

PEOPLES⁺
1979 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

Donald E. Bridgman
Vice-president, store planning

Phyllis M. McAllister
Secretary

Frederick E. Metter
Vice-president, merchandising

Derek C. Penney
Vice-president, store operations

James T. Roddy
Vice-president, finance &
corporate development

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 sixty-three stores

As at August 31, 1979

CANADA

	Peoples stores	Guild stores	Total
BRITISH COLUMBIA			
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	1		1
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
	<hr/>	<hr/>	<hr/>
	23	10	33
ALBERTA			
Calgary	7	7	14
Edmonton	10	7	17
Fort McMurray	1		1
Lethbridge	2	1	3
Red Deer	1	1	2
	<hr/>	<hr/>	<hr/>
	21	16	37
SASKATCHEWAN			
Moose Jaw	2		2
Prince Albert	2		2
Regina	3	2	5
Saskatoon	4	1	5
	<hr/>	<hr/>	<hr/>
	11	3	14
MANITOBA			
Winnipeg	7	2	9
ONTARIO			
Barrie	1		1
Belleville	1	1	2
Brantford	1	1	2
Brockville	1		1
Chatham	1		1
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	22	14	36
Welland	1	1	2
Windsor	3	2	5
Woodstock	1		1
	<hr/>	<hr/>	<hr/>
	59	34	93

QUEBEC

	Peoples stores	Guild stores	Total
Chicoutimi	1		1
Granby	1		1
Montreal	15	2	17
Quebec City	4	1	5
Shawinigan	1		1
Sherbrooke	1	1	2
Tracy	1		1
	<hr/>	<hr/>	<hr/>
	24	4	28

NEW BRUNSWICK

	Peoples stores	Guild stores	Total
Atholville	1		1
Fredericton	1		1
Moncton	4	1	5
Saint John	4		4
	<hr/>	<hr/>	<hr/>
	10	1	11

NOVA SCOTIA

	Peoples stores	Guild stores	Total
Bedford	1		1
Bridgewater	1		1
Dartmouth	2	1	3
Douglastown	1		1
Halifax	3	3	6
New Glasgow	1		1
Sydney	1		1
Truro	1	1	2
	<hr/>	<hr/>	<hr/>
	11	5	16

PRINCE EDWARD ISLAND

	Peoples stores	Guild stores	Total
Charlottetown	1		1

NEWFOUNDLAND

	Peoples stores	Guild stores	Total
Carbonear	1		1
St. John's	2		2
	<hr/>	<hr/>	<hr/>
	3		3

CANADIAN TOTAL

Peoples stores	Guild stores	Total
170	75	245

UNITED STATES

CALIFORNIA

	Peoples stores	Guild stores	Total
Modesto			1
Oakland			1
San Francisco			2
San Jose			1
Stockton			1
	<hr/>	<hr/>	<hr/>
			6

UTAH

	Peoples stores	Guild stores	Total
Logan			1
Ogden			1
Orem			1
Salt Lake City			5
	<hr/>	<hr/>	<hr/>
			8

MONTANA

	Peoples stores	Guild stores	Total
Billings			3
Missoula			1
	<hr/>	<hr/>	<hr/>
			4

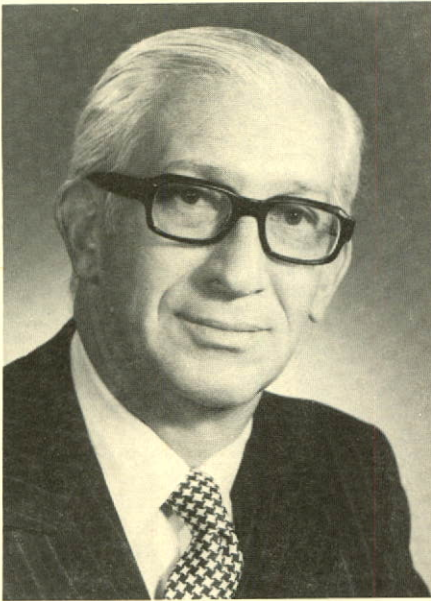
UNITED STATES TOTAL

18

TOTAL

263

Directors' report to the shareholders



I am pleased to report that the year ended August 31, 1979, our sixtieth year in business, recorded the highest ever sales and profit results of the Company.

Sales for the year were \$104,838,000 as compared with \$85,268,000 the previous year — an increase of 23%. Pre-tax income was \$14,062,000 as compared with \$9,625,000 — an increase of 46%. Net income for the year was \$7,655,000 as compared with \$5,317,000 — an increase of 44%. Earnings per share were \$2.34 as compared with \$1.74. Working capital increased \$9,483,000 to \$34,789,000. The greater part of earnings continued to be retained for re-investment in the future development of the Company.

Although the U.S. Division in total did not make a contribution to earnings during the past year, I am more than pleased with the progress that has been made in this operation. All of the stores have been remerchandised during the year and operating and control standards which have been successful in our Canadian business have been established. Furthermore, considerable attention has been given

to developing an organization of merchandising and operations people capable not only of managing the existing business but of managing the growth planned in the future. While the U.S. stores operated profitably during the year, this was offset by significant one-time start-up costs along with the interest on U.S. borrowings which resulted in a small loss for the year.

Physical growth continued during the year, with the opening of seventeen stores in Canada and four stores in the United States. Six stores were closed during the year in Canada. At August 31, 1979, there were a total of 263 stores open, 245 in Canada and 18 in the United States. Since year end, we have opened five stores in Canada, two in the United States and a further two stores are planned to open in the United States this year. Twenty-four stores are planned to open in 1980, twelve in Canada and twelve in the United States.

In my last annual report, I announced the special dividend of \$1.25 per share as well as a rights offering which allowed shareholders to purchase 1 Class A share at \$12.50 for every 10 shares of Common and/or Class A shares they owned. I am pleased to report that some 92% of the rights were exercised, which returned some \$3.5 million to the Company's treasury.

Several changes have occurred in the capital structure of the Company during the year as outlined in the notes to the accompanying financial statements. The most recent change occurred on August 30, 1979, when shareholders approved the continuance of the Company under the Canada Business Corporations Act and by Articles of Continuance authorized an unlimited number of Common, Class A and Junior Preferred shares and the creation of a class of First Preferred shares.

At a Directors' Meeting held on January 19, 1979, the quarterly

dividend was increased from 10¢ to 12¢ on the Common and Class A shares, the sixth increase in dividends since 1970. At the Directors' Meeting on April 10, 1979, the Peoples Jewellers Optional Stock Dividend Plan was approved. This plan provides the Company's shareholders the opportunity to elect to receive stock dividends instead of cash dividends when granted the right to do so by the Directors. In this connection, the stock dividends were paid in Junior Preferred shares, which shares were immediately redeemed.

The thanks of the Company is extended to the more than 2,500 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 the first two months of this year, 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 26, 1979

Peoples Jewellers Limited

(incorporated under the laws of Canada)

Consolidated balance sheet

(000's omitted)

	August 31, 1979	August 31, 1978
Assets		
Current assets		
Cash	\$ 3,403	\$ 78
Accounts receivable	562	448
Merchandise (note 1(b))	61,373	49,913
Prepaid expenses	527	704
Total current assets	65,865	51,143
Loans to employees (note 2)	553	504
Investment in Torcred Developments Limited (note 1 (a))	433	430
Fixed Assets (note 1 (c))		
Buildings	3,538	3,742
Furniture, fixtures and automobiles	17,874	16,227
Total — at cost	21,412	19,969
Less: Accumulated depreciation	9,460	8,281
	11,952	11,688
Land, at cost	1,508	1,599
Leasehold interests and improvements, at cost less amortization	8,294	7,708
Total fixed assets	21,754	20,995
Deferred foreign exchange loss	315	190
	\$88,920	\$73,262

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, 1979	August 31, 1978
Liabilities		
Current liabilities		
Bank indebtedness	\$12,761	\$ 9,059
Accounts payable	10,642	11,828
Income and other taxes payable	3,699	4,445
Instalments on long-term debt due within one year	3,974	505
Total current liabilities	31,076	25,837
Deferred income taxes	1,100	1,200
Long-term debt (note 3)	20,630	15,935
Minority interest	2	95
Shareholders' Equity		
Capital stock (note 4)		
Authorized:		
First Preferred Shares		
Junior Preferred Shares redeemable at 1¢		
Class A non-voting participating shares		
Common shares		
Issued:		
	<u>Shares</u>	
Class A shares (1978—2,168,320)	2,460,466	5,574
Common shares	895,600	84
		1,959
		84
	5,658	2,043
Retained earnings	30,454	28,152
Total shareholders' equity	36,112	30,195
	\$88,920	\$73,262

Peoples Jewellers Limited

Consolidated statement of income

(000's omitted)

Year ended August 31	1979	1978
Sales	\$104,838	\$85,268
<i>Deduct:</i>		
Cost of merchandise sold and all other expenses except those listed below	84,976	71,724
Depreciation and amortization	3,202	2,320
Interest on long-term debt	1,765	671
Interest on bank indebtedness	833	928
	90,776	75,643
Income before provision for income taxes and minority interest	14,062	9,625
Provision for income taxes	6,500	4,326
Income for the year before minority interest	7,562	5,299
Minority interest share of U.S. loss	93	18
Net income for the year	\$ 7,655	\$ 5,317
Earnings per Class A and Common share (note 4(f))	\$ 2.34	\$ 1.74

Consolidated statement of retained earnings

(000's omitted)

Year ended August 31	1979	1978
Retained earnings — beginning of year	\$28,152	\$23,937
<i>Add:</i>		
Net income for the year	7,655	5,317
	35,807	29,254
<i>Deduct:</i>		
Dividends (Notes 4 (d) and (e))		
— class A shares	3,821	779
— common shares	1,532	323
	5,353	1,102
Retained earnings — end of year	\$30,454	\$28,152

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

Consolidated statement of changes in financial position

(000's omitted)

Year Ended August 31	1979	1978
Funds were provided from:		
Operations:		
Net income for the year	\$ 7,655	\$ 5,317
<i>Add:</i> Items which do not require an outlay of funds:		
Depreciation and amortization	3,202	2,320
Deferred income taxes	(100)	100
Minority interest share of U.S. loss	(93)	(18)
Share of Torcred Developments Limited (income) loss	(3)	6
	10,661	7,725
Increase in long-term debt	22,067	9,643
Issue of Class A Shares under rights offering (Note 4 (d))	3,551	—
Issue of Class A shares under option	64	51
Capital contribution by minority interest	—	113
Total funds provided	36,343	17,532
Funds were applied to:		
Purchase of fixed assets	3,961	6,576
Dividends (notes 4 (d) and (e))	5,353	1,102
Reduction of long-term debt	17,497	506
Loans to employees (net) (note 2)	49	(35)
Total funds applied	26,860	8,149
Increase in working capital	9,483	9,383
Working capital – beginning of year	25,306	15,923
Working capital – end of year	\$34,789	\$25,306

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

To the Shareholders
Peoples Jewellers Limited

We have examined the consolidated balance sheet of Peoples Jewellers Limited as at August 31, 1979 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, 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 on a basis consistent with that of the preceding year.

Clarkson, Gordon & Co.
Chartered Accountants

Toronto, Canada, October 5, 1979

Notes to consolidated financial statements

August 31, 1979

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, using the retail inventory method. Under the retail inventory method, cost is calculated as selling price less normal gross margin.

(c) Fixed assets and leasehold improvements

Fixed assets are depreciated as follows:

Buildings	— 5% declining balance
Furniture and fixtures	—10% straightline
Electronic data equipment	—20% straightline
Automobiles	—30% declining balance

Leasehold improvements are amortized 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

The company and its subsidiaries have made mortgage loans to certain officers (other than directors) and employees. The balance outstanding at August 31, 1979 amounted to \$500,000 of which \$171,000 was advanced

during the year. A loan of \$53,000 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 1989.

3. Long-term debt

(000's omitted)

	1979	1978
9 $\frac{3}{8}$ % debenture due December 31, 1988	\$ —	\$ 6,500
9.9% debenture due December 31, 1993 repayable in annual instalments of \$500,000 December 31, 1979 to 1988 and \$600,000 thereafter	8,000	—
10 $\frac{1}{2}$ % U.S. \$ debenture due December 31, 1993 repayable in annual instalments of \$100,000 U.S. (\$1,500,000 U.S.)	1,762	—
10 $\frac{1}{4}$ % U.S. \$ notes due December 31, 1993 repayable in annual instalments of \$700,000 U.S. (\$10,500,000 U.S.)	12,305	—
9 $\frac{1}{4}$ % mortgage payable due 1984	—	107
Other indebtedness assumed in connection with the acquisition of the United States assets (\$2,214,000 U.S.; 1978-\$8,536,000 U.S.)	2,537	9,833
	24,604	16,440
Less current instalments included in current liabilities	3,974	505
	\$20,630	\$15,935

Requirements for repayment of long-term debt amount to approximately \$3,974,000 for the year ending August 31, 1980 and \$1,437,000 for each of the fiscal years ending August 31, 1981 through 1984. 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, 1979, consolidated retained earnings not subject to such restrictions were approximately \$3,500,000.

4. Capital stock, share options and earnings per share

(a) Capital stock changes

On January 22, 1979, by Supplementary Letters Patent, the Class A Convertible and Class B Convertible shares were re-classified as Class A shares with authorized capital of 8,000,000 shares of no par value and the Class C Convertible and Class D Convertible shares were re-classified as Common shares with authorized capital of 4,000,000 shares of no par value. In addition, a class of Redeemable Preferred shares was established with authorized capital of 300,000,000 shares with a par value of 1¢ each.

On August 30, 1979, the company elected to continue under the Canada Business Corporations Act and by Articles of Continuance, the authorized Class A and Common shares were changed to an unlimited number, the Redeemable Preferred shares were re-classified to an unlimited number of Junior Preferred shares with a redemption value of 1¢ each and a new class with an unlimited number of First Preferred shares was created.

(b) Capital stock provisions

Holders of 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. Class A shares 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. Junior Preferred shares rank above Common shares and Class A shares as to claims against the company's property at dissolution. First preferred shares rank above Junior Preferred shares as to dividends and claims against the company's property at dissolution.

(c) Share options

During the year, options for 8,100 Class A shares (including 900 to an officer) were exercised at \$8 for a total cash consideration of \$64,800. There were no options outstanding at August 31, 1979.

(d) Special dividend and rights offering

On November 27, 1978, the company paid a special dividend of \$1.25 per share to all shareholders. The special dividend on the Class B and Class D Convertible shares was paid out of the company's 1971 Capital Surplus. At the same time, rights were offered to each shareholder allowing the shareholder to purchase 1 Class A share in the company for every 10 shares held at a price of \$12.50. Rights were exercised to purchase 284,046 Class A Convertible shares for a total cash consideration of \$3,550,575.

(e) Quarterly dividends

In addition to the special dividend referred to in 4 (d), the company paid regular quarterly dividends of 10¢ per Class A and Common share in the first quarter and 12¢ per Class A and Common share in the final three 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 have then been immediately redeemed. Dividends paid were as follows: (000's omitted)

	Class A	Common
Special	\$2,719	\$1,120
Regular — Cash	886	298
— Stock	216	114
TOTAL	\$3,821	\$1,532

(f) Earnings per share

Earnings per share are based on the weighted average number of shares outstanding during the year.

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 \$7,944,000. The minimum annual rentals payable under all such leases currently in force for subsequent fiscal years are as follows:

1980	\$4,938,000
1981	4,789,000
1982	4,697,000
1983	4,279,000
1984	3,684,000
Subsequent years	13,052,000

6. Other information

The company's twelve officers received \$1,381,600 remuneration as officers. The company had six directors, two of whom received a total of \$9,250 remuneration as directors. Four directors, who are also officers, received no remuneration as directors.

