

PEOPLES⁺
1981 ANNUAL
REPORT
PEOPLES JEWELLERS LIMITED

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
Senior vice-president, finance

Donald E. Bridgman
Vice-president, store planning

Richard A. Field
Vice-president, real estate

Phyllis M. McAllister
Secretary

Fredrick E. Metter
Vice-president, merchandising

Alan W. Southard
Vice-president, corporate services

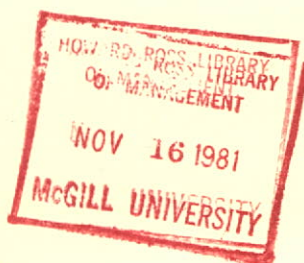
Peoples Jewellers U.S., Inc.,
Marvin S. Rubin,
President.

Head office

181 Yonge Street, Toronto, Canada

Transfer agent

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



Peoples Jewellers Limited

Two hundred and eighty-two stores*

As at August 31, 1981

	Peoples stores	Guild stores	Total
BRITISH COLUMBIA			
Abbotsford	1	1	2
Campbell River	1		1
Chilliwack	1		1
Cranbrook	1	1	2
Kamloops	2		2
Kelowna	1		1
Langley	1		1
Nanaimo	3		3
Nelson	1		1
Penticton	1		1
Port Alberni	1		1
Prince George	2	1	3
Trail	1		1
Vancouver	7	8	15
Vernon	1		1
Victoria	2		2
	27	11	38

ALBERTA			
Calgary	9	9	18
Edmonton	12	8	20
Fort McMurray	1		1
Lethbridge	2	1	3
Red Deer	2	1	3
	26	19	45

SASKATCHEWAN			
Moose Jaw	2	1	3
Prince Albert	2		2
Regina	4	4	8
Saskatoon	5	1	6
Weyburn	1		1
	14	6	20

MANITOBA			
Brandon	1		1
Winnipeg	10	4	14
	11	4	15

ONTARIO			
Barrie	1		1
Belleville	1	1	2
Brantford	1	1	2
Brockville	1		1
Chatham	1		1
Cornwall	2	1	3
Elliot Lake	1		1
Hamilton/Burlington	5	4	9
Kingston	2		2
Kitchener/Waterloo	2	1	3
London	2	2	4
Niagara Falls	1	1	2
New Liskeard	1		1
North Bay	1		1
Oshawa	1		1

	Peoples stores	Guild stores	Total
Ottawa/Hull	5	4	9
Peterborough	1		1
Sarnia	1		1
Sault Ste. Marie	1	2	3
Sudbury	2		2
Thunder Bay	2	2	4
Tillsonburg	1		1
Timmins	1	1	2
Toronto	23	11	34
Wellsand	1	1	2
Windsor	3	2	5
Woodstock	1		1
	65	34	99

QUEBEC			
Granby	1		1
Montreal	13	2	15
Quebec City	5	1	6
Shawinigan	1		1
Sherbrooke	1	1	2
Tracy	1		1
	22	4	26

NEW BRUNSWICK			
Atholville	1		1
Bathurst	1	1	2
Douglstown	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	2	2	4
Halifax	3	3	6
New Glasgow	2		2
Port Hawksbury	1		1
Sydney	2	1	3
Truro	1	1	2
	14	7	21

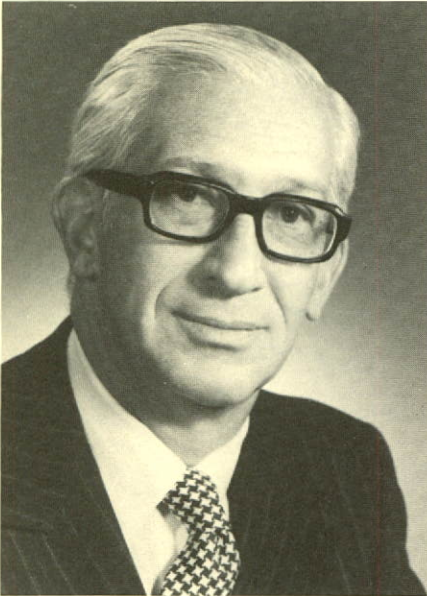
PRINCE EDWARD ISLAND			
Charlottetown	1		1

NEWFOUNDLAND			
Carbonear	1		1
Cornerbrook	1		1
St. John's	2		2
	4		4

Total **195** **87** **282**

*Not including 41 United States stores which the company intends to sell.

Directors' report to the shareholders



The accompanying financial statements for the year ended August 31, 1981 indicate sales of \$122,934,000 as compared to \$106,735,000 the year previous, an increase of 15%. Pre-tax income from continuing operations was \$7,290,000 as compared with \$17,603,000, a decrease of 59%. Income from continuing operations for the year was \$5,015,000 as compared with \$9,368,000, a decrease of 46%. Earnings per share from continuing operations were \$1.36 as compared with \$2.78. Net income for the year was \$4,269,000 as compared with \$8,762,000 and net earnings per share were \$1.16 as compared with \$2.60.

Although the Company's earnings have been affected by slower sales growth, particularly in the fourth quarter, and by the continuing growth in operating costs due to inflation, particularly with respect to interest on current bank indebtedness, the most significant impact upon the fiscal 1981 results has been the long-term interest, legal, and other costs associated with the investment in the Zale

Corporation which had the effect of decreasing earnings by some 78¢ per share.

On December 11, 1980, the Company announced that it had been acquiring Zale Corporation Common Stock, and that it might purchase, over an undetermined period of time, a sufficient number of Zale voting securities so as to enable the Company to account for its investment on an equity basis. I am pleased to now report that the Company currently owns approximately 17.27% of the outstanding voting securities of Zale and that a representative of the Company has been elected to the Zale Board of Directors. The Company intends to account for its investment in Zale Corporation on an equity accounting basis commencing with the first quarter of fiscal 1982.

Physical growth in Canada continued during the year with the opening of thirty-four stores. Four stores were closed during the year. At August 31, 1981, there were a total of two hundred eighty-two stores open. A further five stores have been opened since the year end. The slow down in shopping centre development across Canada will significantly reduce store openings in 1982. At present, three new store locations are committed.

With the Company's investment in Zale Corporation, it now participates to a significant degree in the retail jewellery industry, not only in the United States but internationally as well. Therefore, the Company has decided to dispose of its retail jewellery operations in the United States. The accompanying financial statements have been reclassified to reflect this intention.

On April 16, 1981, a private placement of 1,000,000 of the Company's Class A shares was made at a price of \$18.625 per share. The net proceeds of some

\$18 Million were used to reduce the Company's bank indebtedness. This equity issue significantly strengthened the Company's working capital position and expanded its equity base.

Respectfully submitted on behalf of the Board.

A handwritten signature in blue ink that reads "Bertrand Gerstein".

BERTRAND GERSTEIN
Chairman of the Board

Toronto, Canada
October 30, 1981

Peoples Jewellers Limited

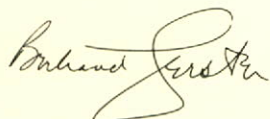
(incorporated under the laws of Canada)

Consolidated balance sheet

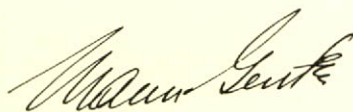
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	August 31, 1981	August 31, 1980
Assets		
Current assets		
Cash	\$ 79	\$ 72
Accounts receivable	2,680	572
Merchandise	71,637	71,188
Prepaid expenses	369	331
Total current assets	74,765	72,163
Loans to employees (note 3)	1,592	1,634
Net assets of discontinued operations held for realization (note 2)	642	654
Investment in Zale Corporation (note 8)	42,547	—
Investment in Torcred Developments Limited	473	438
Fixed assets		
Buildings	3,882	3,836
Furniture, fixtures and automobiles	20,707	16,730
	24,589	20,566
Less accumulated depreciation	12,152	10,371
	12,437	10,195
Land	1,582	1,582
Leasehold interests and improvements	7,934	6,460
Total fixed assets	21,953	18,237
	\$141,972	\$93,126

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, 1981	August 31, 1980
Liabilities		
Current liabilities		
Bank indebtedness	\$ 646	\$ 8,243
Accounts payable	13,872	23,546
Income and other taxes payable	153	7,667
Instalments on long-term debt due within one year	—	616
Total current liabilities	14,671	40,072
Long-term debt (note 4)	63,210	8,399
Deferred income taxes	1,300	1,100
Shareholders' Equity		
Capital stock (note 5)		
Authorized:		
First Preferred shares		
Junior Preferred shares		
Class A shares		
Common shares		
Issued:		
	<u>Shares</u>	
First Preferred shares, Series A (1980 – 105,000)	94,000	1,128
Class A shares (1980 – 2,415,891)	3,357,551	23,970
Common shares (1980 – 888,550)	886,650	84
		25,182
Retained earnings	37,609	6,817
Total shareholders' equity	62,791	43,555
	\$141,972	\$93,126

Peoples Jewellers Limited

Consolidated statement of income

(000's omitted)

Year ended August 31	1981	1980
Sales	\$122,934	\$106,735
<i>Deduct:</i>		
Cost of merchandise sold and all other expenses except those listed below	102,885	84,259
Depreciation and amortization	3,279	2,731
Interest on long-term debt	7,641	940
Interest on bank indebtedness	1,839	1,202
	115,644	89,132
Income from continuing operations before provision for income taxes	7,290	17,603
Provision for income taxes (note 6)	2,275	8,235
Income from continuing operations	5,015	9,368
Loss from discontinued operations (note 2)	746	606
Net income for the year	\$ 4,269	\$ 8,762
Earnings per Class A and Common share		
– income from continuing operations	\$ 1.36	\$ 2.78
– net income for the year	\$ 1.16	\$ 2.60

Consolidated statement of retained earnings

(000's omitted)

Year ended August 31	1981	1980
Retained earnings – beginning of year	\$ 36,738	\$30,454
Net income for the year	4,269	8,762
	41,007	39,216
Dividends		
First Preferred shares, Series A	58	45
Class A shares	1,715	1,328
Common shares	533	483
	2,306	1,856
Commission (after tax) on issue of Class A shares	308	—
Cost of purchased shares over stated value	784	622
	3,398	2,478
Retained earnings – end of year	\$ 37,609	\$36,738

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

Peoples Jewellers Limited

Consolidated statement of changes in financial position

(000's omitted)

Year ended August 31	1981	1980
Funds were provided from:		
Continuing Operations:		
Income from continuing operations	\$ 5,015	\$ 9,368
Items not involving a flow of funds:		
Depreciation and amortization	3,279	2,731
Deferred income taxes	200	—
Share of Torcred Developments Limited income	(35)	(5)
	8,459	12,094
Increase in long-term debt	63,210	—
Issue of Class A shares	18,317	—
Loans to employees (net)	42	(1,196)
Issue of First Preferred shares	—	1,284
Total funds provided	90,028	12,182
Funds were applied to:		
Investment in Zale Corporation	42,547	—
Reduction of long-term debt	8,399	702
Purchase of fixed assets	6,995	2,794
Dividends	2,306	1,856
Shares purchased for cancellation	912	723
Discontinued operations	734	(56)
Redemption of First Preferred shares	132	24
Total funds applied	62,025	6,043
Increase in working capital	28,003	6,139
Working capital – beginning of year	32,091	25,952
Working capital – end of year	\$60,094	\$32,091

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

Auditors' Report

To the Shareholders
Peoples Jewellers Limited

We have examined the consolidated balance sheet of Peoples Jewellers Limited as at August 31, 1981 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, 1981 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 9, 1981

Notes to consolidated financial statements

August 31, 1981

1. Summary of significant accounting policies

(a) Principles of consolidation

The accompanying consolidated financial statements include the accounts of Peoples Jewellers Limited and its Canadian subsidiaries. Torcred Developments Limited, a 50% owned joint venture with a Canadian Chartered Bank, which owns an office building in Regina, is carried on an equity basis. Investment in Zale Corporation is stated at cost.

(b) Merchandise

Merchandise is stated at the lower of cost 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% straightline
Electronic data equipment	– 20% straightline
Automobiles	– 30% declining balance

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.

2. Discontinued operations

Through its investment in Zale Corporation, the company now participates in a significant way in the retail jewellery industry, not only in the United States, but internationally as well. For this reason, the company intends to dispose of its jewellery stores in the United States. Accordingly, the accompanying financial statements have been prepared on the basis that these operations will be discontinued and sold at book value, and the comparative 1980 statements have been reclassified on a consistent basis. The company anticipates that the U.S. stores will operate on a break-even basis or show a nominal loss until sold.

Sales of the United States operation were \$24,248,000 in 1981 and \$13,800,000 in 1980.

3. Loans to employees

In 1979, loans were made to certain officers (other than directors) and employees to assist in the purchase of First Preferred shares of the company. The balance outstanding at August 31, 1981 was \$1,032,000. The company has also made mortgage loans to certain officers (other than directors) and employees. The balance outstanding as at August 31, 1981 amounted to \$560,000 of which \$304,000

was advanced during the year. These amounts are non-interest bearing and are due in instalments to 1991.

4. Long-term debt

(000's omitted)

	1981	1980
Bank term loan due		
December 31, 1982	\$20,884	\$ —
Bank term loan due		
December 31, 1983, or 1985	42,326	—
Other debt	—	9,015
	63,210	9,015
Less current instalments included in current liabilities	—	616
	\$63,210	\$8,399

The bank term loans are at floating interest rates at not more than the bank's prime interest rate and repayment is required at maturity with the proviso that the term loan due December 31, 1983 may be extended until December 31, 1985. The term loans are secured by a fixed and floating charge on the company's assets. The loan agreement includes a restriction on the payment of dividends in relation to income.

5. Capital stock

(a) Capital stock changes

On April 16, 1981, the company issued 1,000,000 Class A shares in a private placement at an issue price of \$18.625.

During the year, 11,000 First Preferred shares, Series A (including 10,000 to an officer) were redeemed. There remain outstanding 94,000 shares (including 33,000 to officers). These shares may be either converted into Class A shares of the company after December 3, 1981 on a one for one basis or at the holder's option, redeemed for an amount equal to the issue price of \$12.00.

During the year, the company purchased 58,340 Class A and 1,900 Common shares for cancellation at a total cost of some \$912,000.

(b) Capital stock provisions

Holders of First Preferred, Series A, Class A, 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 or redeemable Junior Preferred shares. First Preferred shares rank above 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 shares and Common shares as to claims against the company's property at dissolution. Class A shares are non-voting, 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) Quarterly dividends

The company paid quarterly dividends of 15¢ per First Preferred, Series A, Class A, and Common share. Under the Peoples Jewellers Optional Stock Dividend Plan, the directors have declared stock dividends in the form of Junior Preferred shares to shareholders who have elected to receive same under the plan. These Junior Preferred shares were immediately redeemed. Dividends were paid as follows:
(000's omitted)

	First Preferred	Class A	Common
Cash	\$49	\$1,095	\$267
Stock	9	620	266
TOTAL	\$58	\$1,715	\$533

(d) Future issue of capital stock

Pursuant to an agreement dated February 16, 1981, the company is obligated to issue to Zale Corporation on or about March 31, 1982 sufficient Common and Class A shares at a price to be determined under a formula in the agreement to give Zale Corporation an equivalent equity interest in Peoples Jewellers Limited as the company holds in Zale. As described in note 8, Peoples holds some 17.27% of the voting securities of Zale Corporation.

6. Income taxes

Income taxes are provided in fiscal 1981 at lower than statutory rates due to the 3% inventory allowance and the receipt of dividends from Zale Corporation which are subject only to U.S. withholding tax.

7. Commitments

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 \$9,222,000. The minimum annual rentals payable under all such leases currently in force for subsequent fiscal years are as follows:

1982	\$5,489,000
1983	5,220,000
1984	4,726,000
1985	4,040,000
1986	2,982,000
Subsequent years	9,597,000

8. Subsequent event

Subsequent to the year end, the company increased its holdings in Zale Corporation to some 17.27% of the Zale voting securities for a total investment of some \$64,300,000. The company intends to account for this investment on an equity basis for the year ending August 31, 1982.

