) Comparative figures:

The January 27, 1979 consolidated balance sheet, presented for comparative purposes, has been restated to give effect to the abovementioned prior years' adjustments and certain other reclassifications as follows:

	As previously reported	Increase (decrease)	As restated
Income taxes recoverable	\$ —	\$ 141,946	\$ 141,946
Inventory	11,167,695	(833,417)	10,334,278
Equipment and leasehold improvements	4,543,920	1,226,117	5,770,037
Deferred costs	1,076,590	(333,768)	742,822
Income taxes payable	38,339	(38,339)	—
Long-term debt and capitalized lease obligations:			
Current portion	239,058	119,554	358,612
Long-term portion	3,513,783	1,106,563	4,620,346
Deferred income taxes:			
Current	—	202,081	202,081
Non-current	675,897	(534,492)	141,405
Retained earnings	3,254,556	(654,489)	2,600,067
<b>3. Equipment and leasehold improvements:</b>			
Assets owned:	1980		1979
Store, warehouse and office fixtures and equipment	\$3,618,530		\$3,278,062
Automobiles	150,669		160,923
Leasehold improvements	5,228,671		5,091,185
	8,997,870		8,530,170
Less accumulated depreciation and amortization	4,821,113		3,986,250
	<u>4,176,757</u>		<u>4,543,920</u>
Assets under capital leases:			
Electronic data processing equipment	995,884		—
Store fixtures and equipment	1,969,107		1,302,336
	2,964,991		1,302,336
Less accumulated amortization	239,017		76,219
	<u>2,725,974</u>		<u>1,226,117</u>
Total equipment and leasehold improvements	<u>\$6,902,731</u>		<u>\$5,770,037</u>



4. Long-term debt and capitalized lease obligations:

	Interest	Due date	1980	1979
Long-term debt:				
Bank loans	Prime plus 2%	October 1981 to January 1983	\$1,812,427	\$1,854,327
Bank loan (note 11 (a))	Prime plus 1-1/2%	February 1981	1,250,000	—
Loan payable	Bank prime plus 2-1/4% (minimum 10-1/4%, maximum 13-1/4%)	December 1982	1,725,000	1,857,000
Other (note 11 (b))	9% to Bank prime plus 2%	Various	520,165	41,514
Obligations related to leased assets (note 9)	9.8% to 11.9%	Various	5,307,592	3,752,841
			<u>2,710,907</u>	<u>1,226,117</u>
Less current portion			8,018,499	4,978,958
			<u>500,624</u>	<u>358,612</u>
			<u>\$7,517,875</u>	<u>4,620,346</u>

Approximate principal payments for the long-term debt due in each of the next five years are as follows:

Year ending January 1981	\$ 197,000
1982	2,271,000
1983	2,840,000
1984	—
1985	—
	<u>\$5,308,000</u>

Although the bank loans at prime plus 2% are evidenced by demand promissory notes, arrangements have been made with the bank to retire the loans through blended principal and interest payments of approximately \$30,000 per month. Such bank loans, including the operating loan, are secured by a first floating charge demand debenture and a registered general assignment of book debts.

A demand debenture in the amount of \$2,000,000 has been issued as collateral for the loan payable of \$1,725,000 consisting of the following:

- A first charge on all fixed assets ranking pari passu with the bank debenture referred to above in the amount of \$1,000,000.
- A second floating charge on all other assets in the amount of \$1,000,000.

5. Capital stock:

Capital stock consists of:

	1980	1979
Authorized:		
10,000 convertible, redeemable, retractable preference shares with a par value of \$100 each		
2,000,000 common shares without par value		
Issued:		
7,275 preference shares	\$ 727,500	\$ —
745,568 common shares	<u>1,360,240</u>	<u>1,360,240</u>
	<u>\$2,087,740</u>	<u>\$1,360,240</u>

During the year the Company amended its Articles of Incorporation to create the 10,000 convertible, redeemable, retractable preference shares with a par value of \$100 each. Each preference share ranks equally with each common share as to declaration and payment of dividends and is convertible into the number of common shares of the Company, which is the result of dividing the par value of the preference share by 90 percent of the weighted average trading price during the 20 days immediately preceding (but not including) the date of conversion. The preference shares may be redeemed at the option of the Company or the holder commencing in October 1981 at par plus any unpaid dividends thereon. Should they be redeemed at the option of the holder a sixty day redemption notice is required. 7,275 preference shares were issued as payment for certain computer equipment.

The Company has set aside a total of 32,204 common shares for its employee stock option plan of which 18,150 were in issue to employees at January 26, 1980. These shares are exercisable over the next eight years at prices ranging from \$6.75 to \$7.75 per share.

6. Depreciation and amortization:

Depreciation and amortization provided was as follows:

	1980	1979
Equipment and leasehold improvements:		
Assets owned	\$ 852,375	\$ 676,376
Assets under capital leases	<u>162,798</u>	<u>76,219</u>
	1,015,173	752,595
Deferred costs	<u>557,169</u>	<u>422,747</u>
	<u>\$1,572,342</u>	<u>\$1,175,342</u>

7. Income taxes:

The Company and its subsidiaries have accumulated losses for income tax purposes at January 26, 1980 for which the potential future income tax reductions have not been recognized in the financial statements. These losses amount to approximately \$650,000 and are available for offset against otherwise taxable income in future years up to 1985.

8. Earnings (loss) per share:

No dilution of earnings (loss) per share would result from the conversion of the preference shares or the exercise of employee stock options described in note 5.

9. Leases:

Certain sale and leaseback agreements involving equipment, fixtures and leasehold improvements have been treated as capital leases in accordance with recent accounting recommendations.

The Company also leases its premises and all such leases have been accounted for as operating leases under which rentals are included in determining earnings of the period in which they accrue. Rental expenses included in the consolidated statement of operations amounted to \$2,830,635 and \$2,476,631 for the years ended January 26, 1980 and January 27, 1979 respectively.

The future minimum lease payments required under leases having initial or remaining non-cancellable lease terms in excess of one year are summarized as follows:

	Capital leases	Operating leases
Year ending January 1981	\$ 578,796	\$ 2,289,344
1982	578,796	2,144,532
1983	570,645	2,006,418
1984	570,645	1,909,738
1985	570,645	1,610,509
Thereafter	<u>886,292</u>	<u>6,006,162</u>
Total minimum lease payments	3,755,819	15,966,703
Less amount representing imputed interest	<u>1,044,912</u>	<u>—</u>
Net minimum lease payments	<u>\$2,710,907</u>	<u>\$15,966,703</u>

10. **Remuneration of directors and senior officers:**  
The aggregate direct remuneration paid or payable to directors and senior officers during the year amounted to \$234,721 (1979 — \$197,784).
11. **Subsequent events:**  
(a) Subsequent to the year-end, an arrangement has been made with the Company's bankers to reclassify a portion, \$1,250,000, of the Company's operating loan as a long-term loan due in February 1981. The reclassification of this loan has been reflected in the Company's consolidated

- balance sheet as at January 26, 1980.
- (b) On June 9, 1980 a major shareholder agreed to advance to the Company \$500,000 as a long-term loan subordinate to the claims of all other creditors at a rate of 2% above the bank's prime lending rate. It is the Company's intention to use the proceeds to reduce accounts payable and, on this basis, \$500,000 of accounts payable has been classified as long-term debt at January 26, 1980 and is included in the amount of \$520,165 shown in note 4 to the consolidated financial statements.

## Elks Stores Limited

### Three Year Summary

(000's omitted except in last three lines)

	1979	1978	1977
Sales	39,180	34,968	31,365
Net Income (Loss)	(1,264)	66	593
Earnings (Loss) per share*	(1.70)	0.09	0.80
Earnings % to Sales	—	0.2	1.9
Cash Flow	178	1,187	1,717
Current Assets	12,529	11,869	11,119
Current Liabilities	9,442	9,660	8,219
Working Capital	3,087	2,209	2,900
Working Capital Ratio	1.3	1.2	1.4
Fixed Assets	6,903	5,770	3,413
Long-Term Debt and Capitalized Lease Obligations	7,518	4,620	2,838
Shareholders' Equity	3,424	3,960	3,892
Return on Equity %	—	1.7	15.2
No. of Common Shares Outstanding at Year End	746	746	745
No. of Stores at Year End	96	93	69
Total Square Feet — Stores	324,000	319,000	288,000
Sales per Square Foot — Selling Area Only	150.94	144.50	136.15

\*Based on weighted average number of shares outstanding



**ELKS STORES LIMITED**  
**Corporate Headquarters**  
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