



**PEOPLES<sup>+</sup>**  
**1980 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

Derek C. Penney  
Vice-president, store operations

Alan W. Southard  
Vice-president, corporate services

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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-nine stores

As at August 31, 1980

### Canada

#### British Columbia

	Peoples stores	Guild stores	Total
Abbotsford	1	1	2
Campbell River	1		1
Chilliwack	1		1
Cranbrook	1	1	2
Kamloops	1		1
Kelowna	1		1
Langley	1		1
Nanaimo	2		2
Penticton	1		1
Port Alberni	1		1
Prince George	2	1	3
Trail	1		1
Vancouver	7	7	14
Vernon	1		1
Victoria	2		2
	24	10	34

#### Alberta

Calgary	7	7	14
Edmonton	11	7	18
Fort McMurray	1		1
Lethbridge	2	1	3
Red Deer	1	1	2
	22	16	38

#### Saskatchewan

Moose Jaw	2		2
Prince Albert	2		2
Regina	3	2	5
Saskatoon	4	1	5
Weyburn	1		1
	12	3	15

#### Manitoba

Winnipeg	9	3	12
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#### Ontario

Barrie	1		1
Belleville	1	1	2
Brantford	1	1	2
Brockville	1		1
Chatham	1		1
Cornwall	1	1	2
Hamilton/Burlington	4	3	7
Kingston	2		2
Kitchener/Waterloo	2	1	3
London	2	2	4
Niagara Falls	1	1	2
New Liskeard	1		1
Oshawa	1		1
Ottawa/Hull	5	3	8
Peterborough	1	1	2
Sarnia	1		1
Sault Ste. Marie	1	1	2
Sudbury	2		2
Thunder Bay	2	2	4
Tillsonburg	1		1
Timmins	1	1	2
Toronto	23	11	34
Welland	1	1	2

	Peoples stores	Guild stores	Total
Windsor	3	2	5
Woodstock	1		1
	61	32	93

#### Quebec

Granby	1		1
Montreal	14	2	16
Quebec City	4	1	5
Shawinigan	1		1
Sherbrooke	1	1	2
Tracy	1		1
	22	4	26

#### New Brunswick

Atholville	1		1
Bathurst	1	1	2
Fredericton	1		1
Moncton	3	1	4
Saint John	4		4
	10	2	12

#### Nova Scotia

Bedford	1		1
Bridgewater	1		1
Dartmouth	2	1	3
Douglstown	1		1
Halifax	3	3	6
New Glasgow	1		1
Sydney	2	1	3
Truro	1	1	2
	12	6	18

#### Prince Edward Island

Charlottetown	1		1
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#### Newfoundland

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

**Canadian Total 176 76 252**

### United States

#### California

Los Angeles	8
Modesto	2
Oakland	1
Sacramento	1
San Francisco	2
San Diego	2
San Jose	1
Stockton	1
Sunnyvale	1
	19

#### Montana

Billings	3
Missoula	1
	4

#### Nevada

Reno	1
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#### North Dakota

Minot	1
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#### Oregon

Salem	1
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#### Utah

Layton	1
Logan	1
Ogden	1
Orem	1
Salt Lake City	5
	9

#### Washington

Vancouver	1
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#### Wyoming

Rock Springs	1
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**United States Total 37**

**Total 289**

## Directors' report to the shareholders



I am pleased to report that the year ended August 31, 1980, recorded the highest ever sales and profit results for the Company. Sales for the year were \$120,536,000 as compared with \$104,838,000 the previous year, an increase of 15%. Pre-tax income was \$16,460,000 as compared with \$14,062,000, an increase of 17%. Net income for the year was \$8,762,000 as compared with \$7,655,000, an increase of 14%. Earnings per share were \$2.60 as compared with \$2.34. Working capital increased \$12,600,000 to \$47,389,000. The greater part of earnings continued to be retained for re-investment in the future development of the Company.

Physical growth continued during the year, with the opening of twenty stores, twelve in Canada and eight in the United States. In addition, twelve stores operating in California were acquired in June 1980. Six stores were closed during the year, five in Canada and one in the United States. At August 31, 1980, there were a total of 289 stores open, 252 in Canada and 37 in the United States. Since year end, we have opened nine stores, eight in Canada and one in the United States and a further two stores are

planned to open in Canada this calendar year, bringing the total stores open to THREE HUNDRED. Thirty-four stores are planned to open in 1981, twenty-seven in Canada and seven in the United States.

Results for the past year in the United States were adversely affected by economic conditions and the credit controls introduced in March 1980. However, with recent changes in the credit area, current merchandising plans and the acquisition of 12 stores, primarily in the Los Angeles area, we anticipate that results will improve in the coming year. The twelve acquired stores provide us with leases at favourable rates in established malls and are already making a favourable contribution.

At the Directors' meeting held on April 11, 1980, the quarterly dividend was increased from 12¢ to 15¢ on the First Preferred, Series A, Class A and Common shares, the seventh increase in dividends since 1970.

On November 29, 1979, the Directors approved a stock purchase plan which provides selected key employees of the Company (other than directors) with a meaningful equity participation in the Company. Under the plan, 49 employees exercised their right to purchase 107,000 newly-created First Preferred shares, Series A at \$12 and interest free demand loans were provided to finance the purchase. These First Preferred shares will receive dividends equal to the Class A and Common shares and are convertible on a one for one basis into Class A shares after December 3, 1981. Under certain circumstances, the Company may redeem or the employee may call on the Company to redeem these shares.

On April 24, 1980, the Company announced its intention to purchase at prevailing market prices some of its outstanding Class A and Common shares for cancellation. The Company believes that the purchase of its

shares at recent market prices is a worthwhile investment and in the interests of both the Company and its shareholders. At August 31, 1980, 44,575 Class A shares and 7,050 Common shares had been purchased for cancellation.

The thanks of the Company is extended to the more than 2,800 employees who have contributed to the successful results for the year. Based on the continued contribution of these employees, sound merchandising plans for this coming year and the results of operations for this year to date, I am again confident that sales and profit growth will continue.

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 22, 1980

# Peoples Jewellers Limited

(incorporated under the laws of Canada)

## Consolidated balance sheet

(000's omitted)

	August 31, 1980	August 31, 1979
<b>Assets</b>		
<b>Current assets</b>		
Cash	\$ 117	\$ 3,403
Accounts receivable	2,541	562
Merchandise	88,498	61,373
Prepaid expenses	377	527
<b>Total current assets</b>	<b>91,533</b>	<b>65,865</b>
Loans to employees (note 2)	1,744	553
Investment in Torcred Developments Limited	438	433
<b>Fixed assets</b>		
Buildings	3,836	3,538
Furniture, fixtures and automobiles	20,112	17,874
	23,948	21,412
Less accumulated depreciation	10,801	9,460
	13,147	11,952
Land	1,582	1,508
Leasehold interests and improvements	9,009	8,294
<b>Total fixed assets</b>	<b>23,738</b>	<b>21,754</b>
Deferred foreign exchange loss	247	315
	\$117,700	\$88,920

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, 1980	August 31, 1979
<b>Liabilities</b>		
<b>Current liabilities</b>		
Bank indebtedness	\$ 8,164	\$12,761
Accounts payable	27,285	10,642
Income and other taxes payable	7,268	3,699
Instalments on long-term debt due within one year	1,427	3,974
<b>Total current liabilities</b>	<b>44,144</b>	<b>31,076</b>
Long-term debt (note 3)	28,901	20,630
Deferred income taxes	1,100	1,100
Minority interest	—	2
<b>Shareholders' Equity</b>		
<b>Capital stock (note 4)</b>		
<b>Authorized:</b>		
First Preferred shares		
Junior Preferred shares		
Class A shares		
Common shares		
<b>Issued:</b>		
	<u>Shares</u>	
First Preferred shares, Series A	105,000	1,260
Class A shares (1979—2,460,466)	2,415,891	5,473
Common shares (1979—895,600)	888,550	84
		—
	6,817	5,658
<b>Retained earnings</b>	<b>36,738</b>	<b>30,454</b>
<b>Total shareholders' equity</b>	<b>43,555</b>	<b>36,112</b>
	<b>\$117,700</b>	<b>\$88,920</b>

# Peoples Jewellers Limited

## Consolidated statement of income

(000's omitted)

Year ended August 31	1980	1979
Sales	\$120,536	\$104,838
<i>Deduct:</i>		
Cost of merchandise sold and all other expenses except those listed below	96,896	84,976
Depreciation and amortization	3,481	3,202
Interest on long-term debt	2,218	1,765
Interest on bank indebtedness	1,481	833
	104,076	90,776
Income before provision for income taxes and minority interest	16,460	14,062
Provision for income taxes	7,700	6,500
Income before minority interest	8,760	7,562
Minority interest share of U.S. loss	2	93
Net income for the year	\$ 8,762	\$ 7,655
Earnings per Class A and Common share	\$ 2.60	\$ 2.34

## Consolidated statement of retained earnings

(000's omitted)

Year ended August 31	1980	1979
<b>Retained earnings</b> — beginning of year	\$30,454	\$28,152
Net income for the year	8,762	7,655
	39,216	35,807
Dividends		
First Preferred shares, Series A	45	—
Class A shares	1,328	3,821
Common shares	483	1,532
	1,856	5,353
Cost of purchased shares over stated value	622	—
	2,478	5,353
<b>Retained earnings — end of year</b>	\$36,738	\$30,454

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



**Consolidated statement of changes in financial position**

(000's omitted)

Year Ended August 31	1980	1979
<b>Funds were provided from:</b>		
Operations:		
Net income for the year	\$ 8,762	\$ 7,655
Items not involving a flow of funds:		
Depreciation and amortization	3,481	3,202
Deferred income taxes	—	(100)
Minority interest share of U.S. loss	(2)	(93)
Share of Torcred Developments Limited income	(5)	(3)
	12,236	10,661
Increase in long-term debt	9,850	22,067
Issue of First Preferred shares	1,284	—
Issue of Class A shares under rights offering	—	3,551
Issue of Class A shares under option	—	64
<b>Total funds provided</b>	<b>23,370</b>	<b>36,343</b>
<b>Funds were applied to:</b>		
Purchase of fixed assets	5,465	3,961
Dividends	1,856	5,353
Reduction of long-term debt	1,511	17,497
Loans to employees (net)	1,191	49
Shares purchased for cancellation	723	—
Redemption of First Preferred shares	24	—
<b>Total funds applied</b>	<b>10,770</b>	<b>26,860</b>
Increase in working capital	12,600	9,483
Working capital – beginning of year	34,789	25,306
Working capital – end of year	\$47,389	\$34,789

(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, 1980 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, 1980 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Clarkson Gordon  
Chartered Accountants

Toronto, Canada, October 10, 1980

## Notes to consolidated financial statements

August 31, 1980

**1. Summary of significant accounting policies****(a) Principles of consolidation**

The accompanying consolidated financial statements include the accounts of Peoples Jewellers Limited and its 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.

**(b) Inventories**

Inventories are 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% straight line
Electronic data equipment	—20% straight line
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.

**(e) Exchange translation**

The company has adopted a policy for translating foreign currency transactions and foreign currency financial statements into Canadian dollars in these statements substantially as follows: inventories carried at cost, non-current assets, certain prepaid expenses and deferred income taxes, and related charges or expenses, at historical exchange rates; all other assets and liabilities, at year end exchange rates; income and expenses (other than those indicated above), at average exchange rates for the year.

Translation gains or losses are included in income except unrealized losses on long-term liabilities which are deferred and charged to income over the unexpired term of the debt. The deferred portion is reflected on the balance sheet as an asset.

**2. Loans to employees**

Loans totalling \$1,284,000 were made to certain employees (\$492,000 to officers, other than directors) to assist in the purchase of First Preferred shares of the company in December 1979. The balance outstanding at August 31, 1980 was \$1,216,000. The company and its subsidiaries have made mortgage loans to certain officers (other than directors) and employees. The balance outstanding at

August 31, 1980 amounted to \$482,000 of which \$118,000 was advanced during the year. A loan of \$46,000 has been made to an officer of a U.S. subsidiary to assist with the purchase of shares in that company. These amounts are non-interest bearing and are due in instalments to 1990.

**3. Long-term debt**

(000's omitted)

	1980	1979
9.9% debenture due December 31, 1993 repayable in annual instalments of \$500,000 December 31, 1980 to 1988 and \$600,000 thereafter	\$ 7,500	\$ 8,000
10½% U.S. \$ debenture due December 31, 1993 repayable in annual instalments of \$100,000 U.S. (\$1,400,000 U.S.; 1979 \$1,500,000 U.S.)	1,622	1,762
10¼% U.S. \$ notes due December 31, 1993 repayable in annual instalments of \$700,000 U.S. (\$9,800,000 U.S.; 1979 \$10,500,000 U.S.)	11,356	12,305
11.19% U.S. \$ note due 13 months after notice (\$8,500,000 U.S.)	9,850	—
Other indebtedness (\$2,214,000 U.S.)	—	2,537
	30,328	24,604
Less current instalments included in current liabilities	1,427	3,974
	\$28,901	\$20,630

Requirements for repayment of long-term debt amount to approximately \$1,427,000 for each of the fiscal years ending August 31, 1981 through August 31, 1985.

The debentures and notes are secured by a fixed and floating charge on the company's properties. Under the agreement securing the debentures and notes, there are various restrictions affecting the payment of dividends. At August 31, 1980, consolidated retained earnings not subject to such restrictions were approximately \$5,300,000.

#### 4. Capital Stock

##### (a) Capital Stock Changes

On December 3, 1979 the company issued 107,000 First Preferred shares, Series A to certain employees (including 41,000 to officers, other than directors). 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. To date 2,000 shares have been redeemed.

On April 24, 1980, the company announced its intention to purchase some of its outstanding Class A and Common shares for cancellation. To date 44,575 Class A shares and 7,050 Common shares have been purchased for cancellation at a total cost of some \$723,000.

##### (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 12¢ per First Preferred, Series A, Class A, and Common share in the first two quarters and 15¢ per First Preferred, Series A, Class A, and Common share in the final two quarters of the year. 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	\$39	\$ 724	\$264
Stock	6	604	219
TOTAL	\$45	\$1,328	\$483

#### 5. Commitments and contingent liabilities

A number of the company's store locations are leased under operating leases for periods from five 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 \$9,247,000. The minimum annual rentals payable under all such leases currently in force for subsequent fiscal years are as follows:

1981	\$5,679,000
1982	5,533,000
1983	5,222,000
1984	4,645,000
1985	4,035,000
Subsequent years	\$13,930,000

#### 6. Related Party Transactions

During the year, the company purchased three properties from a related company, Bertmar Investments Limited, for \$740,000, being the fair market value of the properties at that time. Previously, the company leased these retail store premises from Bertmar Investments Limited.

