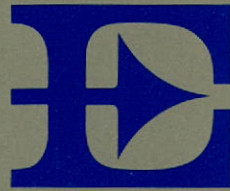


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**ELECTROHOME  
ANNUAL REPORT  
1979**

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OF MANAGEMENT  
MAY 6 1980  
WISCONSIN UNIVERSITY

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## Highlights

	1979	1978 (a)	% Increase (Decrease)
Sales	<b>\$128,695,000</b>	\$98,224,000	31
Income for the year before extraordinary items	<b>3,369,000</b>	681,000	395
Net Income	<b>4,928,000</b>	698,000	606
Net Income per Class A and B share (b)			
—before dilution	<b>1.61</b>	0.21	667
—after dilution	<b>1.42</b>	0.21	576
Income taxes	<b>2,676,000</b>	920,000	191
Expenditures for fixed assets	<b>1,317,000</b>	615,000	114
Working capital derived from operations	<b>8,926,000</b>	2,760,000	223
Net income as a percentage of average Class A and B shareholders' equity	<b>59%</b>	12%	392
Number of employees (average)	<b>2,418</b>	2,018	20
<b>AT YEAR-END</b>			
Working capital	<b>23,934,000</b>	20,012,000	20
Fixed assets (net)	<b>13,251,000</b>	13,851,000	(4)
Debt (long and short term)	<b>30,994,000</b>	33,630,000	(8)
Shareholders' equity	<b>12,864,000</b>	7,740,000	66
Number of Class A and B shares outstanding	<b>3,044,584</b>	2,993,468	2
Number of Class A and B shareholders	<b>2,264</b>	2,343	(3)

(a) 1978 figures have been restated (see Note 2 to the financial statements—page 18).

(b) After allowance for preference dividends.



## *Directors, Officers and Profit Centre Managers*

### **Board of Directors**

James Holmes, *Chairman\**

W. A. Bean\*

J. M. Bridgman\*

G. S. Dembroski

L. W. Larkin

H. W. Main

D. W. Morison\*

J. A. Pollock

Mrs. Barbara L. Steele

D. S. Sykes

\*Members of the Audit Committee

### **Executive Committee**

James Holmes, *Chairman*

W. A. Bean

J. M. Bridgman

D. W. Morison

J. A. Pollock

### **Officers**

James Holmes, *Chairman and Chief Executive Officer*

J. A. Pollock, *President*

H. W. Main, *Executive Vice-President*

D. S. Sykes, *Executive Vice-President Administration  
and Controller*

H. I. Eby, *Secretary-Treasurer*

### **Profit Centre Managers**

R. A. Flanagan, *General Manager, Industrial  
Products Division*

W. M. Harrold, *General Manager  
Service Electrohome Division*

C. A. Howard, *General Manager, Consumer  
Marketing Division*

H. H. LaPier, *General Manager, Electronics  
Products Division*

G. J. McDonnell, *Acting General Manager,  
Furniture Division*

W. D. McGregor, *General Manager, Communications  
Division, and President, Central Ontario  
Television Limited*

### **Transfer Agents**

Common Shares

Montreal Trust Company, Toronto, Montreal, Winnipeg

Preference Shares

National Trust Company Limited, Toronto,  
Montreal, Winnipeg, Vancouver

### **Solicitors**

Clement, Eastman, Dreger, Martin & Meunier  
Kitchener, Ontario

### **Auditors**

Thorne, Riddell & Co.  
Kitchener, Ontario



## *Report to Shareholders*

There was improvement in all areas of the Company in 1979. The momentum developed in the previous year pushed sales to a new high in the Company's 72 year history. Electrohome's four business sectors - Industrial, Consumer, Service and Communications - each had sales increases and each operated at a profit. The Industrial sector, with a sales increase of 41 percent, had the greatest gain.

While the Canadian economy generally had a moderate rate of growth in 1979, Electrohome achieved a sales increase of 31 percent. Consolidated sales were \$128.7 million compared with \$98.2 million in 1978. Sales in each quarter were ahead of 1978 figures. In the traditionally strong final quarter, sales reached \$38.7 million - a 32 percent increase over the \$29.2 million sales achieved in the closing three months of the previous year.

Income was \$3.4 million in 1979, compared to \$681,000 in 1978 and a loss of \$3.1 million for the same period in 1977. After adding back an income tax reduction through the application of prior years' losses, final net income amounted to \$4.9 million. In the fourth quarter there was income, before extraordinary items, of \$2 million compared to \$1.3 million in the final quarter of 1978. Final net income for the last quarter of 1979 was \$2.8 million compared to \$1.3 million in the previous year.

Significant growth in exports occurred during the year. Export sales of \$21.6 million in 1979 increased by 33 percent over the previous year and accounted for 16.8 percent of the Company's business. This represents a seven-fold increase in exports from the 1975 level of \$3 million. Favourable exchange rates during the year assisted international marketing efforts.

In both domestic and export markets, Electrohome has become an important supplier to other manufacturers of custom designed electronics, specialized video displays, electric motors and metal products. A new duty remission program for television chassis and the lower valued Canadian dollar were responsible for the repatriation of TV assembly. This resulted in more satisfactory factory production levels in 1979.

The lower valued Canadian dollar, although beneficial to export sales, did increase costs for imported materials and purchased products for resale. On balance, 1979 exchange rates assisted export development and placed the Company in a stronger position in the domestic market. Canada will have a continuing need for this competitive advantage as lower tariff levels negotiated under GATT are implemented throughout the world. The electronics industry in particular is an international business, with developing countries seeking much greater participation. In the coming decade it will be important to monitor the effect of non-tariff barriers which may be erected by Canada's industrial competitors in other lands. Product quotas, for example, have already been established by some countries.

A program to realign operations by the disposal of surplus plant capacity, undertaken in 1977 and 1978, has for the most part been completed. With improved plant loadings, the effort in 1979 was to improve efficiencies in the available facilities. Operating results for the year attest to the improvements attained.

Working capital of \$20 million at the end of 1978 increased to \$23.9 million, reflecting strong asset management and greater profitability. The percent of debt to total capitalization has dropped from 83.5 percent in 1977 to 70.7 percent in 1979. The Company's longer term objective is to reduce it to 25 percent.

Capital expenditures amounted to \$1.3 million compared to \$615,000 in 1978. Expenditures of \$594,000 were made at the Broadcast operations to improve facilities and provide expanded service, \$599,000 in the Industrial sector, and the balance in other areas. For 1980 requests in the sum of \$1.5 million have been approved to date out of a total capital expenditure budget of \$3.8 million. Of this amount, \$1.5 million is for the Broadcasting operation bringing its total for the 1979/1980 period to \$2.1 million. This program includes the acquisition of additional properties and the expansion of studio and related facilities. In addition, there is an ongoing program for the upgrading of technical equipment. For the Industrial sector capital expenditures for 1980 are expected to total \$2.0 million.



Within the Industrial sector, the Electronics Products Division concentrated its efforts on new product development and marketing. There was rapid growth in factory output of video displays and other electronic devices, including printed circuit boards produced at Niagara-on-the-Lake. In this sector, the Motor operation expanded its sales of sub-fractional horsepower electric motors through design improvements and aggressive marketing. Metal stampings, moulded plastic components and environmental systems also added to sales this past year.

In the Consumer sector there were improvements in all areas. New designs of electronic products feature the latest in state-of-the-art automatic convenience features. Top of the line television sets, for example, have V.I.R. circuitry, automatic color purity, built-in all channel cable compatibility and multi-function wireless remote controls. Electronic design improvements make these units the most reliable ever. In 1979 one of Electrohome's furniture groupings, Park Place occasional tables, won an industry award. Also, a wide range of fashionable dining and bedroom suites was introduced. Consumer acceptance increased throughout the year.

Design innovation and product development are key factors in assuring continued profitable growth. Expenditures in this area for 1979 amounted to \$2.8 million.

Electrohome's Incentive Marketing group, a relatively new enterprise devoted to the incentive and premium sales field, was able to expand its range of programs as well as the variety of products it offers to industrial and commercial sales and marketing groups across the country.

Service and Communications sectors continued to grow in 1979, with each providing significant contributions to both sales and profitability. Service Electrohome, operating from coast to coast, opened five new branches during the year bringing the total to 27, and broadened its field of operations through expanded industrial and commercial contract service business. The Company's broadcasting stations improved sales and profits and expanded their efforts to gain a greater share of audiences.

Six individual bargaining units ratified labour contracts during the year. Four contracts are for one year; the remainder are two year agreements. Annual settlements have

ranged between 8 and 9 percent including fringe benefits. There were no labour disputes during the year and no work disruptions.

In the centralized staff areas improvements were made particularly in the management of foreign exchange and cash control, transportation and warehousing, internal audit and employee communication programs.

The operating performance in 1979, and the turnaround achieved, are tangible evidence of action taken to restructure and reorganize Electrohome. The Company gratefully acknowledges the support and counsel provided by shareholders, customers, suppliers, The Royal Bank of Canada, and the Enterprise Development Board. A particular mention should be made of the team effort provided by employees and managers whose dedication, craftsmanship and technological skill were at the heart of our success.

Prospects for the Company remain positive despite unsettled economic conditions in most of the markets in which Electrohome deals. A further slowdown in the United States' economy will likely cause some reduction in export sales; however, it is felt that most of the products sold by Electrohome to that market will not be unduly affected by moderately adverse economic trends.

Continued high rates of inflation and fluctuating exchange rates make planning difficult. The hazards which the Company faces increase with its greater emphasis on export trade. Electrohome's heavy debt load, together with high interest charges, is a further burden which is abnormal for a company of its size and with its particular mix of enterprises. Planning and action are going forward to continue the reduction of the debt load and to temper the effect of the cyclical nature of the Company's activities. In spite of economic uncertainties, which have been factored into 1980 budgets, your management expects that 1980 will be another year of significant growth.

March 31, 1980



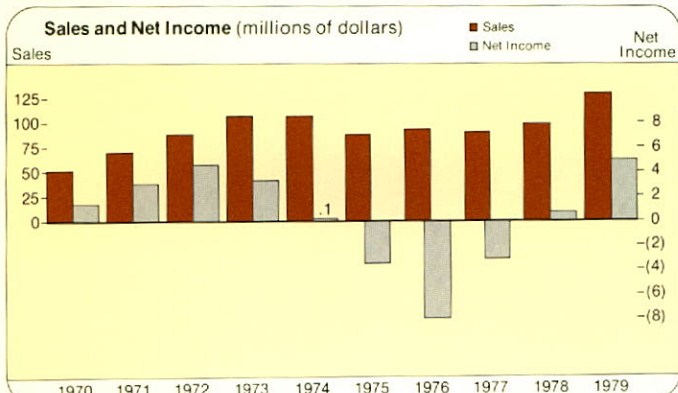
James Holmes  
Chairman of the Board  
Chief Executive Officer



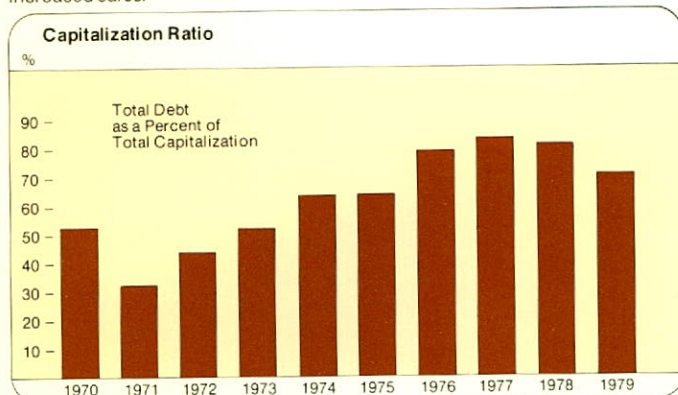
John A. Pollock  
President



# Financial Review



31% sales growth in 1979 reflected the marketing emphasis in the commercial/industrial sector. Increased net income came from realignment of operations, efficient use of resources, vigorous asset management and increased sales.

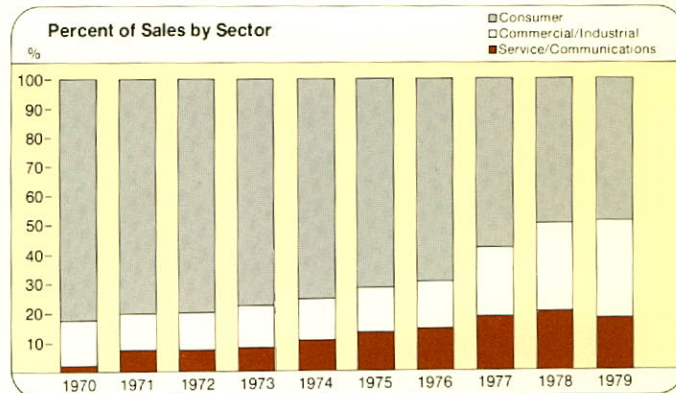


Total debt was reduced to 71% of total capitalization by year-end 1979 reflecting significant progress in reducing the Company's borrowings. The target debt level is 25%.

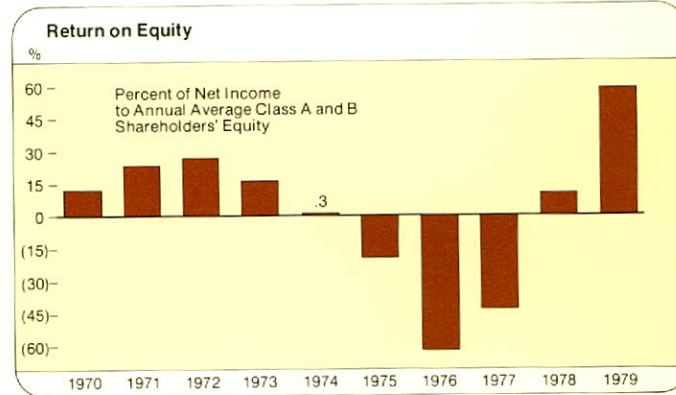
Sales of \$128.7 million in 1979 were the largest in the Company's history, an increase of 31 percent over 1978. Income before extraordinary items was \$3.4 million compared to \$681,000 in the previous year. Tax losses carried forward from previous years permitted the adding back of an extraordinary item in 1979 which resulted in a final net income of \$4.9 million.

Income per share before the extraordinary item was \$1.09 compared to 20 cents in 1978. Net income per share after the extraordinary item amounted to \$1.61 compared to 21 cents in 1978. On a fully diluted basis, income per share before the extraordinary item was 95 cents compared to 20 cents in 1978. Net income after the extraordinary item, on a fully diluted basis, was \$1.42 compared to 21 cents in 1978.

Operations in 1979 contributed \$8.9 million to working capital, of which \$3.4 million was provided by income before



The last three years have seen a substantial percent increase in the proportionate volume of sales in the commercial/industrial sector. This is providing a more diversified base of operations.



The substantial improvement in the return on equity is due to improved earnings together with a low equity base as the result of previous losses. As the equity base continues to rise, the return on equity can be expected to moderate.

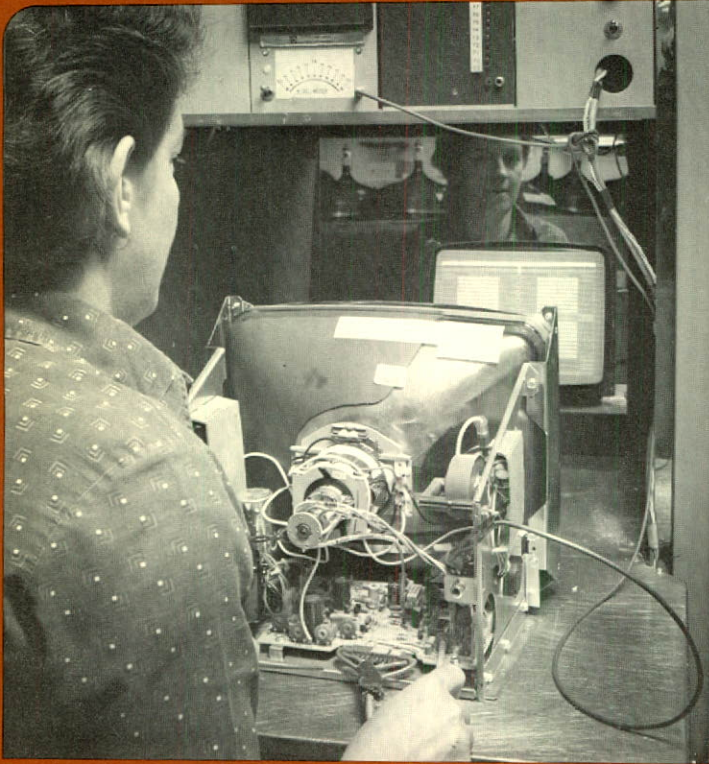
extraordinary items and \$5.5 million from depreciation, the application of savings of income tax due to prior years' losses and an increase in deferred income taxes. Long term debt was reduced by \$4.1 million. There was a net increase in fixed assets of \$1.1 million and net working capital rose from \$20 million to \$23.9 million.

With the increase in operating activity, accounts receivable rose to \$21 million at year end, an increase of 22 percent, while inventories amounted to \$28.5 million, an increase of 44 percent. Despite the need for additional funds to carry the higher inventories and accounts receivable, the Company was able to reduce the total debt from \$33.6 million to \$31 million, a decrease of 8 percent. This is a reduction from a high of \$44 million in May 1977.

During the year shareholders' equity increased from \$7.7 million to \$12.9 million.



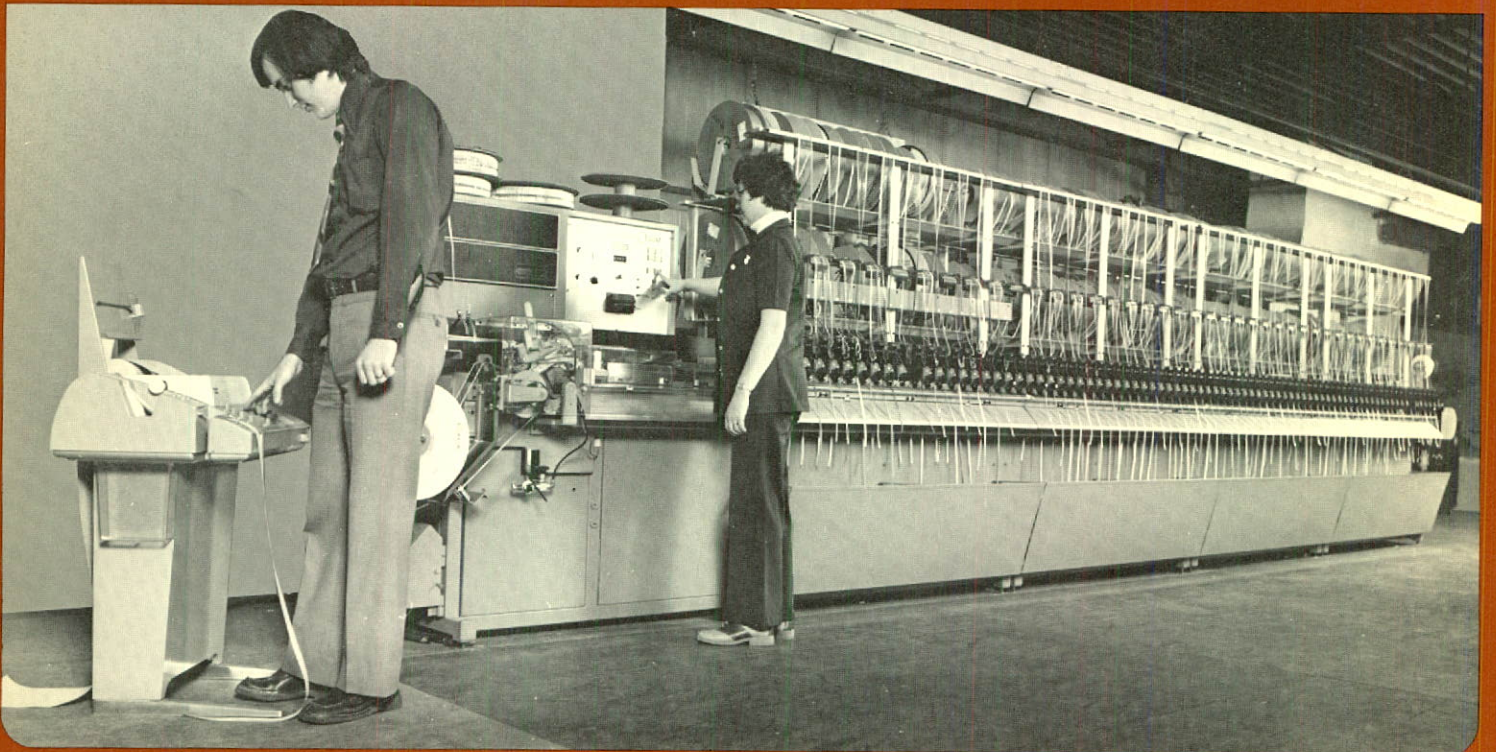
*Industrial*



Precise alignment of video displays



New Telidon information display



Computerized automatic insertion of electronic components



## *Industrial*

The trend in the past three years to rapid expansion in the Industrial sector increased its share of total Company sales. In 1979 output increased, employment rose, new products were developed, new markets explored, and some manufacturing facilities operated at close to capacity. There are four plants in three communities where manufacturing is carried out.

The push to engineering and marketing a broad range of commercial and contract products has had a major impact on the strength of Electrohome's operations. Skills that were once directed mainly to consumer products have been strengthened and turned to meet the demand for sophisticated commercial and contract electronic and electrical products. Electrohome has established itself as a major supplier of innovative video displays in the international marketplace.

Large Canadian and United States companies have contracted for quality CRT computer displays. Original Equipment Manufacturers (O.E.M.) in the arcade games industry have worked closely with the Company in the development and supply by Electrohome of dependable "games" display monitors. Customers in the word processing industry have come to the Company for high resolution monochrome video displays. Additional applications are foreseen in computer graphics and medical electronics.

The systems marketing group is directed at proprietary developmental engineering services for industry and government. One of the aims in this area is the development of marketable designs which Electrohome can manufacture. This resource group worked on the development of the unique color television unit used in the widely acclaimed Telidon system and Electrohome units have been used in most of the field trials. The Company has a contract with the Department of Communications for the design of TV receiving components for direct-to-home reception of satellite broadcasts. Prototype units are currently under test across Canada.

Contracts for engineering and prototypes of a sophisticated Pay Television system for the pay-per-program approach has placed the Company at the forefront of a field which is developing rapidly, both in Canada and throughout the world. Work with leading electric utilities for a load-shedding device to permit a central station to shut off power to designated appliances during peak power periods is in the market test phase.

Electrohome commercial video display equipment has found widespread use in North American and European markets. Applications for black and white and color monitors, in a variety of screen sizes, include broadcasters, industry, stock exchanges, airports, educational institutions and surveillance operations. Development is completed and marketing underway of a unique, large-screen monochrome data/graphics projection monitor. It interfaces with most computer terminals, and the picture size and brightness make it ideal for large audience viewing.

The Electronics and Appliance manufacturing plant produces a wide range of television, audio and comfort appliances for the Consumer Marketing Division of Electrohome. The return of color TV assembly to Canada, plus contract manufacturing of conventional television products for other companies, and production of new projection color television designs is significantly increasing factory output.

Printed circuit boards are produced at the Niagara-on-the-Lake plant. A growing number of new outside customers, including the automotive trade, are using high volumes of these custom manufactured electronic devices. Electrohome also uses this product in TV and video monitor designs.

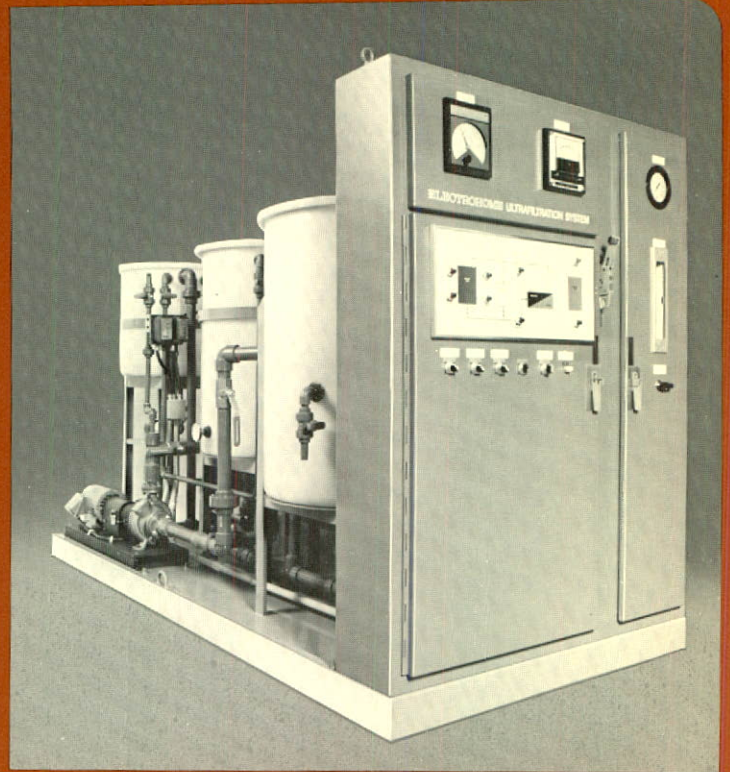
Aggressive marketing of electric motors produced at the Company's Industrial Products plant in Cambridge sparked sales growth in the past year. The lower valued Canadian dollar enhanced a broad demand for custom designed AC and DC motors in international markets. Significant export sales were recorded in 16 countries during 1979; 20 countries



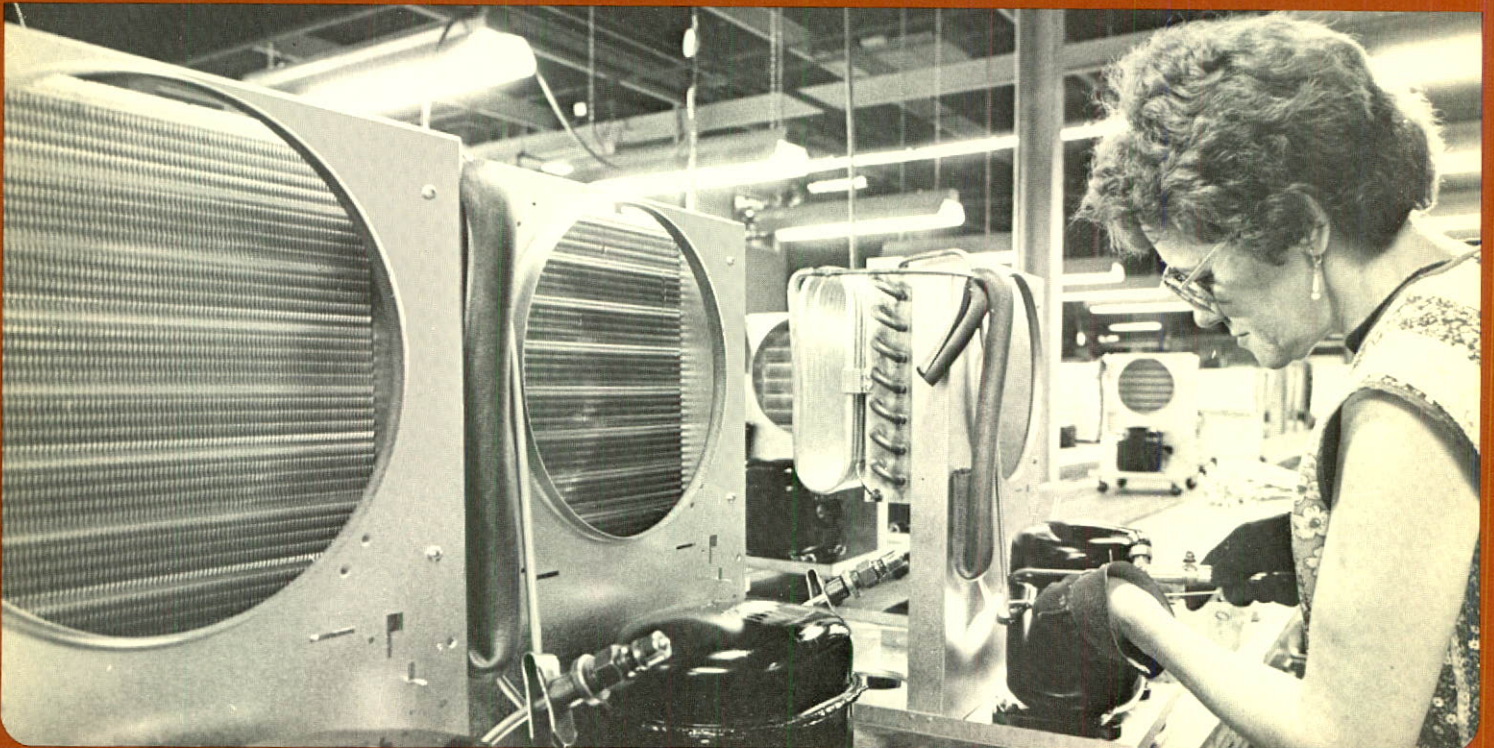
*Industrial*



Semi-automatic armature winding for D.C. motors



A unique Electrohome ultrafiltration system



Metal fabrications used in Electrohome dehumidifiers



## *Industrial*

will receive electric motor shipments in 1980. While a large share of motors produced continue to go to the United States, the broader export base now being developed will provide greater stability. New customers added during the year strengthened the division's position in all markets. Electrohome continues to maintain a strong place in the domestic market.

Large volume O.E.M. users of Electrohome electric motors are automotive, consumer product, commercial vehicle and comfort appliance manufacturers. Other operations at Electrohome are also major customers. The Company provides custom engineering for required product applications. Manufacturing flexibility, permitting short and medium runs, is important in this field. Product performance, long life and energy efficiency are critical in the development and marketing of motor products. Research and Development expenditures on motors increased substantially and much of it was directed to the design of new skeleton, permanent magnet and unit bearing motors.

All purpose DC fans, bilge blowers, rear window defoggers, barbecue rotisseries and roof vent kits for recreational vehicles are marketed under Electrohome as well as private brand names. There has been emphasis on the after market for all types of AC and DC replacement motors. This area becomes increasingly important when O.E.M. sales falter as maintenance of older equipment requires service replacement parts. The energy crisis is creating new marketing opportunities. Some fuel conversion devices utilize small electric motors in their design. A new oven rotisserie motor will soon supplement a barbecue motor introduced in 1979.

Plastics manufacturing at Cambridge is directed to industrial and commercial customers. Electrohome has the

capacity to supply a broad range of products from computer terminal housings to decorative furniture facings. A unique application this past year was the production of floatation collars for the oil industry.

Metal fabricated products and environmental systems are produced in Kitchener. New customers for metal stampings have been developed in the electronic, appliance and automotive industries. Manufacturing flexibility is enhanced by the Company's versatile equipment and the two 250 ton presses which allow improved operating efficiencies for contracted products. Metal componentry from this plant is purchased by other Electrohome operations for their production use.

Located in the same plant is the Company's environmental systems operations, which designs and produces sophisticated ultrafiltration systems for industrial customers. Development of equipment to treat soluble oil/water waste has been in use for some time in several industrial plants. Painting and metal working companies as well as food processing industries are looking to this technology to improve their operating procedures. The maple syrup industry in Ontario and Quebec is using a unique adaptation of this system to provide improved productivity and significantly lower fuel costs.

As indicated the Industrial sector of the Company is highly diversified. There are special project teams who focus attention on research, design innovation and product development. These activities, which include the design and development of products required for the Consumer sector, involved an expenditure of \$2.8 million in 1979. A strong foundation of engineering expertise is developing leading edge technology which is reflected in many new products.



*Consumer*



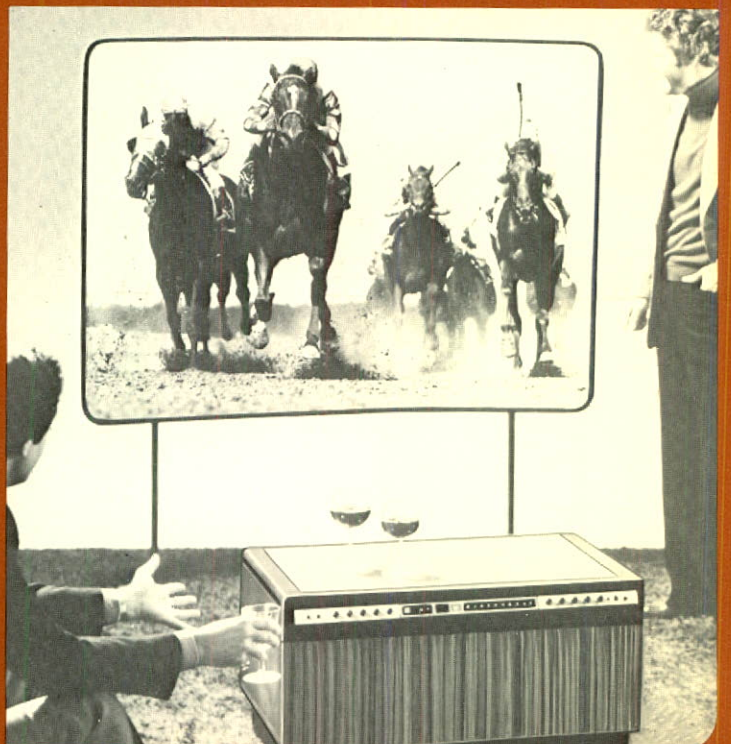
Color TV console with electronic tuning



Cocktail table, Park Place collection



Stylish Electrohome/Deilcraft furniture



Large screen projection TV.



## Consumer

Electrohome's image of high quality consumer products for the home was established more than 70 years ago. Electrohome design and engineering excellence became industry benchmarks for consumer electronics, comfort appliances and fashionable furniture products. Today, a significant portion of the Company's business is still in the Consumer sector.

Electrohome's full line of quality color television designs has a reputation for "an extra degree of excellence." ELECTROCOLOR picture purity is highlighted in all units from stylish portables to elegant consoles. Small screen B&W TV sets and deluxe stereo consoles are part of a comprehensive product range.

Advanced electronic technology is changing the face and format of product design. Electronic tuning with built-in random access cable capability is featured in many Electrohome color TV receivers, while V.I.R. color corrective integrated circuitry is in most units. New large screen projection TV consoles are designed into slim, stylish cocktail tables. An exclusive Canadian distributorship has added programmable video games to the Company's line of electronic products. The games are controlled by cartridges offering up to 50 game variations. Personal home computers produced by the same manufacturer will be added in 1980.

Appliances, like electronic products, are designed today to be more reliable and durable. Consumers now enjoy warranty protection for up to 5 years. Electrohome air conditioners, which have a significant share of the marketplace, reflect this fact. Humidifiers, dehumidifiers, fans and portable electrostatic air cleaners are designed for home use. They are energy efficient. New microwave oven products, branded for Electrohome, feature time and temperature digital readouts, soft touch controls and are programmable.

Canadian content increased in Electrohome's consumer product range in 1979. A new Federal Government duty

remission program for television chassis accelerated the return of color TV assembly to the Kitchener Electronics and Appliances manufacturing plant. Audio product assembly, projection television, plus a wide range of comfort appliances, are produced in this facility. High quality furniture is made in Kitchener in one of the largest woodworking plants in North America, and in a smaller furniture operation at Milverton, Ontario. Several consumer products combine expertise developed in both electronics and furniture manufacturing. "Cabinets by Deilcraft" has been a merchandising feature of Electrohome television and stereo products for decades.

Canada's home furnishings industry has become more fashion conscious as consumers seek stylish new designs. In reference to this trend, imports, particularly from the United States, reached significant levels in the 1970's.

To meet this competition the Canadian furniture industry is developing an increased flow of fashionable Canadian products. The Ontario Government together with Ontario furniture manufacturers introduced the Trillium Awards competition to provide recognition for products highlighting design excellence and sound market potential. The Electrohome Furniture Division earned a 1979/80 Trillium Award for its stylish Park Place occasional table collection.

Development of high quality designs by Electrohome Furniture carried well beyond the Trillium Award winner. An expanded occasional table line and several new bedroom and dining suites were introduced to retailers at the 1980 Canadian Furniture Mart. The new designs are scaled to modern living environments, while woods and finishes are carefully selected to highlight the specific style.

The volume of sales of Electrohome consumer products to export markets has increased. With favourable currency valuation, good designs and aggressive marketing, this trend should continue.



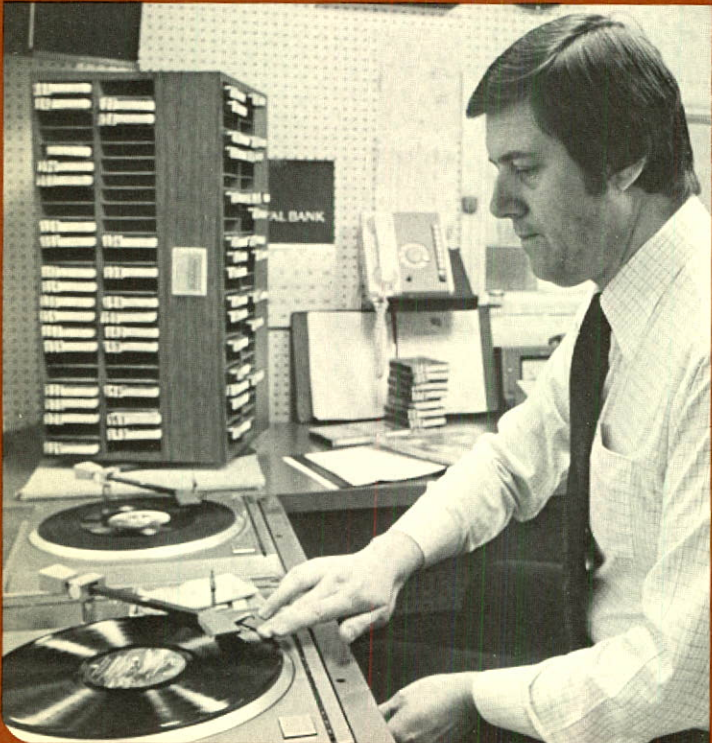
# *Service and Communications*



Servicing of computer terminals



Home television service



AM/FM radio broadcasting



Versatile television production



# *Service and Communications*

## *Service*

Service Electrohome has a network of 26 branches across Canada. The Division has grown to be one of the nation's largest service organizations for users of electronic and electrical products in the consumer, commercial and industrial fields. Customers in the United States are served by a Company branch in Tonawanda, N.Y.

Skilled technicians, modern diagnostic equipment, plus a fleet of more than 115 service vans respond to customer requirements.

Branches stock an extensive range of parts and accessories for electronic and comfort appliance products. Both dealers and consumers purchase a wide variety of electronic parts and accessories from well stocked depots across the country. Manuals and schematics are kept on microfiche. Technical training is aimed at sustaining service leadership for a growing number of sophisticated electronic products. The national service network is now providing "all-brand" service for television and many home appliance products.

## *Communications*

Electronic journalism is rapidly changing communication methods. The Communications Division, operating CKCO-TV, CKKW-AM and CFCA-FM from Kitchener, is participating in this dramatic change.

Skilled communications personnel utilize the latest in electronic cameras, videotape editing equipment, mobile vans and microwave facilities. They bring "live" programming "instantly" to one of Canada's most competitive broadcast markets. CKCO's own election coverage of Decision '80 included 29 Ontario ridings. Kitchener's renowned Oktoberfest parade carried throughout Canada by CTV originates with the station's broadcast crew. Sporting events, cultural gatherings and public affairs programs attract large audiences.

As a member of the CTV network, CKCO viewers receive comprehensive national and international television programming. The CTV partnership provides both opportunity and challenge. Special syndicated material originates at the Kitchener studios. Local and regional reporters are challenged to match the excellence of national network journalism.

Expanded technological know-how has earned maintenance contracts for mini-computer systems. The Division is currently servicing systems in stock exchanges, airports, restaurants, hospitals and other commercial applications. The ability to install and maintain closed circuit television systems is complementary to the Company's aggressive marketing of a broad range of monochrome and color video monitors.

There is potential for continued growth in the service field as new electronic designs are constantly being introduced to the marketplace. While product reliability is at the highest plateau ever, there will always be a need for warranty and after-warranty service on a national basis. Service Electrohome expects to open new branches in growth areas across Canada in 1980. Some current operations will be relocated in higher profile traffic locations. Aggressive marketing, additional branches, improved locations and expanded service activity are expected to sustain the solid pattern of growth at Service Electrohome.

In 1979, the communications division made capital investments in electronic news gathering (ENG) equipment, replaced its 10 year old microwave extension to CKCO-TV's Warton station and undertook preparatory costs for a building expansion program presently underway. Costs included the purchase of properties and architect and engineering fees. This major expansion in TV production, radio broadcasting and support space will provide the Company's broadcast operations with much needed "working room" and offers potential for future growth. Total investment will be approximately \$1.5 million. The project will be completed in 1980.

Electrohome's Advertising, Public Relations and Incentive Marketing areas add their communications and merchandising skills to the division's activity. Incentive Marketing, operating in the premium and incentive sales field across Canada, has had sales increases of 47 percent in the past two years.

The Communications Division makes a significant contribution to Electrohome's current operations and provides excellent opportunity for growth.

# ELECTROHOME LIMITED

(Incorporated under the laws of Ontario; including the accounts of Central Ontario Television Limited and all other subsidiaries, all of which are wholly owned.)

## CONSOLIDATED BALANCE SHEET—As at December 28, 1979

1979

1978

(in thousands)

### ASSETS

#### CURRENT ASSETS

Accounts receivable	<b>\$20,961</b>	\$17,212
Inventories		
Raw materials at lower of cost and replacement cost	<b>9,377</b>	5,481
Finished goods and work in process, at lower of cost and net realizable value	<b>19,151</b>	14,333
Income taxes recoverable	<b>435</b>	
Prepaid expenses	<b>2,034</b>	1,803
	<b><u>51,958</u></b>	<u>38,829</u>

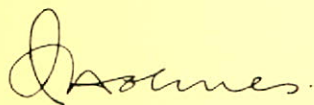
#### FIXED ASSETS

including property under capital lease (Note 2)	<b>32,932</b>	32,243
Less accumulated depreciation	<b>19,681</b>	18,392
	<b><u>13,251</u></b>	<u>13,851</u>

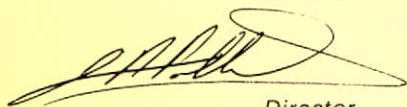
#### EXCESS OF COST OVER BOOK VALUE

at dates of acquiring subsidiary companies less amortization over forty years	<b>1,949</b>	2,025
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Approved by the Board



Director



Director

**\$67,158**

**\$54,705**



	1979	1978
	(in thousands)	
<b>LIABILITIES</b>		
<b>CURRENT LIABILITIES</b>		
Bank advances (Note 3)	\$ 3,726	\$ 3,782
Accounts payable and accrued liabilities	17,315	9,938
Deferred service contract income	2,902	2,566
Principal due within one year on long term debt	4,081	2,531
	<u>28,024</u>	<u>18,817</u>
<b>LONG TERM DEBT (Note 3)</b>		
Term bank loan	22,638	24,305
8% Secured sinking fund debentures	1,783	2,397
Payable to Government of Canada	1,453	1,500
Obligations under capital leases (Note 4)	1,394	1,646
	<u>27,268</u>	<u>29,848</u>
Less principal due within one year	4,081	2,531
	<u>23,187</u>	<u>27,317</u>
<b>DEFERRED INCOME TAXES</b>	<u>3,083</u>	<u>831</u>
<b>SHAREHOLDERS' EQUITY</b>		
<b>CAPITAL STOCK (Note 5)</b>		
Authorized		
94,826 Preference shares, par value \$100 per share, issuable in series		
4,999,000 Class A and Class B shares, participating, without par value		
1,000 Common shares without par value		
Issued		
14,826 5¼% Cumulative redeemable preference shares, Series A	1,483	1,483
3,044,584 Class A and Class B shares (2,993,468 shares in 1978)	4,029	3,833
<b>RETAINED EARNINGS</b>	<u>7,352</u>	<u>2,424</u>
	<u>12,864</u>	<u>7,740</u>
	<u>\$67,158</u>	<u>\$54,705</u>



# ELECTROHOME LIMITED

## CONSOLIDATED STATEMENT OF INCOME AND RETAINED EARNINGS —Year Ended December 28, 1979

	1979	1978
	(in thousands)	
Sales	\$128,695	\$98,224
Cost of sales, selling and administrative expenses	<u>116,426</u>	<u>90,594</u>
Income before undernoted items	<u>12,269</u>	<u>7,630</u>
Depreciation	1,438	1,590
Depreciation of property under capital leases	232	228
Interest on long term debt	3,838	3,239
Other interest	640	895
Amortization of intangible assets	<u>76</u>	<u>77</u>
	<u>6,224</u>	<u>6,029</u>
Income before income taxes and extraordinary items	<u>6,045</u>	<u>1,601</u>
Income taxes		
Current	424	867
Deferred	<u>2,252</u>	<u>53</u>
	<u>2,676</u>	<u>920</u>
Income before extraordinary items	<u>3,369</u>	<u>681</u>
Extraordinary items		
Income tax reduction on application of prior years' losses	1,559	131
Loss on realignment of operations		<u>(114)</u>
NET INCOME	<u>4,928</u>	<u>698</u>
Retained earnings at beginning of year as previously reported	2,810	2,101
Change in accounting practice (Note 2)	<u>(386)</u>	<u>(375)</u>
As restated	<u>2,424</u>	<u>1,726</u>
RETAINED EARNINGS AT END OF YEAR	<u>\$7,352</u>	<u>\$2,424</u>
EARNINGS PER SHARE		
Before providing for dilution		
Income before extraordinary items	\$1.09	\$.20
Net income	1.61	.21
Fully diluted		
Income before extraordinary items	.95	.20
Net income	1.42	.21



# ELECTROHOME LIMITED

## CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION —Year Ended December 28, 1979

	1979	1978
	(in thousands)	
WORKING CAPITAL DERIVED FROM		
Operations	\$ 8,926	\$ 2,760
Sale of fixed assets	247	2,913
Issue of Class A shares	196	32
	<u>9,369</u>	<u>5,705</u>
WORKING CAPITAL APPLIED TO		
Reduction of long term debt	4,130	5,003
Additions to fixed assets including property under capital leases	1,317	615
	<u>5,447</u>	<u>5,618</u>
INCREASE IN WORKING CAPITAL	<u>3,922</u>	<u>87</u>
WORKING CAPITAL AT BEGINNING OF YEAR		
As previously reported	20,277	20,158
Adjustment of current obligations under capital leases (Note 2)	(265)	(233)
As restated	<u>20,012</u>	<u>19,925</u>
WORKING CAPITAL AT END OF YEAR	<u>\$23,934</u>	<u>\$20,012</u>
WORKING CAPITAL DERIVED FROM OPERATIONS		
Income before extraordinary items	\$ 3,369	\$ 681
Items not involving working capital		
Depreciation and amortization	1,746	1,895
Income tax reduction on application of prior years' losses	1,559	131
Deferred income taxes	2,252	53
	<u>\$ 8,926</u>	<u>\$ 2,760</u>

### AUDITORS' REPORT

To the Shareholders of ELECTROHOME Limited

We have examined the consolidated balance sheet of ELECTROHOME Limited as at December 28, 1979 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.

In our opinion, these consolidated financial statements present fairly the financial position of the

company as at December 28, 1979 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, after giving retroactive effect to the change in the method of accounting for capital leases as described in note 2, on a basis consistent with that of the preceding year.

Kitchener, Canada  
February 25, 1980

*Thorne Riddell & Co.*  
Chartered Accountants



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 1. SUMMARY OF ACCOUNTING POLICIES

Significant accounting policies other than those detailed on the financial statements follow:

#### (a) Fixed assets

Fixed assets are stated at cost and are depreciated on the straight line basis using the following annual rates:

Buildings	2½% to 5%
Machinery and equipment	7½% to 20%
Automotive equipment	20% or 25%

The capitalized values of property under capital leases are depreciated on the straight line basis over the terms of the leases.

#### (b) Deferred service contract income

Proceeds from the sale of extended warranty contracts are deferred and brought into income over the period of the contract.

#### (c) Translation of foreign currencies

Current assets and current liabilities have been translated into Canadian dollars at the rate of exchange at the balance sheet date. The resulting gains and losses are recorded in the consolidated statement of income.

#### (d) Warranty

With the introduction of longer warranties on its consumer electronics and appliance products, the Company has begun in 1979 to provide for the cost of estimated future warranty obligations against income. At December 28, 1979 the amount of such provision, in respect of sales made in 1979, is \$333,000 and is included in accrued liabilities.

### 2. FIXED ASSETS

	1979 (in thousands)		1978 (in thousands)	
	Owned Assets	Capital Leases	Owned Assets	Capital Leases
Land	\$ 716		\$ 568	
Buildings	10,423	\$ 1,787	11,215	\$ 1,787
Machinery and equipment	19,007	999	17,666	1,007
	<u>30,146</u>	<u>2,786</u>	<u>29,449</u>	<u>2,794</u>
Accumulated depreciation	17,922	1,759	16,858	1,534
	<u>\$12,224</u>	<u>\$ 1,027</u>	<u>\$12,591</u>	<u>\$ 1,260</u>

Owned assets are stated at cost.

Capital leases are stated at fair market value at time of inception of lease.

The Company has adopted the requirements of the Canadian Institute of Chartered Accountants pertaining to the capitalization of leases. Comparative figures for 1978 and retained earnings at January 1, 1978 have been restated to

reflect the financial results as though those requirements had been in effect since the inception of the leases. The net effect of this change in accounting practice on net income in 1979 and 1978 is not significant.

### 3. BANK ADVANCES AND LONG TERM DEBT

The 8% secured sinking fund debentures are payable \$600,000 annually plus interest and are secured by a first mortgage on the Company's interest in certain real property and a general floating charge on certain other assets of ELECTROHOME Limited and subsidiary companies. The trustee has been notified that the Company continues to be in default under certain covenants of the trust deed. In acknowledging notice of default, the trustee has stated that no action has been taken or was proposed to be taken as a result of the conditions of default. All required payments of principal and interest have been made.

The term bank loan, bearing interest at bank prime plus 1¼%, is repayable in equal monthly instalments of principal in the amount of \$139,000 plus interest and matures not later than August 1, 1993. There is a requirement that the company will make accelerated payments against the loan which will apply against the last payments if available funds (as defined) exceed \$3,000,000. Provision has been made in the accounts for an accelerated repayment in 1980 of \$969,000. Of the term bank loan of \$22,638,000 an amount of \$13,583,000 has been insured to The Royal Bank of Canada by the Enterprise Development Board on a 90% co-insurance basis.

The bank advances and term bank loan are secured by a demand debenture executed by ELECTROHOME Limited in the amount of \$25,000,000 which is a specific mortgage and charge on real property owned by ELECTROHOME Limited and on certain machinery and equipment and leasehold interests and a floating charge on its undertaking, property and assets. The accounts receivable, inventories and the shares of Central Ontario Television Limited have been pledged as collateral and all the subsidiaries have provided a joint and several guarantee and a floating charge debenture on their undertaking, property and assets in support of the loan. The security granted on these loans is subject to any prior security granted to the holders of the 8% secured sinking fund debentures.

The amount payable to the Government of Canada, Department of Regional Economic Expansion (DREE), is a result of the settlement, subsequent to the year end, of the claim for the recovery of a grant of \$1,453,000 with respect to closure of the Stellarton plant, and is payable, in full, \$100,000 in February 1980 and the balance in three equal installments of \$451,000 on December 15, 1980, 1981 and 1982. The deferred credit of \$1,500,000 provided on the balance sheet in 1978, pending resolution of this claim, has been reclassified accordingly.

Principal on long term debt excluding obligations under capital leases (Note 4), due in each of the next five years is approximately \$3,800,000 in 1980, \$2,700,000 in 1981 and 1982 and \$1,700,000 in 1983 and 1984.



#### 4. OBLIGATION UNDER LEASES

##### *Capital Leases*

The following is a schedule of future minimum lease payments under capital leases together with the present value of the net minimum lease payments at December 28, 1979.

1980	\$ 414,000
1981	250,000
1982	125,000
1983	118,000
1984	112,000
Later years	<u>1,215,000</u>
Total minimum lease payments	2,234,000
Less amount representing interest (average rate 10.6%)	<u>840,000</u>
Present value of net minimum lease payments	<u>\$1,394,000</u>

Of the present value of net minimum lease payments, \$295,000 is due in 1980 and is included in principal due within one year on long term debt.

##### *Operating Leases*

The following is a schedule of lease payments under operating leases.

1980	\$1,003,000
1981	924,000
1982	321,000
1983	169,000
1984	34,000
Later years	<u>70,000</u>
	<u>\$2,521,000</u>

#### 5. CAPITAL STOCK

- (a) Dividends on the 5¾% Series A cumulative redeemable preference shares are in arrears amounting to \$255,748 at December 28, 1979. Since there are four or more quarterly payments of dividends in arrears, the preference shareholders have the right to elect and have elected two members of the Board of Directors. The Company is in default under the covenants attaching to the 8% secured sinking fund debentures and therefore is neither permitted to pay Series A preference share dividends nor fulfill its purchase fund obligations with regard to such shares.
- (b) Class A and Class B shares are convertible one into the other at any time at the option of the holder. By virtue of The Business Corporations Act, upon any such conversion, the number of authorized and outstanding shares of each class affected by such conversion is changed accordingly.
- (c) During the year, options were exercised to acquire 51,116 Class A shares for cash.

- (d) Options to purchase Class A shares outstanding at December 28, 1979, were as follows:

Number of Shares	Price per Share	Date of Expiry
To Management:		
37,414	\$3.80	17,423 on Dec. 22, 1980 and 19,991 on Dec. 22, 1981.
82,000	\$4.04	One third in each of the years ending June 15, 1980 to 1982.
To Enterprise Development Board:		
436,005	\$2.06	December 31, 1992 or within three years following payment of insured loan

#### 6. INCOME TAXES

The Company has available undepreciated capital cost in excess of net book value and other reserves and expenses not claimed for tax purposes, of approximately \$9,400,000, which may be used to reduce income taxes in future years. The income tax effect of these items has not been recorded in the accounts.

During the year, Electrohome Limited sold its Electronics and Industrial Products Divisions to its wholly owned subsidiary, Central Ontario Television Limited, with the result that income taxes for the 1978 and 1979 fiscal years of the subsidiary were deferred to later years.

#### 7. COMMITMENTS

- (a) During the year the Company paid \$302,000 (\$262,000 in 1978) against its commitments for past service pensions under employees' pension plan agreements. The commitment, estimated by the Company's actuarial consultant at \$2,354,000 will be paid to the extent required, in accordance with the provisions of The Ontario Pensions Act, and will be charged against income in the year of payment.
- (b) The Company has no pension plan (other than Canada Pension Plan) covering directors and senior officers but has entered into employment contracts with senior officers (not including directors as such) providing for continuation of income at specified rates following retirement or earlier termination. Charges with respect to these contracts amounted to \$128,000 in 1979. It is not practicable to estimate the amount of the Company's commitment, as payments may commence at varying times during the next twenty or more years.
- (c) Outstanding letters of credit at December 28, 1979 amounted to \$1,904,000.

#### 8. OTHER STATUTORY INFORMATION

Aggregate direct remuneration of directors and senior officers (as defined by The Business Corporations Act) amounted to \$555,000 including bonuses and retirement benefits (\$400,000 in 1978).



## TEN YEAR REVIEW

	1979	1978	1977	1976	1975	1974	1973	1972	1971	1970
<b>Results For The Year</b>										
(in millions of dollars)										
Sales	128.7	98.2	92.1	93.7	87.5	107.1	107.1	88.0	69.8	51.3
Depreciation and amortization	1.7	1.8	1.9	2.1	2.0	1.8	1.5	1.2	.9	.7
Interest expense	4.5	4.1	3.8	3.7	3.0	3.2	1.9	.8	.8	.8
Income (loss) before income taxes and extraordinary items	6.0	1.6	(2.4)	(4.6)	(4.8)	.6	6.0	8.5	6.3	2.8
Income taxes (reduction)	2.7	.9	.7	.5	(1.3)	.5	2.7	4.1	3.3	1.5
Extraordinary items	1.6	—	—	(2.9)	—	—	—	—	—	—
Net income (loss)	4.9	.7	(3.1)	(8.0)	(3.5)	.1	3.3	4.5	3.0	1.3
Expenditures for fixed assets	1.3	.6	.4	1.6	2.3	5.3	4.3	5.2	2.2	1.5
<b>Year End Position</b>										
(in millions of dollars)										
Inventories	28.5	19.8	24.3	31.1	26.0	34.7	25.0	19.9	11.4	14.3
Fixed assets (net)	13.3	13.9	15.1	18.2	19.3	19.0	15.5	12.6	8.6	7.3
Total assets	67.2	54.7	57.8	65.8	64.0	75.4	59.4	47.6	33.1	34.0
Working capital	23.9	20.0	20.2	(2.0)	5.8	12.1	13.5	13.6	8.5	7.2
Debt (long and short term)	31.0	33.6	37.4	39.7	33.2	39.1	24.7	15.7	7.7	14.5
Class A and B shareholders' equity (a)	11.1	6.1	5.9	9.0	17.1	20.6	21.0	18.2	14.0	11.1
<b>Per Class A and B Share</b>										
(in dollars)										
Income (loss) before extraordinary items (a) (b)	1.09	.20	(1.06)	(1.74)	(1.20)	.02	1.07	1.47	.99	.51
Extraordinary items	.52	.01	(.01)	(.97)	—	—	—	—	—	—
Dividends paid	—	—	—	—	—	.15	.15	.15	.08	.08
Equity (a) (b)	3.65	2.03	1.95	3.02	5.72	6.91	7.04	6.11	4.75	3.82
<b>Other Information</b>										
Class A and B shares outstanding (year end—in thousands)	3,045	2,993	2,986	2,986	2,986	2,986	2,985	2,983	2,944	2,914
Number of Class A and B shareholders	2,264	2,343	2,561	2,631	2,662	2,740	2,754	2,296	1,108	1,364
Number of employees (average)	2,418	2,018	2,240	3,119	2,938	3,900	3,656	3,363	2,487	2,182

(a) After allowance for preference dividends.

(b) Before dilution for outstanding stock options.



## FACILITIES

### Head Office

Electrohome Limited, 809 Wellington Street North  
Kitchener, Ontario N2G 4J6

### Industrial

Electronics Division Plant: Kitchener  
Industrial Products Division Plant: Cambridge  
Metal and Environmental Systems Plant: Kitchener  
Lightning Circuits Plant: Niagara-on-the-Lake  
Sales Offices: Kitchener, Cambridge,  
Niagara-on-the-Lake, Vancouver; Cheshire, England

### Consumer

Consumer Marketing Division Offices: Kitchener  
Electrohome Furniture Division Plants: Kitchener  
and Milverton  
Sales Branches: Toronto, Montreal, Winnipeg,  
Calgary, Vancouver

### Service Electrohome

National Service Headquarters: Kitchener  
Service Branches: Kitchener, Toronto, Barrie, Brantford,  
Mississauga, Hamilton, London, St. Catharines, Guelph,  
Oshawa, Windsor, Peterborough, Kingston, Ottawa,  
Sudbury, Thunder Bay, Montreal, Quebec City, Winnipeg,  
Regina, Edmonton, Calgary, Lethbridge, Surrey, Vancouver,  
Victoria, Tonawanda, N.Y.

### Communications

Headquarters, Studios, Transmitter for CFCA-FM  
Stereo Radio, CKKW-AM Radio: Kitchener  
CKCO-TV, Channel 13, Western Ontario: Kitchener  
CKCO-TV, Channel 2, Georgian Bay: Wiarton  
CKCO-TV, Channel 42, Chatham/Sarnia: Wallaceburg  
CKCO-TV, Channel 11, The Muskokas: Huntsville

## PRODUCTS AND SERVICES

### Industrial

Data Display Monitors, CRT Computer Terminal Displays,  
Surveillance Monitors, Professional Color and B & W Video  
Monitors, Contract Television/B & W and Color, High  
Resolution Color Monitors, Custom Video Displays, Telidon  
Displays, Earth/Satellite Receivers, Large Screen  
Monochrome Data/Graphics Video Displays, Educational TV  
Receiver/Monitors, Commercial Large Screen Projection  
Color TV, Printed Circuit Boards, Contract Engineering  
Services

Sub-fractional Horsepower Motors/AC and DC, Packaged  
Motor Products, Metal Stamping and Fabricating, Reverse  
Osmosis/Ultrafiltration Systems, Energy Conservation  
Systems, Polyurethane Components

### Consumer

Color and B & W Television, Large Screen Projection Color  
Television, Hotel/Motel Color Television, Cable Convertors,  
Stereo Hi-Fidelity Consoles, Portable Small Screen  
TV/Audio/Tape Combinations, Appliance/TV Stands,  
Microwave Ovens, Atari Video Games/Cartridges/Personal  
Computers

Fans, Humidifiers, Dehumidifiers, Air Conditioners, Air  
Purifiers, Electronic Bug Lanterns, Furnace Humidifiers,  
Private Brand Products

Living and Family Room Occasional Furniture, Dining Room  
Suites, Bedroom Suites, Modular Wall Systems, Contract  
Furniture

### Service Electrohome

Electrohome Products Warranty and After Warranty Service,  
Multi-Brand Product Service, Mini-Computer System  
Maintenance, Data Display Monitor Service, Electronics and  
Appliance Parts and Accessories Sales, Surveillance System  
Service and Installations.



