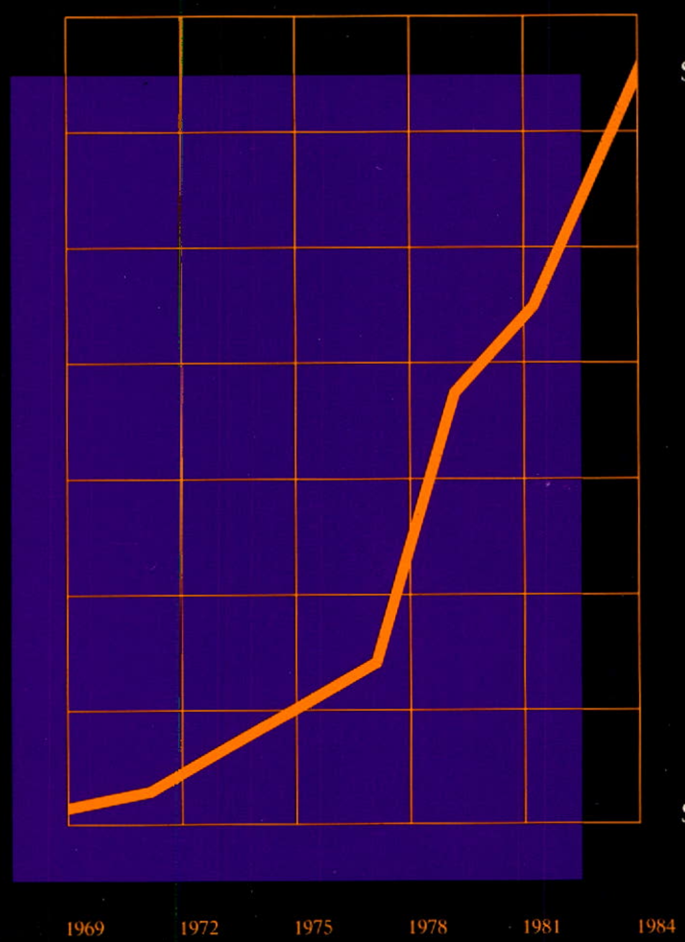
Consumers Distributing 1984 Annual Report

"A sales record of which the company can be truly proud"



A pioneer in North American catalogue showroom merchandising, Consumers Distributing is a leading retailer of jewellery, toys, housewares, home electronics, sporting and leisure goods. Millions of customers experienced the satisfaction of buying brand name merchandise at our 355 catalogue showrooms in Canada and the United States.

The Year at a Glance

(In thousands of dollars, except per share and store data)	*Fifty-three weeks ended February 2,* **1985**	*Fifty-two weeks ended January 28,* 1984
Sales		
Canada	**$ 576,101**	$ 529,255
United States (in U.S. dollars)	**345,702**	299,127
Total (in Canadian dollars)	**1,026,654**	898,916
Income before extraordinary item	**12,896**	16,129
Loss on debt guarantees of related company	**(795)**	—
Net income	**$ 12,101**	$ 16,129
Working capital	**$ 94,636**	$ 98,202
Capital expenditures	**27,656**	27,520
Shareholders' equity	**130,334**	114,774
Dividends paid	**2,530**	2,359
Per Class A or Class B share		
Income before extraordinary item	**$0.56**	$0.73
Net income	**0.53**	0.73
Book value	**5.66**	5.13
Market price range — Class A	**$7.88/$5.13**	$9.38/$5.00
— Class B	**$7.75/$5.00**	$9.25/$5.00
Number of stores open at end of period		
Canada	**212**	205
United States	**160**	134
	372	339

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A major corporate milestone was achieved in 1984 when total sales topped the billion dollar level. This goal, planned three years ago, was the culmination of 16 years of sales growth since Consumers Distributing became a publicly held company. This is a track record of which all of us can be truly proud.

The company's Canadian division achieved excellent results, as sales and net operating profit established new records. Sales in Canada increased to $576 million from $529 million a year ago. Net operating profit reached $17.5 million compared with the previous year's $16.9 million.

However, the results of the United States division were not satisfactory. Although sales increased to $451 million from $370 million, the net operating loss rose to $4.6 million from $814,000 the previous year.

The consequence of these mixed results was that total profit from operations was $12.9 million or 56 cents per share for the 53 weeks ended February 2, 1985, compared with $16.1 million or 73 cents per share in the previous year. Provision for a loss of $795,000 on debt guarantees of a company in which we had an investment brought final net profit for the year to $12.1 million or 53 cents per share.

Performed to Plan

It is with a great deal of satisfaction that I report the management team in the Canadian division has consistently performed to plan in recent years. This is a credit to Michael Haberman, our Executive Vice-President and Chief Operating Officer and his people. It is an indication of the thoroughness with which they plan, organize and carry out their responsibilities. We have a highly refined "top down" planning process that begins with the setting of corporate goals and objectives and works through the organization with contributions from all management levels. Since our management people are very much involved in the process, they have a strong commitment to the company and its success.

We can also be proud of our record of having earned a profit every year since the company went public in 1969, through periods in which we enjoyed high growth, and through the difficult times of recession, inflation, and both strong and weak consumer markets.

On the other hand we are concerned about our performance in the United States. A lot has been said and written about Canadian retailers operating in the U.S. I can assure you that we understand that vast market and have accepted the fact that retailing in the United States is different. We are fully aware of the steps that must be taken to bring our U.S. division to the position where it not only achieves sales gains but more importantly attains its profit potential.

Management Changes

The company's commitment to the United States remains strong. Michael Haberman assumed responsibility for the operations of both the Canadian and the United States divisions and has put a new management team into place in the U.S. during the past year.

We were fortunate in attracting Everett Purdy, who was appointed President of our United States division. Mr. Purdy has an outstanding record in the catalogue showroom business. Prior to joining us he was Senior Vice-President, Merchandising, with Service Merchandise, Inc., a 166 store chain with annual sales of $U.S. 1.6 billion. Mr. Purdy is one of the most respected merchants and executives in the catalogue industry.

The addition of a retailing executive of the recognized stature of Everett Purdy to our management team is a reflection of Consumers Distributing's expectations for the U.S. market. Reporting to Mr. Haberman, he will concentrate on improving the operation we now have in the United States and interacting with the best systems that our highly successful Canadian division has to offer.

Much has already been accomplished. Mr. Purdy heads a restructured management group responsible for the implementation of comprehensive merchandising and marketing strategies and dedicated to achieving the profit position we know to be attainable. I can report that we have already seen some improvement in our U.S. operations, including the ability of the division to control its costs and reduce overhead expenses. Following the release of the 1985 spring catalogue, we have enjoyed increased sales on a store-for-store basis and a higher gross profit level.

Catalogue Showroom Industry

The catalogue showroom industry is a specialized form of general merchandise retailing which has undergone great change over the past 30 years. From more than three dozen companies in the business in Canada in 1956, Consumers Distributing is the sole survivor. We are also the leading or fastest growing retailer in many lines of merchandise. In the United States, a rationalization of the industry has been taking place, resulting in fewer and larger regional and national operators.

Outlook

Given the volatility of economic indicators, it has become increasingly difficult to make reliable forecasts as a basis for planning. Retailing and consumer spending has been one of the strengths of the economic recovery but its uncertain pace has caused many merchants to take a conservative position in planning.

However, a successful business must plan for growth and it is the role of the chief executive officer aided by senior management to make the critical decisions that will achieve the desired goals. We do this based on our experience and judgement of alternative courses of action. I feel confident in assuring shareholders that their company will enjoy success in the future as its has in the past.

Appreciation

Our success will continue to be due to the same three sources of strength that have built Consumers Distributing into the great retailing organization that it is today. On behalf of the Board of Directors I extend our appreciation to our dedicated employees in Canada and the United States who give their best efforts, often in the face of difficult challenges. I also acknowledge with thanks the support of our many fine suppliers, who enable us to provide exceptional value to the public. Last but not least, I would like to thank our growing number of satisfied customers whose patronage we will never take for granted.

Jack Stupp
Chairman
of the Board
and Chief
Executive Officer

Toronto
May 8, 1985

Although 1984 was a year of intense competition for retailers in North America, Consumers Distributing made significant gains in market share in a number of key areas.

In both Canada and the United States, sales increased during the year. However, while Canadian sales and net operating profit reached record levels, performance of the United States division was below expectations. Improved U.S. results are expected this year under the new management team headed by Everett Purdy, backed by intensive efforts of senior corporate management in Toronto.

Significant Disinflation

Retailing today is affected by rapidly changing levels of consumer confidence, which is vulnerable to fluctuating interest rates, unemployment, and other pertinent indicators of economic activity. There has also been unprecedented and significant disinflation in a number of high volume product lines resulting in increased price sensitivity. For the first time in many years we had to generate very large unit volume increases during 1984 in order to show growth in dollar sales. During the inflationary 1970s the situation was quite the opposite. Then, it was easy to have large dollar increases in sales and profits with minimal unit volume gains.

Over the past year, retail prices on jewellery declined significantly because of the falling price of gold. Home computers, video games and software all saw price decreases of as much as 50 percent. Prices tumbled for some home entertainment and electronic items as well.

Canadian Division

We had an excellent performance in Canada for most of the year, but volumes fell short of objectives in the four critical weeks in November when, contrary to expectations, most retailers encountered soft sales. Consumers Distributing was no exception. In our case, we experienced a decline in the average dollar transaction per customer of up to eight percent from the previous year. Fortunately, this same decline did not carry forward into December.

Despite this, however, we enjoyed good overall unit increases and continued growth in market share. Traffic in our stores was higher by 1.8 million customers and currently we are generating more than 25 million customer transactions a year, or one for every Canadian.

Toy City, which opened an additional four stores in 1984 has helped us to achieve a market share of approximately 25 percent of the retail toy business in Canada. Current sales performance is significantly ahead of last year. We plan to add an additional five stores in major markets in 1985 bringing the total number to 20. This chain has a separate merchandising and operations organization and its distribution centre is in Oakville, Ontario. The 130,000 square foot facility was opened in June 1984 to serve the growing Canada-wide chain.

The fall of 1984 was one of the most competitive seasons in quite some time. This, coupled with frequently changing economic conditions, served to challenge our management capabilities. Nevertheless, we still managed increased sales in important commodities, particularly toys, jewellery, watches, appliances, home furnishings and high-end gift items.

Tight controls were exercised over all operating units of the company and the entire management team worked very hard to achieve the targeted profit levels.

Analysis of our customer base shows that one of the most important and encouraging factors affecting our performance is the continuing patronage of young, upwardly mobile, better educated and above average household income groups. Generally, these customers enjoy economic stability and should stay with us over a long period of time. We will endeavour to continue to offer the brands and selection of merchandise that will meet their needs and life style.

Although our Canadian division performed well in 1984, we must not become overconfident. We continuously monitor trends in our business in order to maintain our track record of consistently meeting our goals in terms of sales and operating profits.

United States Division

Conditions were different in the United States. The U.S. division did not make satisfactory progress. The financial results were especially disappointing as they were not only below plan but also failed to meet our expectations of late fall. Normally the most productive period of the year for sales and earnings is November and December. Performance in these months basically determines our results for the full year. However in 1984, retail sales softened unexpectedly during this period. While this also happened to some extent in Canada, the impact on the company was more severe in the United States.

Although sales for the year were up by 22 percent in terms of Canadian dollars, this increase, given an additional 26 new showrooms, failed to meet our expectations. The net operating loss in the U.S., after allocation of interest, corporate expense and inventory tax credits, rose to $4.6 million from a loss of $814,000 the previous year. While margins improved and variable store expenses were well controlled, we faced higher costs from the 50 stores opened in 1983 and 1984 which have not yet matured. New stores normally require two to three years to reach maturity.

I believe we are making substantial progress in the U.S. division, which has consumed a great deal of senior management time. This intensive involvement has proven to be a beneficial experience as it has brought operating problems and opportunities into clearer focus and provided us with a more realistic perspective.

The new management team has tackled the key areas of merchandising, store operations and administration. Divisional personnel from the top executives down are now involved in establishing plans and operational objectives.

To date, these activities have resulted in reduced operating expenses, increased gross profit levels, and improved store-for-store sales. We are making major inroads in such areas as jewellery, watches, and small appliances and our U.S. toy sales increased by more than 60 percent in the fall.

Our new team, all with successful track records in retailing, keep close to their markets by listening to staff, customers and suppliers. We are doing a lot of work at the grassroots level with our buyers in terms of market planning and have defined and focussed on the essential aspects of the vast U.S. market, which is quite different from Canada.

We know what our customers are looking for and we are prepared to offer them good quality merchandise, when they want it and at competitive prices.

We also changed our approach to catalogues in the United States. The number of pages has been reduced and we have condensed or eliminated non-productive categories. Our planning process includes a critical examination of every commodity we carry for the purpose of improving its financial contribution to the company.

Expansion Plans

For Consumers Distributing, Canada is a relatively mature market. Four catalogue showrooms were opened in 1984 and we will be opening three to five new stores this year. We are continuing our program of renovating and upgrading existing stores in line with our more up-scale customer base. Approximately 75 percent of our stores have been modernized in the past five years and 33 stores will be renovated in 1985.

In the United States we will continue to consolidate our regional positions with a modest expansion program. We will be adding stores in our existing markets in order to fill in gaps and strengthen our customer base. Most of this expansion will take place in Eastern markets.

We have initiated a mechanization program in our 650,000 square foot distribution centre in Mississauga, Ontario. This $8 million project, one of our largest capital undertakings, will improve operating efficiency and double capacity in the present building. It will also give us the ability to exercise greater control of inventory in the distribution centre and showrooms.

Conclusions

Although it is important to focus critically on problem areas, it is also imperative that we carefully examine what we are doing right in order to ensure that the correct lessons are learned. Our successes in Canada are a reflection of all departments doing many things well. We achieved or exceeded virtually every objective that we set and though success is measured in numbers, people make the numbers happen. All of our staff are committed to the company and work well together as a team.

Consumers Distributing in Canada is a major force in the retail market. We are the leading retailer of numerous commodities and are considered an integral link in the marketing process by all manufacturers and distributors. While furthering the success we have achieved in Canada, our primary corporate goal must be to achieve similar results in the United States.

Michael Haberman
Executive
Vice-President
and Chief
Operating Officer

Toronto
May 8, 1985

Jewellery boutiques in Consumers' 355 showrooms across North America are a popular shopping place for young couples.

Bright, spacious showrooms with attractively priced products appealing to knowledgeable, sophisticated shoppers have enabled Consumers Distributing to increase sales and market share in key commodities. Approximately 75 percent of stores have been modernized in the past five years and more will be renovated in 1985.

Financial officers at the company's Toronto headquarters are shown, from left: Craig Judson, Vice-President and Controller, Peter M.C. Onions, Vice-President, Finance and Maxwell Seymour, Treasurer.

A mechanization program now underway at the 650,000 square foot distribution centre in Mississauga, Ontario, will double capacity in the present building and provide more detailed information on merchandise movement and stock positions. The program, costing $8 million, is one of the company's largest capital undertakings.

Senior officers of the Canadian division are, from left, Michael Gietka, Vice-President, Distribution, Gary McCabe, Vice-President, Corporate Services, Cliff St. Pierre, Vice-President, Human Resources, Reginald Robertson, Vice-President, Development, and John Gray, Vice-President, Store Operations.

The executive team for the United States division, from left: Sanford Boroff, Vice-President, Advertising and Marketing, Lannie Noles, Vice- President, Operations, Everett Purdy, President, Robert Shea, Vice- President, Distribution, Richard Zemp, Vice-President, Administration, and Wayne Unger, Vice-President, Management Information Systems.

Toy City, which opened an additional four stores in 1984, has helped Consumers achieve a market share of approximately 25 percent of the retail toy business in Canada. Five more stores will be added in 1985, bringing the total number to 20.

Meeting with members of his staff at the Western Regional Office in Lafayette, California, is Gerry Scott, Regional Vice-President, West Coast (centre) with Toni Gerhard, Administrative Assistant and Gerald Thompson, Loss Prevention Manager, Western Region.


boys toys
crafts
preschool toys
preschool toys
preschool toys
preschool toys
LOONEY TUNES

Statement of Income and Retained Earnings

Consumers Distributing Company Limited

(In thousands of dollars)	*Fifty-three weeks ended February 2,* **1985**	*Fifty-two weeks ended January 28,* 1984
Sales	**$1,026,654**	$ 898,916
Costs and expenses		
Cost of sales and operating expenses	**980,122**	851,848
Interest expense, including interest on long-term debt and obligations under capital leases of $7,661,000 (1984 – $6,943,000)	**15,977**	11,996
Depreciation and amortization *(Note 9)*	**13,982**	9,492
	1,010,081	873,336
Income before income taxes and extraordinary item	**16,573**	25,580
Income taxes *(Note 10)*	**3,677**	9,451
Income before extraordinary item	**12,896**	16,129
Loss on debt guarantees of related company *(Note 11)*	**795**	—
Net income	**12,101**	16,129
Retained earnings, beginning of year	**68,152**	54,382
	80,253	70,511
Dividends	**2,530**	2,359
Retained earnings, end of year	**$ 77,723**	$ 68,152
Earnings per share, before extraordinary item *(Note 12)*	**56¢**	73¢
Earnings per share	**53¢**	73¢

See accompanying notes.

Balance Sheet

Consumers Distributing Company Limited (Incorporated under the laws of Ontario)

(In thousands of dollars)	*February 2,* **1985**	*January 28,* 1984
Assets		
Current		
Cash	**$ 448**	$ 356
Amounts receivable	**12,868**	13,119
Income taxes recoverable	**6,477**	—
Inventory	**319,854**	261,990
Prepaid expenses, including catalogue costs	**22,833**	18,561
	362,480	294,026
Fixed assets *(Note 2)*	**84,118**	64,815
Other assets *(Note 3)*	**10,011**	10,526
	$ 456,609	$ 369,367
Liabilities		
Current		
Bank indebtedness *(Note 4)*	**$ 68,409**	$ 32,287
Accounts payable and accrued liabilities	**184,308**	151,098
Dividends payable	**633**	616
Income taxes payable	**—**	1,893
Current portion of obligations under capital leases	**5,081**	3,717
Current portion of long-term debt	**3,748**	1,132
Deferred income taxes	**5,665**	5,081
	267,844	195,824
Obligations under capital leases *(Note 5)*	**32,029**	25,246
Long-term debt *(Note 6)*	**24,390**	31,037
Deferred income taxes	**2,012**	2,486
Contingent liability *(Note 16)*		
Shareholders' Equity		
Capital stock *(Note 7)*	**47,255**	44,161
Retained earnings	**77,723**	68,152
	124,978	112,313
Equity adjustment from foreign currency translation	**5,356**	2,461
	130,334	114,774
	$ 456,609	$ 369,367

See accompanying notes.

On behalf of the Board

Jack Stupp, Director

Peter M. C. Onions, Director

Statement of Changes in Financial Position

Consumers Distributing Company Limited

(In thousands of dollars)	*Fifty-three weeks ended February 2,* 1985	*Fifty-two weeks ended January 28,* 1984
Financial resources were provided by		
Income before extraordinary item	$ 12,896	$ 16,129
Items not affecting working capital		
Depreciation and amortization	13,982	9,492
Deferred income taxes (reduction)	(474)	2,409
Loss on disposal of fixed assets	115	248
Share of loss of related company	—	72
Working capital provided from operations	26,519	28,350
Proceeds on disposal of fixed assets	106	90
Issue of shares under Employees Stock Option Plan	194	334
Increase in equity due to conversion of debentures	2,900	625
Obligations under capital leases	11,414	9,691
Foreign currency translation adjustments relating to working capital of self-sustaining foreign operation	783	(25)
	41,916	39,065
Financial resources were used for		
Payment of dividends	2,530	2,359
Reduction in obligations under capital leases	4,947	3,717
Reduction in long-term debt	6,648	1,757
Increase in fixed assets	27,656	27,520
Increase in other assets	2,906	5,860
Extraordinary item *(Note 11)*	795	—
	45,482	41,213
Decrease in working capital	(3,566)	(2,148)
Working capital, beginning of year	98,202	100,350
Working capital, end of year	$ 94,636	$ 98,202

See accompanying notes.

Auditors' Report

To the Shareholders of
Consumers Distributing
Company Limited

We have examined the balance sheet of Consumers Distributing Company Limited as at February 2, 1985 and the statements of income and retained earnings, and changes in financial position for the fifty-three weeks 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 financial statements present fairly the financial position of the company as at February 2, 1985 and the results of its operations and the changes in its financial position for the fifty-three weeks then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Ontario,
April 2, 1985.

Laventhol & Horwath
Chartered Accountants.

Notes to Financial Statements

February 2, 1985

1. Summary of significant accounting policies:

Basis of accounting

The financial statements have been prepared on the historical cost basis in accordance with generally accepted accounting principles in Canada, and also conform in all material respects with International Accounting Standards.

Inventory

Inventory is valued at the lower of cost and net realizable value, cost being determined on a first-in, first-out basis.

Catalogue costs

The cost of the company's annual catalogue is charged to earnings over its one year life based upon seasonal sales patterns. Similarly, the costs of supplementary catalogues and promotional material are charged to earnings over the period during which they are in effect.

Fixed assets

Equipment and leasehold improvements are recorded at cost. Depreciation and amortization are provided on a straight-line basis at rates which are designed to write off the assets over their estimated useful lives as follows:

Office, warehouse and showroom equipment	5% and 10%
Leasehold improvements	Term of lease
Automotive equipment	10% and 20%
Assets under capital leases	
Buildings	2.5% or term of lease
Equipment	5%, 10% and 20%

Favourable leases

The cost of favourable leases is amortized over the average remaining term of those leases.

Goodwill

Goodwill, representing the excess of cost over assigned values of net assets acquired, is being amortized over 40 years.

Pre-opening costs

Certain costs related to the start-up of new showrooms and major sales-support facilities are deferred and amortized over periods of up to three years, commencing with the month after the date of opening.

Deferred financing costs

Deferred financing costs are amortized over the terms of the related financing agreement.

Lease obligations

Leases transferring substantially all of the benefits and risks incident to ownership of property ("capital leases") are accounted for as the acquisition of assets financed by long-term liabilities. Obligations recorded under capital leases are reduced by rental payments net of imputed interest. All other leases are accounted for as operating leases whereby rent payments are charged against earnings.

Income taxes

The company follows the deferral method of income tax allocation. Deferred income taxes result from the recognition of revenue and expense in different periods for tax and financial statement purposes.

Foreign currency translation

The financial statements of the U.S. Division (which represents a self-sustaining foreign operation) are translated using the "current rate method". Under this method assets and liabilities are translated into Canadian dollars at the rate of exchange at the fiscal year end. Revenues and expenses are translated at the weighted average exchange rates prevailing during the year.

Transactions of the Canadian Division whose terms are denominated in foreign currency are recorded in Canadian dollars at the exchange rates in effect at the date of the transaction. Monetary assets and liabilities arising from those transactions which are outstanding at the balance sheet date are adjusted to reflect the exchange rate in effect at the balance sheet date.

Exchange gains or losses arising from the translation of the financial statements of the U.S. Division are deferred and included as a separate component of shareholders' equity. Exchange gains or losses arising from the translation of current monetary assets and liabilities resulting from transactions of the Canadian Division are included in operations when applicable to current monetary items, and are deferred and amortized on a straight-line basis over the remaining life of the related monetary items when applicable to long-term items.

2. Fixed assets

(In thousands of dollars)	Cost	Accumulated depreciation and amortization	Net 1985	Net 1984
Office, warehouse and showroom equipment	$ 41,228	$ 18,824	$ **22,404**	$ 18,251
Leasehold improvements	39,310	12,939	**26,371**	20,058
Automotive equipment	3,548	2,677	**871**	606
Assets under capital leases	48,995	14,523	**34,472**	25,900
	$ 133,081	$ 48,963	$ **84,118**	$ 64,815

3. Other assets

(In thousands of dollars)

	Cost	Accumulated amortization	Net 1985	Net 1984
Goodwill	$ 2,971	$ 519	$ **2,452**	$ 2,526
Favourable leases	1,840	878	**962**	1,094
Deferred pre-opening costs	8,862	4,213	**4,649**	5,157
Deferred financing costs	1,125	161	**964**	1,040
Sundry	984	—	**984**	709
	$ 15,782	$ 5,771	$ **10,011**	$ 10,526

4. Collateral assigned to bank

As security for the bank indebtedness, a collateral floating charge on all the assets of the company and an assignment of a life insurance policy in the amount of $6,000,000 have been given to the bankers.

5. Leases

Capital leases

Future minimum payments under capital leases due from 1985 to 2004 and the present value of the net minimum lease payments as at February 2, 1985 are as follows:

(In thousands of dollars)

1986	$ 9,499
1987	9,098
1988	8,358
1989	6,797
1990	6,467
Thereafter	18,010
	58,229
Amount representing interest at an average of approximately 12.88%	21,119
Present value of net minimum lease payments	37,110
Less current portion	5,081
	$32,029

Operating leases

Premises and equipment rental for the fifty-three weeks ended February 2, 1985 amounted to $30,269,000.

Minimum rentals payable under long-term operating leases for premises and equipment in effect as at February 2, 1985 (excluding insurance, property taxes and certain other occupancy charges) are as follows:

(In thousands of dollars)

1986	$ 28,834
1987	28,186
1988	28,041
1989	25,499
1990	22,979
Thereafter	121,924
	$255,463

The company has issued a Series B bond to indemnify the Oshawa Group Limited, an original guarantor under certain of its leases. The maximum amount which the company could be held liable for under this indemnification amounts to $7,500,000.

6. Long-term debt

(In thousands of dollars)

	February 2, 1985	January 28, 1984
Subordinated debentures (a)	**$23,975**	$26,875
First promissory note repayable in equal monthly payments without interest to February 1, 1989. This note has been recorded at a discounted value based on an imputed interest rate of 13%.	**521**	614
Second promissory note bearing interest at 1% over the bank prime lending rate, repayable over 7 years based upon a 10-year amortization schedule.	**3,642**	4,680
	28,138	32,169
Less current portion (b)	**3,748**	1,132
	$24,390	$31,037

(a) Pursuant to a Trust Indenture dated December 10, 1982, the company issued $27.5 million 11⅞% subordinated debentures with a maturity date of December 14, 1997. The debentures are redeemable at the company's option for a premium of 11⅞%, commencing December 15, 1985. The premium declines by 1% per year until par value is reached.

The debentures are convertible at any time up to the close of business on December 14, 1997 into one Class A share and two Class B shares at a combined rate of $15. The Trust Indenture contains anti-dilution provisions whereby the conversion price could be changed. The Trust Indenture further provides for mandatory sinking fund requirements commencing December 15, 1992 and contains restrictions against payment of dividends if interest payments on the debentures are in default.

(b) The aggregate amounts of principal repayment of long-term debt are as follows:

(In thousands of dollars)

1986	$ 3,748
1987	121
1988	137
1989	157
1990	—
Thereafter	23,975
	$28,138

7. Capital stock

Authorized

10 Common shares
12,000,000 Class A shares
50,000,000 Class B subordinate voting shares

Stated capital

(In thousands of dollars)	Class A shares		Class B shares		Total
Balance, beginning of year	7,452,650	$ 15,509	14,915,314	$ 28,651	$ 44,160
Issued during the year:					
For cash — Employees Stock Option Plan	26,200	65	52,400	129	194
Debenture conversion	193,329	981	386,652	1,919	2,900
Conversion of Class A shares into Class B shares	(30,170)	(184)	30,170	184	—
	7,642,009	$ 16,371	15,384,536	$ 30,883	47,254
10 Common shares					1
					$ 47,255

(a) Voting rights

Class A shares 20 votes for each share held.

Class B shares 1 vote for each share held (same as common shares).

(b) Preferences

Class A shares the first five cents on liquidation, dissolution, or winding up of the corporation.

Class B shares a non-cumulative dividend of one-quarter of one cent in each fiscal quarter year of the corporation.

The Class B shares carry the right to receive not less than 115% of the amount of all cash dividends declared in any fiscal year on the Class A and the common shares, to a limit of twenty cents of dividends on the Class B shares. Dividends on all classes of shares are at the discretion of the directors.

(c) Convertibility

Class A shares convertible at any time, at the option of the holder, into Class B shares on a share-for-share basis.

Class B shares convertible into Class A shares on a share-for-share basis solely for the purpose of accepting any tender offer or Stock Exchange Take-Over Bid for the Class A shares, under specified circumstances.

Stock options

In connection with the company's Employee Stock Option Plan, 15,500 Class A shares and 456,100 Class B shares have been reserved. At February 2, 1985, there were options outstanding to purchase 15,550 Class A shares and 355,100 Class B shares over the next seven years, exercisable at the following price ranges:

	Class A	Class B
From $2.17 — $3.33	15,550	31,100
From $5.00 — $6.88	—	324,000
	15,550	355,100

Subordinated debentures

The company has reserved 1,598,333 Class A shares and 3,196,667 Class B shares for issuance upon conversion of the 11⅞% subordinated debentures.

8. Segmented information

The company operates in what is considered to be a single business, namely the sale of general merchandise through retail stores supported by the distribution of catalogues featuring such merchandise.

The company operates in two distinct geographic regions:
(1) Canadian segmented information relates to the 212 stores the company operates in Canada from Newfoundland to British Columbia.
(2) United States segmented information relates to the 160 stores the company operates in the States of California, Connecticut, Maryland, Massachusetts, Nevada, New Hampshire, New Jersey, New York and Pennsylvania.

(In thousands of dollars)	Fifty-three weeks ended February 2, 1985		
	Canada	United States	Combined
Sales	$576,101	$450,553	$1,026,654
Operating profit (loss)	$ 42,493	$ (5,953)	$ 36,540
Interest expense			15,977
General corporate expense			3,990
			19,967
Income before taxes and extraordinary item			16,573
Income taxes			3,677
Loss on debt guarantees of related company			795
Net income			$ 12,101
Total assets	$208,793	$247,816	$ 456,609

(In thousands of dollars)	Fifty-two weeks ended January 28, 1984		
	Canada	United States	Combined
Sales	$529,255	$369,661	$ 898,916
Operating profit (loss)	$ 42,039	$ (903)	$ 41,136
Interest expense			11,996
General corporate expense			3,560
			15,556
Income before taxes			25,580
Income taxes			9,451
Net income			$ 16,129
Total assets	$189,005	$180,362	$ 369,367

9. Depreciation and amortization

(In thousands of dollars)	Fifty-three weeks ended February 2, **1985**	Fifty-two weeks ended January 28, 1984
Depreciation and amortization of fixed assets	**$10,293**	$7,559
Amortization of deferred charges	**3,406**	1,644
Amortization of goodwill	**74**	74
Amortization of favourable leases	**132**	140
Amortization of deferred financing costs	**77**	75
	$13,982	$9,492

10. Income tax expense

The company's effective income tax rate is made up as follows:

	Fifty-three weeks ended February 2, **1985**	Fifty-two weeks ended January 28, 1984
Basic Canadian federal tax rate	**46.0%**	46.0%
Federal income tax abatement	**(5.6)**	(5.8)
Federal surtax	**—**	.9
Average provincial tax rate	**6.6**	6.5
Inventory allowance	**(22.3)**	(11.5)
Scientific research tax credit	**(1.8)**	—
Other	**(4.0)**	(2.1)
Effective Canadian income tax rate	**18.9**	34.0
Average U.S. state tax rate	**3.3**	3.0
Effective Canadian and U.S. combined income tax rate	**22.2%**	37.0%

11. Loss on debt guarantees of related company
On March 22, 1985 the retail jewellery business in which the company had a 50% interest made a voluntary assignment in bankruptcy.

The company estimates its loss arising from guarantees of certain loans of the related company to be $795,000, net of a tax recovery of $265,000.

12. Earnings per share
The earnings per share figures are calculated using the weighted monthly average number of shares outstanding during the respective fiscal years, after giving retroactive effect to the share reorganization on June 23, 1983.

Fully diluted earnings per share, determined on the assumption that all outstanding subordinated debentures and stock options had been converted or exercised, would be:

	Fifty-three weeks ended February 2, **1985**	Fifty-two weeks ended January 28, 1984
Before extraordinary item	**51¢**	63¢
After extraordinary item	**49¢**	63¢

13. Trust deed
The Series B bond, referred to in Note 5, has been issued under a trust deed which includes a floating charge over all the assets of the company ranking second only to the security provided to the bankers.

14. Dividend restrictions
The company is restricted from declaring or paying dividends under the terms of the trust deed securing the Series B bond, if after deduction of the dividend the working capital is less than $10 million or the shareholders' equity is less than $20 million. See also Note 6(a).

15. Related party transactions
The company obtains legal services from the firm in which two directors of the company are partners. Payment for such services in the fifty-three weeks ended February 2, 1985 amounted to $138,000 (fifty-two weeks ended January 28, 1984 – $361,000).

Current assets include loans due from senior officers of $480,000 (January 28, 1984 – $397,000). These amounts are secured by mortgages and shares of the company.

16. Contingent liability
On January 10, 1979, the Chairman, who also acts as President and Chief Executive Officer of the company, and two other persons not employed by the company were charged with conspiring to affect the public market price of the shares of the company during the years 1977, 1978 and 1979, contrary to the Criminal Code of Canada. The company has not been charged or named as a co-conspirator nor have any claims arising from the alleged conspiracy been made against the company. The possible adverse financial effects upon the company, if any, arising from the charge described above and the evidence relating thereto, whether because of claims against the company or otherwise, cannot be determined.

17. Comparative figures
Certain of the 1984 comparative figures have been reclassified to conform with the financial statement presentation adopted for 1985.

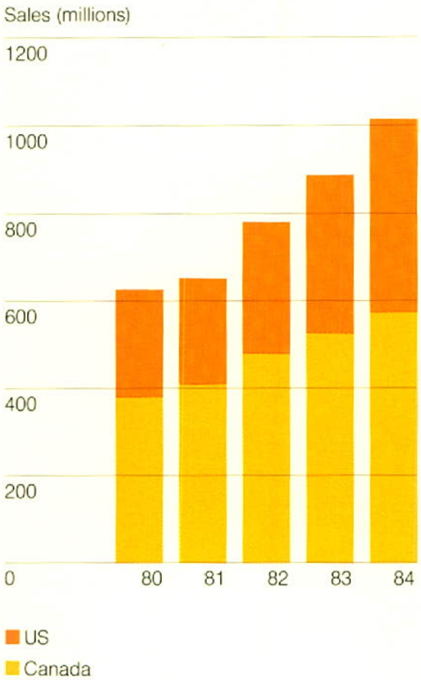
Historical Review

(In thousands of dollars)

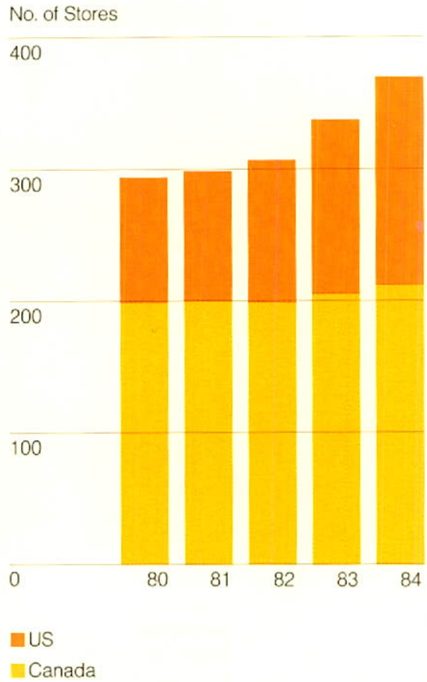
Operating results	Sales
	Canada
	United States
	Income before the undernoted
	Depreciation and amortization
	Interest expense
	Bank
	Long-term debt, including capital leases
	Pre-tax operating income
	Income taxes
	Net operating income
	Extraordinary item
	Net Income
	Shares outstanding (000's)
	Actual
	Average
	Earnings per share before extraordinary item
	Taxable dividends
	Per share, Class A
	Per share, Class B
Financial position	Working capital
	Total assets
	Shareholders' equity
Funds provided from operations	
Capital expenditures	
Financial analysis	Working capital ratio
	Asset turnover
	Effective tax rate — percent
	Return on average equity — percent
Number of stores	Canada
	United States

53 Weeks February 2 1985	52 Weeks January 28 1984	52 Weeks January 29 1983	52 Weeks January 30 1982	52 Weeks January 31 1981	52 Weeks February 2 1980	53 Weeks February 3 1979
$ 576,101	529,255	478,750	408,278	377,919	344,112	267,612
450,553	369,661	309,013	252,051	253,013	209,745	76,631
$1,026,654	898,916	787,763	660,329	630,932	553,857	344,243
$ 46,532	47,068	41,253	25,488	29,402	25,103	31,862
13,982	9,492	7,330	6,759	6,073	4,822	3,051
8,316	5,053	7,196	8,674	8,837	3,799	3,041
7,661	6,943	4,198	4,021	3,315	3,321	2,068
16,573	25,580	22,529	6,034	11,177	13,161	23,702
3,677	9,451	9,336	1,163	2,747	4,734	11,560
12,896	16,129	13,193	4,871	8,430	8,427	12,142
795	—	—	—	—	—	—
$ 12,101	16,129	13,193	4,871	8,430	8,427	12,142
23,027	22,368	22,119	21,890	21,832	21,712	20,075
23,009	22,246	21,943	21,874	21,764	21,679	17,286
56¢	73¢	60¢	22¢	39¢	39¢	70¢
$ 2,530	2,359	1,613	1,456	1,451	1,160	401
9¢	9¢	6¢	5¢	5¢	4¢	1¢
12¢	12¢	8¢	7¢	7¢	6¢	2¢
$ 94,636	98,202	100,350	66,364	62,409	55,989	42,128
456,609	369,367	286,095	244,084	213,817	241,540	170,890
130,334	114,774	99,692	86,692	83,124	75,018	59,991
$ 26,519	28,350	20,606	11,576	14,853	13,915	15,413
$ 27,656	27,520	9,209	5,592	9,930	12,402	4,184
1.4:1	1.5:1	1.7:1	1.5:1	1.6:1	1.4:1	1.5:1
2.49	2.74	2.97	2.88	2.77	2.69	2.72
22.2	36.9	41.4	19.3	24.6	36.0	48.8
10.5	15.0	14.2	5.7	10.7	12.5	28.6
212	205	198	200	197	200	169
160	134	110	100	99	86	70
372	339	308	300	296	286	239

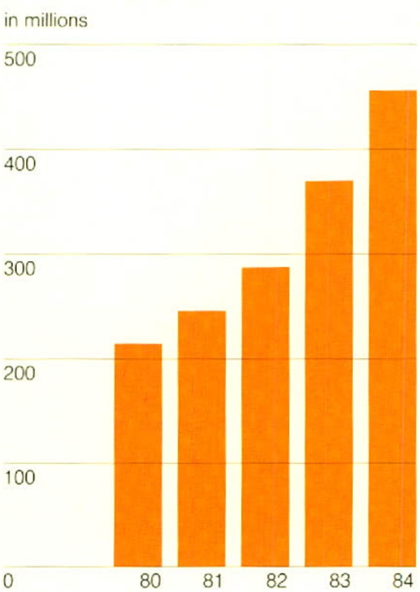
Sales History



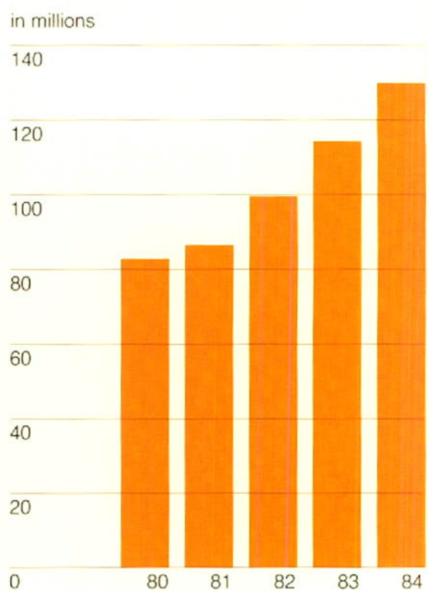
Store Growth by Year



Total Assets



Shareholders' Equity



Catalogue Showrooms (355)

370 Stores in North America *(May 4, 1985)*

Canada (195)

Alberta (17)
Calgary (7)
Edmonton (7)
Lethbridge
Medicine Hat
Red Deer

British Columbia (6)
Coquitlam
Kelowna
North Vancouver
Richmond
Surrey
Victoria

Manitoba (10)
Brandon (1)
Winnipeg (9)

New Brunswick (5)
Bathurst
Fredericton
Moncton (2)
Saint John

Newfoundland (2)
St. John's (2)

Nova Scotia (5)
Bedford
Dartmouth
Halifax
New Glasgow
Sydney

Prince Edward Island (1)
Charlottetown

Quebec (58)
Montreal (32)
Charlesbourg (2)
Chateauguay
Chicoutimi
Drummondville
Gatineau
Granby
Hull
Jonquiere
Levis
Quebec City (5)
Rosemere
St-Bruno
St. Eustache
St. Hyacinthe
St. Jean
St. Jerome
Sept Iles
Shawinigan
Sherbrooke
Trois Rivieres
Valleyfield

Saskatchewan (6)
Regina (2)
Moose Jaw
Prince Albert
Saskatoon (2)

Ontario (85)
Toronto (19)
Barrie
Belleville
Bramalea
Brampton
Brantford
Brockville
Burlington (2)
Cambridge
Chatham
Cornwall
Georgetown
Guelph (2)
Hamilton (6)
Kingston
Kitchener
London (5)
Markham
Mississauga (3)
Newmarket
Niagara Falls
North Bay
Oakville
Orangeville
Orillia
Oshawa (2)
Ottawa (6)
Owen Sound
Peterborough
Pickering
Richmond Hill
St. Catharines (2)
St. Thomas
Sarnia
Sault Ste. Marie
Stratford
Sudbury (2)
Thunder Bay
Timmins
Waterloo
Welland
Whitby
Windsor (3)
Woodstock

United States (160)

Connecticut (5)
Hamden
Norwalk
Stamford
Torrington
Waterbury

Maryland (4)
Eastpoint
Glen Burnie
Hyattsville
Pikesville

Massachusetts (4)
Boston
Dedham
Medford
Natick

New Hampshire (1)
Portsmouth

New Jersey (22)
Bricktown
Eatontown
Florham Park
Hazlet
Jersey City
Kearny
Kinnelon
Montclair
North Plainfield
Paramus
Ramsey
Roselle
South Orange
South Plainfield
Tenafly
Toms River
Totawa
Union
Wayne
West New York
Westwood
Woodbridge

New York (47)
Bronx (2)
Brooklyn (8)
Peekskill
Carle Place
Centereach
Central Islip
Clifton Park
Commack
Coram
East Meadow
Eastchester
Great Neck
Hicksville
Holbrook
Kingston
Massapequa
Melville
Merrick
Middletown
New Hyde Park
Niskayuna
Oceanside
Pearl River
Pelham
Portchester
Poughkeepsie
Queens (6)
Shirley
Staten Island
Valley Stream
West Babylon
West Islip
White Plains
Yonkers

Pennsylvania (4)
Philadelphia (3)
Willow Grove

California (71)
Alameda
Alhambra
Antioch
Bakersfield
Berkeley
Capitola
Chico
Colma
Concord
Dublin
Escondido
Fairfield
Fremont
Fresno (3)
Hayward
Lakewood
Lancaster
Larkspur
Los Angeles (3)
Merced
Millbrae
Modesto
Monrovia
Oakland (2)
Orange County (3)
Pleasant Hill
Redding
Redwood City
Roseville
Sacramento (5)
Salinas
San Bruno
San Diego (3)
San Francisco (6)
San Jose (6)
San Leandro
San Mateo (2)
San Pablo
San Rafael
Santa Clara
Santa Maria
Santa Rosa
Sunnyvale
Vallejo
Visalia
Walnut Creek
Woodland

Nevada (2)
Reno
Sparks

Toy Stores (15)

Canada (15)

Toy City (10)

Alberta (2)
Calgary
Edmonton

British Columbia (1)
Surrey

Ontario (7)
Brampton
Hamilton
Toronto (3)
Mississauga
Ottawa

Toyville (5)

Quebec (5)
Montreal (4)
Quebec City

Corporate Directory

(May 4, 1985)

Directors

Richard Bain, Q.C.
Barrister and Solicitor,
Toronto

L. S. D. Fogler, Q.C.
Barrister and Solicitor,
Toronto

Michael Haberman
Executive Vice-President
and Chief Operating
Officer,
Consumers Distributing
Company Limited,
Toronto

A. J. Latner
President,
Greenwin Developments
and Concorde Management
Company,
Toronto

Boris B. Levitt
Consultant,
New York, N.Y.

Peter M. C. Onions
Vice-President, Finance,
Consumers Distributing
Company Limited,
Toronto

R. I. Scolnick
Chairman of the Board and
Chief Executive Officer,
United Tire & Rubber
Company Limited,
Toronto

Harry Solomon
Chairman of the Board,
Ronto Development
Corporation,
Toronto

Jack Stupp
Chairman of the Board and
Chief Executive Officer,
Consumers Distributing
Company Limited,
Toronto

Lillian Stupp
Consultant,
Toronto

Corporate Officers

Jack Stupp
Chairman and
Chief Executive Officer

Michael Haberman
Executive Vice-President
and Chief Operating
Officer

Michael Gietka
Vice-President,
Distribution

John Gray
Vice-President,
Store Operations

Craig L. Judson, C.A.
Vice-President and
Controller

Gary McCabe
Vice-President,
Corporate Services

Peter M. C. Onions
F.A.I.A.,
Vice-President,
Finance

Reginald J. Robertson
Vice-President,
Development

Cliff St. Pierre
Vice-President,
Human Resources

Maxwell Seymour, C.G.A.
Treasurer

L. S. D. Fogler, Q.C.
Secretary

United States Division Officers

Everett Purdy
President

Sanford Boroff
Vice-President,
Advertising and Marketing

Lannie Noles
Vice-President,
Store Operations

Gerry Scott
Regional Vice-President,
West Coast

Robert M. Shea
Vice-President,
Distribution

Wayne Unger
Vice-President,
Management
Information Systems

Richard E. Zemp
Vice-President,
Administration

Head Office

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(416) 245-4900

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Edison, New Jersey 08817

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Lafayette, California 94549

Distribution Centres

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Mississauga, Ontario

South Service Road,
Oakville, Ontario

120 Northfield Avenue,
Edison, New Jersey

1101 East Glendale Avenue,
Sparks, Nevada

Transfer Agent and Registrar

Guaranty Trust Company of Canada
Central Trust Company

Auditors

Laventhol & Horwath,
Toronto

Principal Bankers

National Bank of Canada
Bank of Montreal
The Harris Trust and Savings Bank, Chicago
Bank of America

Stock Listing

The Toronto Stock Exchange

Printed in Canada

Consumers Distributing®

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