

INTERIM REPORT

For the nine months  
ended November 3, 2001



Reitmans

## TO OUR SHAREHOLDERS

Sales for the nine months ended November 3, 2001 increased 11% to \$402,585,000 as compared with \$364,098,000 for the nine months ended October 28, 2000. Sales increased 9% on a comparable week basis while comparable store sales increased 5%. Net earnings for the nine months increased 31% to \$19,702,000 or \$2.35 per share as compared with \$15,090,000 or \$1.75 per share last year. Operating earnings increased 56% to \$22,061,000 as compared with \$14,133,000 for the period last year.

Sales for the third quarter ended November 3, 2001 increased 13% to \$143,513,000 as compared with \$126,847,000 for the third quarter ended October 28, 2000. Sales increased 12% on a comparable week basis while comparable store sales increased 7%. Net earnings for the period increased 26% to \$7,488,000 or \$0.89 per share as compared with \$5,938,000 or \$0.69 per share last year. Operating earnings increased 51% to \$9,153,000 as compared with \$6,080,000 for the period last year.

Sales in November increased 13% on a comparable week basis with comparable store sales increasing 5%.

During the third quarter, the Company opened 19 new stores and closed 4 stores. During the year to date, the Company opened 37 stores comprised of 11 Reitmans, 8 Smart Set, 13 Penningtons and 5 RW & CO.; 17 stores were closed. Accordingly, at November 3, 2001, there were 621 stores in operation, consisting of 330 Reitmans, 148 Smart Set/Dalmys, 115 Penningtons and 28 RW & CO. An additional 18 stores are scheduled to open this year and 12 stores will be closed.

At the Board of Directors meeting held on December 7, 2001, a quarterly cash dividend of 20 cents per share on all outstanding Class A non-voting and Common Shares of the capital stock of the Company was declared payable January 30, 2002, to shareholders of record as of the close of business January 16, 2002.

*(signed)*

Jeremy H. Reitman  
President

Montreal, December 7, 2001

# MANAGEMENT DISCUSSION AND ANALYSIS

THE COMPANY...  
IS WELL  
POSITIONED  
TO COMPETE  
EFFECTIVELY  
IN THE CANADIAN  
SPECIALTY  
RETAIL MARKET

## OPERATING RESULTS

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Strong sales growth in the nine month period and third quarter, particularly in the Reitmans and RW & CO. divisions, contributed to increased gross and operating margins.

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## INVESTMENTS

Investments consist of marketable securities, principally high quality preferred shares rated P-1. At November 3, 2001, marketable securities amounted to \$69,497,000 (market value \$72,747,000) as compared with \$78,985,000 (market value \$80,364,000) last year. Investment income amounted to \$8,241,000, composed principally of dividends and net capital gains of \$2,825,000 compared to \$6,907,000 with \$1,130,000 of net capital gains last year. Investment income during the third quarter amounted to \$2,960,000, composed principally of dividends and net capital gains of \$1,480,000 compared to \$2,008,000 with \$205,000 of net capital gains.

# MANAGEMENT DISCUSSION AND ANALYSIS

## LIQUIDITY AND CAPITAL ASSETS

Shareholders' equity at November 3, 2001 amounted to \$217,438,000 or \$25.85 per share as compared to \$201,656,000 or \$23.61 per share last year. The Company continues to be in a strong financial position. The Company's sources of liquidity are its cash and investments in marketable securities of \$81,020,000 at November 3, 2001 compared with \$92,131,000 at October 28, 2000. The major financing activities during the quarter included the issuance of 5,000 Class A non-voting shares under its employee stock option plan and the payment of cash dividends of \$1,681,000 or 20 cents a share.

The Company has commenced the construction of its new Montreal distribution centre, comprising of 330,000 square feet on a land area of 1,100,000 square feet, with the capacity to service up to 1,000 store locations. The Company has budgeted approximately \$18,000,000 for land and building with a further \$12,000,000 for equipment. Construction is expected to be completed by May 2002 with full operating capacity by June 2003. The Company anticipates financing the project using internal financial resources and funds derived from its operations. The Company made progress payments of \$9,348,000 related to land and building construction during the third quarter.

The Company invested \$14,492,000 in new and renovated stores for the nine months ended November 3, 2001 and has budgeted a further \$4,000,000 for store development for fiscal 2002. These expenditures together with the payment of cash dividends will be funded by the Company's existing financial resources and funds derived from its operations.

## OUTLOOK

The Company, through its four distinct operating divisions, believes that it is well positioned to compete effectively in the Canadian specialty retail market. We have continued to expand and strengthen our offshore sourcing capabilities based in Hong Kong.

We have successfully tested off-mall locations and new store designs and layouts in our Reitmans and Smart Set divisions, and will continue to implement these designs in new and renovated stores where appropriate. The Company has revised and refined its compensation policies, including comprehensive incentive-based bonus plans, to ensure that they are consistent with the stated corporate and financial goals of each division, as well as those of the overall Company. As a result of an extensive store-training program started in fiscal 1997, specific standards were developed regarding customer service, store appearance and employee conduct. At store level these measures have been combined with sales, wage cost and shrinkage targets in a focused comprehensive compensation plan. Our employees have responded very well to these new procedures.

The Company is in a strong financial position. It has excellent relationships with its vendors and suppliers, both in Canada and globally. It has invested in technology and people. The outlook remains positive.

## CONSOLIDATED BALANCE SHEETS

(in thousands)

	Unaudited November 3, 2001	Unaudited October 28, 2000	Audited February 3, 2001
<b>ASSETS</b>			
<b>CURRENT ASSETS</b>			
Cash and short-term deposits	\$ 11,523	\$ 13,146	\$ 20,008
Accounts receivable	2,409	2,062	2,556
Merchandise inventories	75,450	64,034	38,481
Prepaid expenses	10,199	4,276	8,816
Total Current Assets	99,581	83,518	69,861
INVESTMENTS	69,497	78,985	81,399
CAPITAL ASSETS	98,989	85,661	86,036
ACCRUED PENSION ASSET	6,903	5,308	6,903
FUTURE INCOME TAXES	-	703	-
	<b>\$ 274,970</b>	<b>\$ 254,175</b>	<b>\$ 244,199</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>CURRENT LIABILITIES</b>			
Accounts payable and accrued items	\$ 49,293	\$ 50,737	\$ 35,187
Income taxes payable	6,409	1,782	5,124
Total Current Liabilities	55,702	52,519	40,311
FUTURE INCOME TAXES	1,830	-	1,381
SHAREHOLDERS' EQUITY			
Share capital	9,619	8,730	8,547
Retained earnings	207,819	192,926	193,960
Total Shareholders' Equity	217,438	201,656	202,507
	<b>\$ 274,970</b>	<b>\$ 254,175</b>	<b>\$ 244,199</b>

## NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

### 1. DISCLOSURE

These interim consolidated financial statements (the "financial statements") do not contain all disclosures required by Canadian generally accepted accounting principles for annual financial statements, and accordingly, the financial statements should be read in conjunction with the most recently prepared annual financial statements for the 53 week period ended February 3, 2001.

The Company's business follows a seasonal pattern, with merchandise sales traditionally being higher in the fourth quarter than in other quarterly periods due to consumer holiday buying patterns. The business seasonality results in performance for the 13 weeks ended November 3, 2001 which is not necessarily indicative of performance for the balance of the year.

### 2. ACCOUNTING POLICIES

These financial statements follow the same accounting policies and methods of their application as the most recent annual financial statements for the 53 week period ended February 3, 2001 except as follows:

Effective February 4, 2001 the Company adopted, with retroactive restatement of prior periods, the new recommendations of the Canadian Institute of Chartered Accountants relating to earnings per share. The basis for calculating basic earnings per share is consistent with previous practice, however, fully diluted earnings per share is calculated using the treasury stock method instead of the imputed earnings approach. Basic and fully diluted earnings per share were not significantly impacted by the change.

### 3. EARNINGS PER SHARE

The number of shares used in the earnings per share calculation is as follows:

	For the nine months ended		For the three months ended	
	November 3, 2001	October 28, 2000	November 3, 2001	October 28, 2000
Weighted average number of shares per basic earnings per share calculations	8,374,668	8,633,650	8,406,241	8,586,485
Effect of dilutive options outstanding	39,593	41,887	43,967	30,775
Weighted average number of shares per diluted earnings per share calculations	8,414,261	8,675,537	8,450,208	8,617,260

### 4. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with the current period's presentation.

## CONSOLIDATED STATEMENTS OF EARNINGS AND RETAINED EARNINGS (UNAUDITED)

(in thousands except per share amounts)

Sales
Cost of goods sold and selling, general and administrative expenses
Depreciation and amortization
Operating earnings
Investment income
Earnings before income taxes
Income taxes
Net earnings
Retained earnings at beginning of the period
Deduct:
Dividends
Premium on purchase of Class A shares
Retained earnings at end of the period
Net earnings per share:
Basic
Fully diluted

## CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(in thousands)

CASH FLOWS FROM OPERATING ACTIVITIES
Net earnings
Adjustments for:
Depreciation and amortization
Future income taxes
Investment income
Changes in non-cash working capital
CASH FLOWS FROM INVESTING ACTIVITIES
Purchases of marketable securities
Proceeds on sale of marketable securities
Investment income, excluding gain on sale of marketable securities of \$2,825 (2000 - \$1,130)
Net additions to capital assets
CASH FLOWS FROM FINANCING ACTIVITIES
Issue of share capital
Purchase of Class A non-voting shares for cancellation
Dividends paid
NET DECREASE IN CASH POSITION DURING THE PERIOD
CASH POSITION AT BEGINNING OF THE PERIOD
CASH POSITION AT END OF THE PERIOD

Cash position consists of cash balances with banks and investments in short-term deposits.

For the nine months ended		For the three months ended	
November 3, 2001	October 28, 2000	November 3, 2001	October 28, 2000
\$ 402,585	\$ 364,098	\$ 143,513	\$ 126,847
367,666	338,251	129,896	116,447
34,919	25,847	13,617	10,400
12,858	11,714	4,464	4,320
22,061	14,133	9,153	6,080
8,241	6,907	2,960	2,008
30,302	21,040	12,113	8,088
10,600	5,950	4,625	2,150
19,702	15,090	7,488	5,938
193,960	185,256	202,012	190,123
5,031	5,170	1,681	1,708
812	2,250	-	1,427
\$ 207,819	\$ 192,926	\$ 207,819	\$ 192,926
\$ 2.35	\$ 1.75	\$ 0.89	\$ 0.69
2.34	1.74	0.89	0.69

For the nine months ended		For the three months ended	
November 3, 2001	October 28, 2000	November 3, 2001	October 28, 2000
\$ 19,702	\$ 15,090	\$ 7,488	\$ 5,938
12,858	11,714	4,464	4,320
450	1,700	200	-
(8,241)	(6,907)	(2,960)	(2,008)
(23,692)	(42,376)	(8,470)	(7,385)
1,077	(20,779)	722	865
(44,965)	(18,517)	(10,795)	(7,228)
59,692	24,511	15,485	13,281
5,416	5,777	1,480	1,803
(24,933)	(23,517)	(14,151)	(6,761)
(4,790)	(11,746)	(7,981)	1,095
1,137	30	75	(1,535)
(878)	(2,415)	-	-
(5,031)	(5,170)	(1,681)	(1,708)
(4,772)	(7,555)	(1,606)	(3,243)
(8,485)	(40,080)	(8,865)	(1,283)
20,008	53,226	20,388	14,429
\$ 11,523	\$ 13,146	\$ 11,523	\$ 13,146

## STORES

	Reitmans	Smart Set/ Dalmys	Penningtons	RW & CO.	Total
Newfoundland	13	3	2	-	18
Prince Edward Island	3	3	1	-	7
Nova Scotia	19	7	3	-	29
New Brunswick	18	5	3	1	27
Québec	83	23	22	8	136
Ontario	102	62	42	10	216
Manitoba	10	5	5	-	20
Saskatchewan	7	4	4	-	15
Alberta	36	17	16	3	72
British Columbia	37	19	17	6	79
Northwest Territories	1	-	-	-	1
Yukon	1	-	-	-	1
	330	148	115	28	621

