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PEOPLES⁺ JEWELLERS LIMITED
1983 Annual Report

Peoples Jewellers Limited

Directors

Bertrand Gerstein
Chairman

Marvin Gerstein
Vice-chairman

*Irving R. Gerstein

*Sydney M. Hermant

*Robert A. Kingston, Q.C.

Phyllis M. McAllister

* member of audit committee

Officers

Bertrand Gerstein
Chairman of the board

Marvin Gerstein
Vice-chairman

Irving R. Gerstein
President

James T. Roddy
Executive vice-president

Richard A. Field
Vice-president, real estate

Charles F. Gill
Vice-president, finance and administration

Phyllis M. McAllister
Secretary

Kenneth N. Nevison
Vice-president, operations
Peoples division

Roger P. Picotte
Vice-president, operations
Mappins division

Ivan E. Rogers
Vice-president, merchandising
Mappins division

Nicholas I. White
Vice-president, merchandising
Peoples division

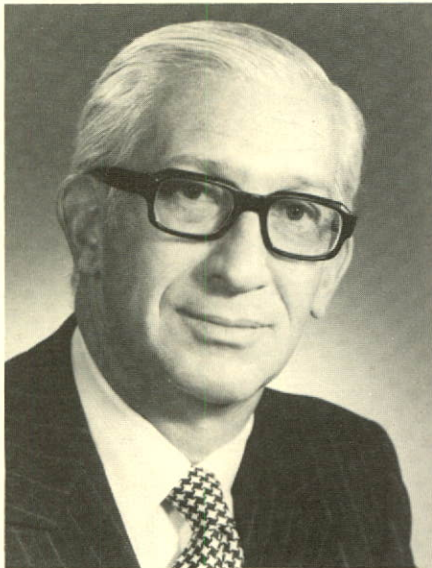
Head office

181 Yonge Street, Toronto, Canada
M5B 1M6 416-366-2281

Transfer agent

Guaranty Trust Company of Canada
88 University Avenue, Toronto, Canada

Directors' Report to the Shareholders



marketing program as well as the acquisition of 18 Grassie Jewelers' stores in June 1983.

Geographically, sales in Alberta were sluggish. The Alberta economy has been less than buoyant and shopping centre growth in 1982 has resulted in "over-storing" in that market. Sales gains in British Columbia, Saskatchewan, and Ontario were in line with the national average while the strongest sales gains occurred in Manitoba, Quebec, and the Atlantic provinces.

In January 1983, Nicholas I. White was appointed Vice-President, Merchandising, Peoples Division, and Ivan E. Rogers was appointed Vice-President, Merchandising, Mappins Division. Both of these gentlemen bring many years of retail jewellery merchandising experience to their positions. Both divisions have developed merchandising programs that are more responsive to today's customers' needs and a highly competitive marketplace. The organizational structure within store operations was altered to reduce the number of reporting levels between management and our customers and on-line cash registers were installed in most stores to automatically replenish "best selling" items and to provide timely, actionable management information.

Physical growth during the year involved the acquisition of 18 Grassie stores in British Columbia and the opening of ten new stores in shopping centres across Canada. Eleven unprofitable stores were closed during the year, bringing the total number of stores open at August 31, 1983 to 299. A further three stores were acquired, subsequent to the year-end, and four more stores are planned in fiscal 1984.

On June 27, 1983, the Company raised some \$27.3 million in equity capital through a Private Placement with institutional investors. In this connection, the Company issued 2,600,000 Class A non-voting shares and 1,300,000 Warrants to purchase Class A non-voting shares

exercisable at \$11.50 on or before June 30, 1986. This equity financing was used to reduce bank borrowings, substantially strengthening the Company's working capital position and debt to equity ratio and reducing its interest costs.

While the operating results of Zale Corporation for their year ended March 31, 1983 were most disappointing and had a significant adverse affect on our own reported earnings, their first half ended September 30, 1983 reflected a strong turn-around in both sales and earnings. Current indications are that fiscal 1984 should show continued improvement in Zale Corporation results. The significant improvement in the market price of Zale shares, from a low of some \$18 to a high of \$34, appears to support this position. Management considers the Company's 16% holding in Zale Corporation an important and sound investment.

On August 15, 1983, the Company paid a dividend of \$.15 per share on each of its Common, Class A non-voting and First Preferred Series B shares.

While our first quarter results are not yet final, sales continue to exceed last year by more than 20% in comparable stores. This makes me most confident that the coming year will show a dramatic improvement in both sales and earnings.

In closing, I should like to express the thanks and appreciation of the Company to the more than 2,600 employees across Canada for their loyal support and dedicated efforts in achieving this significant turn-around.

Respectfully submitted on behalf of the Board.

Bertrand Gerstein
Chairman of the Board

Toronto, Canada
October 11, 1983

The accompanying financial statements for the year ended August 31, 1983 indicate sales of \$145,014,000 as compared with \$127,220,000 the year previous, an increase of 14%. Pre-tax income excluding equity in Zale Corporation and extraordinary items was \$3,995,000 as compared with \$2,016,000 last year, an increase of 98%.

The Company's equity interest in the results of Zale Corporation for their four quarters ended June 30, 1983, net of related interest costs, was a loss of \$3,139,000 as compared to a loss of \$498,000 last year, bringing the net loss from continuing operations to \$144,000 as compared with income of \$1,518,000 last year. The net loss per share from continuing operations was \$.03 as compared with earnings per share of \$.36 last year. Extraordinary items decreased 1982 results to a loss of \$6,196,000 or \$1.46 per share. There were no comparable items this year.

On a quarter by quarter basis, sales increased some 7% in the first quarter, 12% in the second, declined 2% in the third and increased 38% in the final quarter. The substantial improvement in the fourth quarter reflects the introduction of the fall 1983

Peoples Jewellers Limited

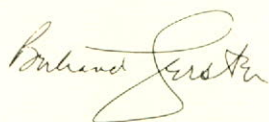
(incorporated under the laws of Canada)

Consolidated Balance Sheet

(000's omitted)

	August 31, 1983	August 31, 1982
Assets		
Current assets:		
Cash	\$ 83	\$ 80
Accounts receivable	2,089	1,624
Merchandise	90,229	64,582
Prepaid expenses	634	402
Total current assets	93,035	66,688
Long-term receivables (note 3)	15,542	13,486
Investment in Zale Corporation (note 2)	72,100	70,044
Investment in Torcred Developments Limited	526	493
Fixed assets:		
Buildings	3,222	3,631
Furniture, fixtures and equipment	24,000	21,984
	27,222	25,615
Less accumulated depreciation	14,924	13,773
	12,298	11,842
Land	1,386	1,449
Leasehold interests and improvements	7,433	7,527
Total fixed assets	21,117	20,818
	\$202,320	\$171,529

On behalf of the Board:



Bertrand Gerstein, Director



Marvin Gerstein, Director

(The accompanying notes are an integral part of these statements)

Peoples Jewellers Limited

	August 31, 1983	August 31, 1982
Liabilities		
Current liabilities:		
Bank indebtedness	\$ 32,480	\$ 17,587
Accounts payable	15,346	9,361
Income and other taxes payable	4,201	1,069
Total current liabilities	52,027	28,017
Long-term debt (note 4)	71,500	91,500
Shareholders' Equity		
Capital stock (note 5):		
Authorized –		
First Preferred shares		
Junior Preferred shares		
Class A non-voting shares		
Common shares		
Issued –		
	<u>Shares</u>	
First Preferred shares, Series A (1982 – 59,000)	—	708
First Preferred shares, Series B (1982 – nil)	258,000	—
Class A non-voting shares (1982 – 3,261,151)	5,861,151	23,281
Common shares (1982 – 868,950)	868,950	82
	52,882	24,071
Retained earnings	25,911	27,941
Total shareholders' equity	78,793	52,012
	\$202,320	\$171,529

Peoples Jewellers Limited

Consolidated statement of income

(000's omitted)

Year ended August 31	1983	1982
Sales	\$145,014	\$127,220
<i>Deduct:</i>		
Cost of merchandise sold and all other expenses except those listed below	132,610	116,942
Depreciation and amortization	3,895	3,861
Interest on long-term debt	3,147	2,516
Interest on bank indebtedness	1,367	1,885
	141,019	125,204
Income before provision for income taxes, equity in Zale Corporation earnings and extraordinary items	3,995	2,016
Provision for income taxes (note 6)	1,000	—
Income before equity in Zale Corporation earnings and extraordinary items	2,995	2,016
Equity in Zale Corporation earnings (note 2)	4,481	8,123
Less related interest on long-term debt (net of income taxes of \$700; \$2,000 in 1982)	7,620	8,621
	(3,139)	(498)
Income (loss) before extraordinary items	(144)	1,518
Gain on sale of property (net of income taxes of \$400)	—	1,000
Loss from discontinued operations	—	8,714
Net income (loss) for the year	\$ (144)	\$ (6,196)
Earnings per Class A and Common share:		
Income (loss) before extraordinary items	\$ (0.03)	\$ 0.36
Net income (loss) for the year	\$ (0.03)	\$ (1.46)

Consolidated statement of retained earnings

(000's omitted)

Year ended August 31	1983	1982
Retained earnings, beginning of year	\$ 27,941	\$ 37,609
Net income (loss) for the year	(144)	(6,196)
	27,797	31,413
Dividends (note 5):		
First Preferred shares, Series B	39	44
Class A non-voting shares	879	1,980
Common shares	130	524
	1,048	2,548
Commission on issue of Class A non-voting shares	838	—
Cost of purchased shares over stated value	—	924
	1,886	3,472
Retained earnings, end of year	\$ 25,911	\$ 27,941

(The accompanying notes are an integral part of these statements)

Consolidated statement of changes in financial position

(000's omitted)

Year ended August 31	1983	1982
Funds were provided from:		
Operations –		
Income (loss) before extraordinary items	\$ (144)	\$ 1,518
Items not involving a flow of funds:		
Depreciation and amortization	3,895	3,861
Equity in Zale Corporation earnings	(4,481)	(8,123)
Dividends received from Zale Corporation	2,425	2,393
Share of Torcred Developments Limited income	(33)	(20)
Deferred income taxes	—	(1,300)
	1,662	(1,671)
Issue of Class A non-voting shares	27,300	—
Issue of First Preferred shares, Series B	2,219	—
Increase in long-term debt	—	28,290
Proceeds from sale of property	—	1,148
Total funds provided	31,181	27,767
Funds were applied to:		
Decrease in long-term debt	20,000	—
Purchase of fixed assets	4,194	2,874
Dividends	1,048	2,548
Commission on issue of Class A non-voting shares	838	—
Redemption of First Preferred shares, Series A	708	—
Investment in Zale Corporation	—	21,767
Increase in long-term receivables	2,056	11,894
Discontinued operations	—	8,072
Shares purchased for cancellation	—	2,035
Total funds applied	28,844	49,190
Increase (decrease) in working capital	2,337	(21,423)
Working capital, beginning of year	38,671	60,094
Working capital, end of year	\$ 41,008	\$ 38,671

(The accompanying notes are an integral part of these statements)

Auditors' Report

To the Shareholders of
Peoples Jewellers Limited:

We have examined the consolidated balance sheet of Peoples Jewellers Limited as at August 31, 1983 and the consolidated statements of income, 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 August 31, 1983 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Clarkson Gordon
Chartered Accountants

Toronto, Canada, October 5, 1983.

Notes to Consolidated Financial Statements

August 31, 1983

1. Summary of significant accounting policies

(a) Long-term investments –

The accompanying consolidated financial statements include the accounts of Peoples Jewellers Limited and its subsidiaries. The investments in Zale Corporation and Torcred Developments Limited are accounted for on the equity basis.

(b) Merchandise –

Merchandise is stated at the lower of cost determined on a first-in, first-out basis or net realizable value.

(c) Fixed assets –

Fixed assets are stated at cost and depreciated as follows:

Buildings	– 5% declining balance
Furniture and fixtures	– 10% straight-line
Electronic data equipment	– 20% straight-line

Leasehold improvements are stated at cost, less amortization on a straight-line basis over the term of the lease plus one renewal period with the total term not exceeding fifteen years.

(d) Income taxes –

The company follows the tax allocation method of providing for income taxes. Under this method, timing differences between reported and taxable income result in deferred taxes.

(e) Foreign currency translation –

Foreign currency amounts are translated into Canadian dollars on the following basis:

Long-term receivables	– at year-end exchange rates
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Long-term investment:

Cost of shares purchased	– at historical rates of exchange
Equity in earnings	– at average exchange rates prevailing during the year

Translation gains or losses are included in income except for unrealized gains or losses on the long-term note receivable which are deferred and amortized over the unexpired term of the note on a straight-line basis.

(f) Segmented reporting –

The company's business consists principally of the retail sale of jewellery merchandise.

2. Investment in Zale Corporation

Effective September 1, 1981, the company commenced accounting for its investment in Zale Corporation on the equity basis.

The company's equity in the net book value of the underlying assets of Zale Corporation exceeded the cost of its investment by approximately \$37,000,000 which has been primarily allocated as a reduction to fixed and other assets. The company's equity in Zale Corporation earnings has been adjusted by the amount of depreciation and amortization recorded by Zale on these assets.

3. Long-term receivables

In 1982, the company sold the net assets of its U.S. subsidiary. As part of the consideration on the sale, the company received an interest-bearing long-term note receivable which is denominated in U.S. dollars and is due in instalments from 1985 to 1988 which amount is included in long-term receivables. Interest income earned on this note of approximately \$2,000,000 is included in "Cost of merchandise sold and all other expenses".

4. Long-term debt

(000's omitted)

	1983	1982
Bank term loans due December 31, 1983 (including \$6,000(U.S.))	\$71,500	\$91,500

The bank term loans are at floating interest rates at or about the bank's prime interest rate and repayment is required at maturity. As collateral for the term loans, a fixed and floating charge has been placed on the company's assets. The loan agreement includes a restriction on the payment of dividends. This debt has been classified as long-term because subsequent to the year end, the company's bankers extended the maturity date to February 28, 1985.

5. Capital stock

(a) Capital stock changes –

During the year, the company redeemed the outstanding First Preferred shares, Series A (including 29,000 from officers) at the original issue price.

On May 1, 1983 the company issued 258,000 First Preferred shares, Series B to certain employees (including 165,000 to officers, other than directors) at \$8.60 per share.

On June 27, 1983 the company issued 1,300,000 Units in a private placement at a price of \$21.00 per Unit. Each Unit consisted of two Class A non-voting shares and one warrant to purchase one Class A non-voting share exercisable at \$11.50 prior to June 30, 1986.

(b) **Capital stock provisions –**

Holders of First Preferred Series B, Class A non-voting and Common shares may elect to receive stock dividends in lieu of cash, subject to the directors' declaring such dividends. The directors may declare such stock dividends in either Class A non-voting or redeemable Junior Preferred shares. First Preferred shares are convertible up to a cumulative maximum of 20% in each of the next five years into Class A non-voting shares on a one-for-one basis or at the holder's option are redeemable for an amount equal to the issue price of \$8.60. These shares rank above the Junior Preferred shares as to dividends and claims against the company's property at dissolution. Junior Preferred shares are redeemable at 1¢ and rank above Class A non-voting shares and Common shares as to claims against the company's property at dissolution. Class A non-voting shares are participating and have a preference over Common shares for dividends to the extent of 15¢ per share. After the Common shares also receive 15¢ per share, the two classes participate equally.

(c) **Dividends –**

The company paid a dividend of 15¢ per First Preferred, Series B, Class A non-voting and Common share. Under the Peoples Jewellers Optional Stock Dividend Plan, the directors declared a stock dividend in the form of Junior Preferred shares to shareholders who had elected to receive same under the plan. These Junior Preferred shares were immediately redeemed. Dividends were paid as follows:

(000's omitted)

	First Preferred Series B	Class A non-voting	Common
Cash	\$ 39	\$720	\$ 40
Stock	—	159	90
TOTAL	\$ 39	\$879	\$130

6. Income Taxes

Income taxes provided are lower than statutory rates due to the 3% inventory allowance. The company has losses available for tax purposes of approximately \$15,000,000, of which approximately \$8,000,000 expires in 1987 and the balance in 1988. In addition, the company has available allowable capital losses of approximately \$2,000,000 which can be applied indefinitely against future capital gains.

7. Commitments and contingent liability

A number of the company's store locations are leased under operating leases for periods from four to twenty years. Most of these leases are for minimum rentals and many contain percentage of sales clauses, and require the company to pay certain occupancy costs. The actual rental payments in the year amounted to \$11,813,000. The minimum rentals payable under all such leases currently in force for subsequent fiscal years are as follows:

1984	\$6,891,000
1985	6,179,000
1986	4,702,000
1987	3,906,000
1988	3,122,000
Subsequent years	8,460,000

During the year the company has had negotiations with Revenue Canada concerning the calculation of sales and excise taxes payable. As a result of these negotiations the company expects to receive an assessment for which provision has been made except for approximately \$400,000 (net of tax). The company disputes the entire assessment and intends to defend itself. If the ultimate amount payable exceeds the provision, the balance will be charged to income at the time of settlement.

Peoples Jewellers Limited

Two hundred and ninety-nine stores

As at August 31, 1983

	Peoples stores	Mappins stores	Total
BRITISH COLUMBIA			
Abbotsford	1	1	2
Campbell River	1		1
Chilliwack	1	1	2
Cranbrook	1	1	2
Kamloops	2	2	4
Kelowna	1	1	2
Langley	1		1
Nanaimo	3		3
Nelson	1		1
Penticton	2		2
Port Alberni	1		1
Powell River	1		1
Prince George	2	1	3
Trail	1		1
Vancouver	12	11	23
Vernon	1	1	2
Victoria	3	2	5
White Rock	1		1
	36	21	57

ALBERTA			
Calgary	8	9	17
Edmonton	13	9	22
Fort McMurray	1		1
Lethbridge	2	1	3
Red Deer	2	1	3
	26	20	46

SASKATCHEWAN			
Lloydminster	1		1
Moose Jaw	2	1	3
Prince Albert	2		2
Regina	4	4	8
Saskatoon	6	1	7
Weyburn	1		1
	16	6	22

MANITOBA			
Brandon	1		1
Winnipeg	8	4	12
	9	4	13

ONTARIO			
Barrie	1		1
Belleville	1	1	2
Brantford	1		1
Brockville	1		1
Chatham	1		1
Cornwall	2	1	3
Elliot Lake	1		1
Hamilton/Burlington	5	3	8
Kingston	3		3
Kitchener/Waterloo	3	1	4
London	2	2	4
Niagara Falls	1	1	2

	Peoples stores	Mappins stores	Total
New Liskeard	1		1
North Bay	1		1
Oshawa	1		1
Ottawa/Hull	8	5	13
Peterborough	1		1
Sarnia	2		2
Sault Ste. Marie	1	2	3
Sudbury	2		2
Thunder Bay	3	1	4
Tillsonburg	1		1
Timmins	1	1	2
Toronto	23	10	33
Welland	1	1	2
Windsor	3	2	5
Woodstock	1		1
	72	31	103

QUEBEC			
Granby	1		1
Montreal	13	2	15
Quebec City	4		4
Shawinigan	1		1
Sherbrooke	1	1	2
Tracy	1		1
	21	3	24

NEW BRUNSWICK			
Atholville	1		1
Bathurst	1	1	2
Douglastown	1		1
Fredericton	1		1
Moncton	3	1	4
Saint John	4		4
	11	2	13

NOVA SCOTIA			
Amherst	1		1
Bedford	1		1
Bridgewater	1		1
Dartmouth	1	2	3
Halifax	4	2	6
New Glasgow	1		1
Port Hawksbury	1		1
Sydney	1	1	2
Truro	1		1
	12	5	17

PRINCE EDWARD ISLAND			
Charlottetown	1		1

NEWFOUNDLAND			
Carbonear	1		1
St. John's	2		2
	3		3

Total	207	92	299
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Peoples Jewellers Limited

5 Year Statistical Summary

August 31 (000's omitted)

	1983	1982	1981	1980	1979 ¹
Sales	\$145,014	\$127,220	\$122,934	\$106,735	\$ 93,689
Sales increase %	14%	3%	15%	14%	11%
Continuing income before taxes and Zale equity	3,995	2,016	12,404	17,603	14,442
Continuing income	(144)	1,518	5,015	9,368	7,947
EPS - Quarter 1	(1.25)	(.21)	.42	.36	.38
2	2.76	2.42	1.53	1.87	1.55
3	(1.56)	(1.13)	(.47)	.01	.06
4	.02	(.72)	(.12)	.54	.44
Total	(0.03)	0.36	1.36	2.78	2.43
Net Income	(144)	(6,196)	4,269	8,762	7,947
EPS - Quarter 1	(1.25)	(.51)	.36	.43	.38
2	2.76	2.74	1.71	1.87	1.55
3	(1.56)	(2.97)	(.67)	.01	.06
4	.02	(.72)	(.24)	.29	.44
Total	(0.03)	(1.46)	1.16	2.60	2.43
Inventory	90,229	64,582	71,637	71,188	50,478
Total assets	202,320	171,529	141,972	93,126	72,276
Working capital	41,008	38,671	60,094	32,091	25,952
Shareholders' equity	78,793	52,012	62,791	43,555	36,482
Dividends	1,048	2,548	2,306	1,856	5,353
Number of shares outstanding - year end	6,988	4,189	4,338	3,409	3,356
- average balance	4,730	4,251	3,635	3,351	3,266
Book Value per share	11.28	12.42	14.47	12.77	10.87
Number of stores	299	282	282	252	245
Number of employees	2,654	2,508	2,351	2,111	2,112

¹ These figures have been restated to reflect the continuing operations only.

