

BIRKS & MAYORS INC.

Form 20-F

June 18, 2007

[Table of Contents](#)

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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**WASHINGTON, D.C. 20549**

**FORM 20-F**

☐ **REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934**

OR

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended March 31, 2007

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

OR

☐ **SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

Date of event requiring this shell company report \_\_\_\_\_

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number: **001-32635**

## **BIRKS & MAYORS INC.**

(Exact name of Registrant as specified in its charter)

**Not Applicable**

(Translation of Registrant's name into English)

**Canada**

(Jurisdiction of incorporation or organization)

**1240 Phillips Square**

**Montreal Québec**

**Canada**

**H3B 3H4**

(Address of principal executive offices)

**5870 North Hiatus Road**

**Tamarac, Florida 33321**

(Address of U.S. executive office)

**Securities registered or to be registered pursuant to Section 12(b) of the Act:**

**Title of each class**

Class A Voting Shares, without nominal or par value

**Name of each exchange on which registered**

American Stock Exchange

**Securities registered or to be registered pursuant to Section 12(g) of the Act:**

None.

**Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:**

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None.

The number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report was:

3,515,999	Class A Voting Shares, without nominal or par value
7,717,970	Class B Multiple Voting Shares, without nominal or par value
0	Series A Preferred Shares, without nominal or par value, issuable in series

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. ☐ Yes ☒ No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. ☐ Yes ☒ No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. ☒ Yes ☐ No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ☐ Accelerated filer ☐ Non-accelerated filer ☒

Indicate by check mark which financial statement item the registrant has elected to follow. ☐ Item 17 ☒ Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). ☐ Yes ☒ No

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**Table of Contents**

**TABLE OF CONTENTS**

	<b>Page</b>
<b><u>Part I</u></b>	
Item 1. <u>Identity of Directors, Senior Management and Advisers</u>	3
Item 2. <u>Offer Statistics and Expected Timetable</u>	3
Item 3. <u>Key Information</u>	3
Item 4. <u>Information on the Company</u>	10
Item 4A. <u>Unresolved Staff Comments</u>	19
Item 5. <u>Operating and Financial Review and Prospects</u>	19
Item 6. <u>Directors, Senior Management and Employees</u>	30
Item 7. <u>Major Shareholders and Related Party Transactions</u>	39
Item 8. <u>Financial Information</u>	41
Item 9. <u>The Offer and Listing</u>	41
Item 10. <u>Additional Information</u>	42
Item 11. <u>Quantitative and Qualitative Disclosures about Market Risk</u>	47
Item 12. <u>Description of Securities Other than Equity Securities</u>	48
<b><u>Part II</u></b>	
Item 13. <u>Defaults, Dividend Arrearages and Delinquencies</u>	48
Item 14. <u>Material Modifications to the Rights of Security Holders and Use of Proceeds</u>	48
Item 15. <u>Controls and Procedures</u>	49
Item 16A. <u>Audit Committee Financial Expert</u>	49
Item 16B. <u>Code of Ethics</u>	49
Item 16C. <u>Principal Accountant Fees and Services</u>	49
Item 16D. <u>Exemptions from the Listing Standards for Audit Committees</u>	50
Item 16E. <u>Purchases of Equity Securities by the Issuer and Affiliated Purchasers</u>	50
Item 19. <u>Exhibits</u>	51
<b><u>Part III</u></b>	
Item 17. <u>Financial Statements</u>	58
Item 18. <u>Financial Statements</u>	58

## **Table of Contents**

### **INTRODUCTION**

#### **References**

Unless the context otherwise requires, the terms Birks & Mayors, the Company, we, us, and our are used in this annual report to refer to Birks & Mayors Inc., a Canadian corporation, and its subsidiaries on a consolidated basis. In addition, the term Mayors refers to Mayors Jewelers, Inc., a Delaware corporation, and the merger refers to the merger of Mayors with a wholly-owned subsidiary of the Company, as approved by the stockholders on November 14, 2005. The term Birks refers to Henry Birks & Sons Inc., the legal name of Birks & Mayors prior to the merger.

#### **Presentation of Financial and Other Information**

The consolidated financial statements of Birks & Mayors contained in this annual report are reported in United States dollars and have been prepared in accordance with accounting principles generally accepted in the United States, or U.S. GAAP. Unless otherwise indicated, all monetary references herein are denominated in U.S. dollars; references to dollars or \$ are to U.S. dollars and references to Cdn\$ or Canadian dollars are to Canadian dollars.

Throughout this annual report, we refer to our fiscal years ended March 31, 2007, March 25, 2006, and March 26, 2005, as fiscal 2007, fiscal 2006 and fiscal 2005, respectively. Our fiscal year ends on the last Saturday in March of each year. Our last completed fiscal year, which ended March 31, 2007, consisted of 53 weeks with one fourteen-week period and three thirteen-week periods. Fiscal 2006 and fiscal 2005 consisted of 52 weeks, reported in four thirteen-week periods.

#### **Forward-Looking Information**

This annual report and other written reports and releases and oral statements made from time to time by the Company contain forward-looking statements which can be identified by their use of words like plans, expects, believes, will, anticipates, intends, projects, estimates, may, planned, goal, and other words of similar meaning. All statements that address expectations, possibilities or projections about the future, including without limitation, statements about our strategies for growth, expansion plans, sources or adequacy of capital, expenditures and financial results are forward-looking statements.

One must carefully consider such statements and understand that many factors could cause actual results to differ from the forward-looking statements, such as inaccurate assumptions and other risks and uncertainties, some known and some unknown. No forward-looking statement is guaranteed and actual results may vary materially. Such statements are made as of the date provided, and we assume no obligation to update any forward-looking statements to reflect future developments or circumstances.

One should carefully evaluate such statements by referring to the factors described in our filings with the Securities and Exchange Commission (SEC), especially on Forms 20-F and 6-K. Particular review is to be made of Items 3, 4 and 5 of this Form 20-F where we discuss in more detail various important risks and uncertainties that could cause actual results to differ from expected or historical results. All written or oral forward-looking statements attributable to us are expressly qualified in their entirety by these cautionary statements. Since it is not possible to predict or identify all such factors, the identified items are not a complete statement of all risks or uncertainties.

**Table of Contents**

**PART I**

**Item 1. Identity of Directors, Senior Management and Advisers**

Not applicable.

**Item 2. Offer Statistics and Expected Timetable**

Not applicable.

**Item 3. Key Information**  
**Selected Financial Data**

The following financial data as of March 31, 2007 and March 25, 2006 and for each of the three years ended March 31, 2007, March 25, 2006 and March 26, 2005 have been derived from our audited consolidated financial statements, which are included elsewhere in this annual report. The following financial data as of March 26, 2005, March 27, 2004 and March 29, 2003 and for each of the two years ended March 27, 2004 and March 29, 2003 have been derived from our audited consolidated financial statements not included in this annual report. The historical results included below and elsewhere in this annual report are not necessarily indicative of our future performance.

We acquired approximately 72% of the voting control in Mayors on August 20, 2002. Since that date, the results of Mayors have been consolidated in our financial statements. For the years ended March 27, 2004 and March 29, 2003, Mayors net losses have been allocated between us and the minority stockholders of Mayors prior to the merger based on their residual equity interests in Mayors. Accordingly, our results in these two years are not directly comparable to the other years presented.

The data presented below are only a summary and should be read in conjunction with our audited financial statements, including the notes thereto, included elsewhere in this annual report. You should also read the following summary data in conjunction with Item 5, Operating and Financial Review and Prospects included elsewhere in this annual report.

**Table of Contents****Income Statement Data:**

	March 31, 2007	March 25, 2006	Fiscal Year Ended		March 29, 2003
			March 26, 2005	March 27, 2004	
	(In thousands, except per share data)				
Net sales	\$ 294,282	\$ 275,401	\$ 240,294	\$ 217,185	\$ 151,927
Cost of sales	152,002	145,887	131,030	119,790	84,313
Gross profit	142,280	129,514	109,264	97,395	67,614
Selling, general and administrative expenses	115,457	109,211	94,683	94,486	63,603
Depreciation and amortization	6,438	5,621	4,749	4,312	3,256
Total Operating Expenses	121,895	114,832	99,432	98,798	66,859
Operating income (loss)	20,385	14,682	9,832	(1,403)	755
Interest and other financial costs	10,078	8,930	8,665	7,986	5,934
Income (loss) from continuing operations before income tax, minority interest, discontinued operations and extraordinary item	10,307	5,752	1,167	(9,389)	(5,179)
Income tax (benefit) expense	(2,816)	40			(991)
Income (loss) from continuing operations before minority interest, discontinued operations and extraordinary item	13,123	5,712	1,167	(9,389)	(4,188)
Minority interest in loss of subsidiary (1)				7,175	8,071
Income (loss) from continuing operations before discontinued operations and extraordinary item	13,123	5,712	1,167	(2,214)	3,883
Loss from discontinued operations, net of income tax of nil (2)					(828)
Income (loss) before extraordinary item	13,123	5,712	1,167	(2,214)	3,055
Extraordinary gain, net of income tax of nil (3)					9,042
Net income (loss) attributable to common shareholders	\$ 13,123	\$ 5,712	\$ 1,167	\$ (2,214)	\$ 12,097
Net income (loss) per common share	\$ 1.17	\$ 0.66	\$ 0.18	\$ (0.35)	\$ 2.05
Net income (loss) from continuing operations per common share	\$ 1.17	\$ 0.66	\$ 0.18	\$ (0.35)	\$ 1.92
Net income (loss) per common share diluted	\$ 1.11	\$ 0.57	\$ 0.17	\$ (0.35)	\$ 1.28
Weighted average common shares outstanding	11,213	8,701	6,316	6,313	6,313
Weighted average common shares outstanding diluted	11,788	10,295	9,656	6,313	9,503
Dividends per share					

**Table of Contents****Balance Sheet Data:**

	As of March 31, 2007	As of March 25, 2006	As of March 26, 2005	As of March 27, 2004	As of March 29, 2003
(In thousands, except per share data)					
Working capital	\$ 29,971	\$ 23,722	\$ 35,056	\$ 34,730	\$ 37,717
Total assets	\$ 252,516	\$ 229,489	\$ 199,721	\$ 193,380	\$ 171,146
Bank indebtedness	\$ 109,187	\$ 88,107	\$ 75,516	\$ 70,262	\$ 58,086
Shareholders' equity	\$ 81,497	\$ 67,367	\$ 40,198	\$ 32,187	\$ 29,327
Common Stock:					
Value	\$ 60,569	\$ 60,446	\$ 36,364	\$ 31,405	\$ 31,405
Shares	11,233,969	11,207,723	7,298,544	6,313,308	6,313,308
Preferred Stock:					
Value	\$	\$	\$ 5,050	\$ 10,050	\$ 10,050
Shares			1,022,350	2,034,578	2,034,578

- (1) Minority interest in loss of subsidiary relates to the allocation of Mayors loss from continuing operations to the minority stockholders of Mayors based on their common stock ownership.
- (2) The loss from discontinued operations for fiscal 2003 relates to the discontinued operations of the store at Tysons Galleria in McLean, Virginia which was closed in March 2003. Costs related to the discontinued operation include operating losses, costs to exit the lease, write-off of fixed assets and severance costs offset by the write-off of deferred revenue from landlord inducements. The net assets of the store are not significant.
- (3) The extraordinary gain for fiscal 2003 relates to the acquisition of Mayors. Specifically, on August 20, 2002, Birks made an investment of \$15.05 million in Mayors. The investment consisted of 15,050 shares of Mayors preferred stock, originally convertible into 3,333.33 shares of common stock for each preferred share with an allocated fair value of \$11.2 million at the acquisition date. Birks also received 37,273,787 warrants to purchase shares of common stock, one-third at \$0.30, one-third at \$0.35 and one-third at \$0.40. A fair value of \$3.8 million has been allocated to the warrants. At the investment date the conversion of these preferred shares would have given Birks an approximately 72% equity interest in the common stock of Mayors. The excess of the fair value assigned to the preferred shares over 72% of the net book value of Mayors, net of the fair value assigned to the warrants, amounting to \$21.2 million has been determined to be negative goodwill. The negative goodwill has been accounted for by reducing property and equipment by \$12.2 million with the balance of \$9.0 million recorded as an extraordinary gain.

**Dividends and Dividend Policy**

We have not paid dividends since 1998 and do not currently intend to pay dividends on our Class A voting shares or Class B multiple voting shares in the foreseeable future. Our ability to pay dividends on our Class A voting shares and Class B multiple voting shares are restricted by our credit agreements. See Item 5, Operating and Financial Review and Prospects Liquidity and Capital Resources. If dividends were declared by our Board of Directors, shareholders would receive a dividend equal to the per share dividend we would pay to holders of our Class A voting shares or holders of Class B multiple voting shares. Dividends we would pay to U.S. holders would generally be subject to withholding tax. See Item 10, Additional Information Taxation.

**RISK FACTORS****Risks Related to the Company**

*We are controlled by a single shareholder whose interests may be different from yours.*

The Goldfish Trust beneficially owns or controls 68.6% of all classes of our outstanding voting shares, which are directly owned by Montrovest BV ( Montrovest ), the parent company of Iniziativa SA and Montrolux SA. Until recently, 63.4% of our outstanding voting shares were directly owned by Iniziativa S.A. ( Iniziativa ) and 31.2% was directly owned by Montrolux S.A. ( Montrolux ). The trustee of the Goldfish Trust is Rohan Private Trust Company Limited (the Trustee ). Dr. Lorenzo Rossi di Montelera, who is



## **Table of Contents**

the Company's Chairman of the Board, is a director of the Trustee, and a beneficiary of the Goldfish Trust. Under our amended charter, Montrovest, as holder of the Class B multiple voting shares, has the ability to control most actions requiring shareholder approval, including electing the members of our Board of Directors and the issuance of new equity. Dr. Rossi is the Chairman and a director of Iniziativa, a wholly-owned subsidiary of Montrovest and, in certain circumstances, may be delegated the authority from the Trustee to vote on shares held by Montrovest.

The Trustee and Montrovest may have different interests than you have and may make decisions that do not correspond to your interests. In addition, the fact that Birks & Mayors is controlled by one shareholder may have the effect of delaying or preventing a change in the management or voting control of Birks & Mayors.

***If we are unable to implement our business strategy, our net sales and profitability may be adversely affected.***

Our future financial performance and success are dependent on our ability to implement our business strategy successfully. Our present business strategy is to leverage our merchandising, marketing and sales expertise to increase net sales and profits, to design, make and introduce innovative new products, to utilize our manufacturing capabilities to improve gross margins, and to raise additional capital and make selective acquisitions to grow our revenue base. We may not successfully implement our business strategy. Furthermore, implementing our business strategy may not sustain or improve our results of operations.

***Our business could be adversely affected if our relationships with any primary vendors are terminated or if the delivery of their products are delayed or interrupted.***

We compete with other jewelry retailers for access to vendors that will provide us with the quality and quantity of merchandise necessary to operate our business, and our merchandising strategy depends upon our ability to maintain good relations with significant vendors. Certain brand name watch manufacturers, including Rolex, have distribution agreements with our subsidiary Mayors that, among other things, provide for specific sales locations, yearly renewal terms and early termination provisions at the manufacturer's discretion. In fiscal 2007, merchandise supplied by Rolex and sold through our stores operating under the Mayors brand accounted for approximately 22% of our total net sales. Our relationships with primary suppliers, like Rolex, are generally not pursuant to long-term agreements.

We obtain materials and manufactured items from third-party suppliers. Any delay or interruption in our suppliers' abilities to provide us with necessary materials and components may affect our manufacturing capabilities or may require us to seek alternative supply sources. Any delay or interruption in receiving supplies could impair our ability to supply products to our stores and, accordingly, could have a material adverse effect on our business, results of operations and financial condition. The abrupt loss of any of our third-party suppliers, especially Rolex, or a decline in the quality or quantity of materials supplied by any third-party suppliers could cause significant disruption in our business.

***We are exposed to currency exchange risks that could have a material adverse effect on our results of operations and financial condition.***

While we report financial results in U.S. dollars, a substantial portion of our sales are recorded in Canadian dollars. For our operations located in Canada, non-Canadian currency transactions and assets and liabilities subject us to foreign currency risk. Conversely, for the operations located in the United States, non-U.S. currency transactions and assets and liabilities subject us to foreign currency risk. For purposes of financial reporting, our financial statements are reported in U.S. dollars by translating, where necessary, net sales and expenses from Canadian dollars at the average exchange rates prevailing during the period, while assets and liabilities are translated at year-end exchange rates, with the effect of such translation recorded in accumulated other comprehensive income. As a result, for purposes of financial reporting, foreign exchange gains or losses recorded in earnings relate to non-Canadian dollar transactions of the operations located in Canada and non-U.S. dollar transactions of the operations located in the United States. We expect to continue to report our financial results in U.S. dollars in accordance with U.S. GAAP. Consequently, our reported earnings could fluctuate materially as a result of foreign exchange translation gains or losses. To mitigate the impact of foreign exchange volatility on our earnings, from time to time we may enter into agreements to fix the exchange rate of U.S. dollars to Canadian dollars. For example, we may enter into agreements to fix the exchange rate to protect the principal and interest payments on our Canadian dollar denominated debt and other liabilities. If we do so, we will not benefit from any increase in the value of the Canadian dollar compared to the U.S. dollar when these payments become due. There were no contracts outstanding at the end of fiscal 2007.

## **Table of Contents**

### ***Fluctuations in the availability and prices of our raw materials and finished goods may adversely affect our results of operations.***

We offer a large selection of distinctive high quality merchandise, including diamond, gemstone and precious metal jewelry, rings, wedding bands, earrings, bracelets, necklaces, charms, timepieces and gifts. Accordingly, significant changes in the availability or prices of diamonds, gemstones, and precious metals we require for our products could adversely affect our earnings. Further, both the supply and price of diamonds are significantly influenced by a single entity, the Diamond Trading Corporation. We do not maintain long-term inventories or otherwise currently hedge against fluctuations in the cost of the majority of these materials. A significant increase in the price of these materials could adversely affect our net sales and gross margins.

### ***A significant disruption at our jewelry manufacturing facilities could have a material adverse effect on our results.***

Our manufacturing facilities could be damaged or disrupted by, among other things, a natural disaster, war, terrorism, fire, or mechanical failure. Although we have obtained property damage and business interruption insurance, certain events could result in a prolonged interruption. Any significant disruption could cause significant delays. Similarly, unexpected downtime at our manufacturing facilities as a result of unanticipated failures or scheduled maintenance may lead to production curtailments and leave us in short supply of certain products. In addition, our manufacturing processes are dependent on critical skilled workers. A loss of such workers without adequate replacements could result in material curtailment of production. Such shutdowns or curtailments may materially reduce production and impair our ability to supply our stores, which could adversely affect our productivity and results of operations.

### ***Hurricanes and other severe weather conditions could cause a disruption in our operations, which could have an adverse impact on our results of operations.***

Our U.S. operations are located in Georgia and Florida, regions which are susceptible to hurricanes. In the past, hurricanes have forced the closure of some of our stores, resulting in a reduction in net sales during such periods. Future hurricanes could significantly disrupt our U.S. operations and could have a material adverse effect on our overall results of operations. In addition, severe weather such as ice storms, snow storms and blizzards in Canada can cause conditions whereby peak holiday shopping could be materially affected.

### ***We may not be able to adequately protect our intellectual property and may be required to engage in costly litigation as a protective measure.***

To establish and protect our intellectual property rights, we rely upon a combination of trademark and trade secret laws, together with licenses, exclusivity agreements and other contractual covenants. In particular, the Birks and Mayors trademarks are of significant value to our retail operations. The measures we take to protect our intellectual property rights may prove inadequate to prevent misappropriation of our intellectual property. Monitoring the unauthorized use of our intellectual property is difficult. Litigation may be necessary to enforce our intellectual property rights or to determine the validity and scope of the proprietary rights of others. Litigation of this type could result in substantial costs and diversion of resources, may result in counterclaims or other claims against us and could significantly harm our results of operations.

### ***We may not successfully manage our inventory, which could have an adverse effect on our net sales, profitability, cash flow and liquidity.***

As a retail business, our results of operations are dependent on our ability to manage our inventory. To properly manage our inventory, we must be able to accurately estimate customer demand and supply requirements and purchase new inventory accordingly. If we fail to sell the inventory we manufacture or purchase, we may be required to write-down our inventory or pay our vendors without new purchases creating additional vendor financing, which would have an adverse impact on our earnings and cash flows. Additionally, a substantial portion of the merchandise we sell is carried on a consignment basis prior to sale or is otherwise financed by vendors, which reduces our required capital investment in inventory. Any significant change in these consignment relationships could have a material adverse effect on our net sales and cash flows.

**Table of Contents**

***The retail jewelry industry is highly competitive and we may not be able to grow or maintain our market share.***

The retail jewelry business is mature and highly competitive in the United States and Canada. We compete with foreign and domestic guild and leading luxury jewelers, specialty stores, national and regional jewelry chains, department stores, warehouse clubs and, to a lesser extent, catalog showrooms, discounters, direct mail suppliers, television home shopping networks and jewelry retailers who make sales through Internet sites. We believe that competition in our markets is based primarily on trust, quality craftsmanship, product design and exclusivity, product selection, service excellence, and, to a certain extent, price. Many of our competitors are substantially larger than us and have greater financial resources than we do. We may not be able to compete successfully with such competitors. Competition could cause us to lose customers, increase expenditures or reduce pricing, any of which could have a material adverse effect on our earnings, cash flow and stock price.

***As a luxury retail jeweler, our business is particularly susceptible to adverse economic conditions.***

Jewelry purchases are discretionary for consumers and may be particularly and disproportionately affected by adverse trends in the general economy and the equity markets. The success of our operations depends to a significant extent upon a number of factors relating to discretionary consumer spending within the economy as a whole and in regional and local markets where we operate, including economic conditions (and perceptions of such conditions) affecting disposable consumer income such as employment wages and salaries, the performance of the stock market and real estate market, business conditions, interest rates, availability and cost of credit and taxation. In addition, our stores operating under the Mayors brand are more dependent upon tourism, and many of our stores are dependent on the continued popularity of malls as a shopping destination and the ability of malls or tenants and other attractions to generate customer traffic for such stores.

A substantial portion of our customers use credit, either from our proprietary credit cards or another consumer credit source, to purchase jewelry. When there is a downturn in the general economy or an increase in interest rates, fewer people may use credit. A downturn in the general economy could also adversely affect our ability to collect outstanding accounts receivable, and an increase in interest rates could result in reduced consumer spending, which could have a material adverse affect on our financial condition.

***We have significant indebtedness, which could adversely affect our operations and financial condition.***

We currently have a significant amount of indebtedness and significant debt service obligations. Our debt levels fluctuate from time to time based on seasonal working capital needs. The following table sets forth our estimated total indebtedness, total shareholders' equity, total capitalization and ratio of total indebtedness to total capitalization as of March 31, 2007.

Total indebtedness	\$ 127,089,000
Total shareholders' equity	81,497,000
Total capitalization	\$ 208,586,000

Ratio of total indebtedness to total capitalization	60.9%
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This high degree of leverage could adversely affect our results of operations and financial condition. For example, it could:

make it more difficult for us to satisfy our obligations with respect to our indebtedness;

increase our vulnerability to adverse economic and industry conditions;

require us to dedicate a substantial portion of cash from operations to the payment of debt service, thereby reducing the availability of cash to fund working capital, capital expenditures and other general corporate purposes;

limit our ability to obtain financing for working capital, capital expenditures, general corporate purposes or acquisitions;

place us at a disadvantage compared to our competitors that have a lower degree of leverage; and

negatively affect the price of our stock.

## **Table of Contents**

*Our credit business may be adversely affected by changes in applicable laws and regulations.*

The operation of our credit business subjects us to substantial regulation relating to disclosure and other requirements upon origination, servicing, debt collection and particularly upon the amount of finance charges we can impose. Any adverse change in the regulation of consumer credit could adversely affect our earnings. For example, new laws or regulations could limit the amount of interest or fees we can charge on consumer loan accounts, or restrict our ability to collect on account balances, which could have a material adverse effect on our earnings. Compliance with existing and future laws or regulations could require material expenditures or otherwise adversely affect our business or financial results. Failure to comply with these laws or regulations, even if inadvertent, could result in negative publicity, and fines, either of which could have a material adverse effect on our results of operations.

*We may not be able to retain key personnel or replace them if they leave.*

Our success is largely dependent on the personal efforts of Thomas A. Andruskevich, our President and Chief Executive Officer, and other key members of the senior management team. Although we have entered into employment agreements with Mr. Andruskevich and other key members of our senior management team, the loss of any of their services could cause our business to suffer. Our success is also dependent upon our ability to continue to hire and retain qualified financial, operations, development and other personnel. Competition for qualified personnel in the retail industry is intense, and we may not be able to hire or retain the personnel necessary for our planned operations.

*Our business could be adversely affected if we are unable to successfully negotiate favorable lease terms.*

As of March 31, 2007, we had 67 leased retail stores, which includes the capital lease of our Canadian headquarters and Montreal flagship store. The leases are generally for a term of five to ten years, with rent being a fixed minimum base plus, for a majority of the stores, a percentage of the store's sale volume (subject to some adjustments) over a specified threshold. We have generally been successful in negotiating leases for new stores and lease renewals as our current leases near expiration. However, our business, financial condition, and operating results could be adversely affected if we are unable to continue to negotiate favorable lease and renewal terms.

*Terrorist acts or other catastrophic events could have a material adverse effect on Birks & Mayors.*

Terrorist acts, acts of war or hostility, natural disasters or other catastrophic events could have an immediate disproportionate impact on discretionary spending on luxury goods upon which our operations are dependent. For example, in the aftermath of the terrorist attacks carried out on September 11, 2001, tourism and business travel was significantly reduced in all of our markets, which had an adverse impact on our net sales. Similarly, the SARS epidemic in Toronto, Ontario in the spring of 2003 had an adverse impact on net sales in our stores in that region. Similar future events could have a material adverse impact on our business and results of operations.

### **Risks Related to Class A Voting Shares**

*Our share price could be adversely affected if a large number of Class A voting shares are offered for sale or sold.*

Future issuances or sales of a substantial number of our Class A voting shares by Birks & Mayors, Montrovest, or another significant shareholder in the public market could adversely affect the price of our Class A voting shares, which may impair Birks & Mayors' ability to raise capital through future issuances of equity securities. As of May 31, 2007, we had approximately 3,532,666 Class A voting shares issued and outstanding. Sales of restricted securities in the public market, or the availability of these Class A voting shares for sale, could adversely affect the market price of Class A voting shares.

*As a retail jeweler with a limited public float, the price of our Class A voting shares may fluctuate substantially, which could negatively affect the value of our Class A voting shares and could result in securities class action claims against us.*

The price of our Class A voting shares may fluctuate substantially due to, among other things, the following factors: (1) fluctuations in the price of the shares of the small number of public companies in the retail jewelry business; (2) additions or departures of key

## **Table of Contents**

personnel; (3) announcements of legal proceedings or regulatory matters; and (4) the general volatility in the stock market. The market price of our Class A voting shares could also fluctuate substantially if we fail to meet or exceed expectations for our financial results or if there is a change in financial estimates or securities analysts' recommendations.

Significant price and value fluctuations have occurred in the past with respect to the securities of retail jewelry and related companies. In addition, because the public float of the Class A voting shares is relatively small, the market price of our Class A voting shares is likely to be volatile. There is limited trading volume in our Class A voting shares, rendering them subject to significant price volatility. In addition, the stock market has experienced volatility that has affected the market prices of equity securities of many companies, and that has often been unrelated to the operating performance of such companies. A number of other factors, many of which are beyond our control, could also cause the market price of our Class A voting shares to fluctuate substantially. In the past, following periods of downward volatility in the market price of a company's securities, class action litigation has often been pursued against the respective company. If our Class A voting shares were similarly volatile and similar litigation were pursued against us, it could result in substantial costs and a diversion of our management's attention and resources.

***Birks & Mayors is governed by the laws of Canada, and, as a result, it may not be possible for shareholders to enforce civil liability provisions of the securities laws of the United States.***

Birks & Mayors is governed by the laws of Canada. A substantial portion of our assets are located outside the United States and some of our directors and officers are residents outside of the United States. As a result, it may be difficult for investors to effect service within the United States upon Birks & Mayors or its directors and officers, or to realize in the United States upon judgments of courts of the United States predicated upon civil liability of Birks & Mayors and such directors or officers under the United States federal securities laws. There is doubt as to the enforceability in Canada by a court in original actions, or in actions to enforce judgments of United States courts, of the civil liabilities predicated upon the United States federal securities laws.

***We expect to maintain our status as a foreign private issuer under the rules and regulations of the SEC and, thus, are exempt from a number of rules under the Exchange Act of 1934 and are permitted to file less information with the SEC than a company incorporated in the U.S.***

As a foreign private issuer we are exempt from rules under the Exchange Act of 1934 (the Exchange Act) that impose certain disclosure and procedural requirements for proxy solicitations under Section 14 of the Exchange Act. In addition, our officers, directors and principal shareholders are exempt from the reporting and short-swing profit recovery provisions of Section 16 of the Exchange Act and the rules under the Exchange Act with respect to their purchases and sales of our Class A voting shares. Moreover, we are not required to file periodic reports and financial statements with the SEC as frequently or as promptly as U.S. companies whose securities are registered under the Exchange Act; nor are we required to comply with Regulation FD, which restricts the selective disclosure of material information. Accordingly, there may be less publicly available information concerning Birks & Mayors than there is for U.S. public companies.

***If we were treated as a passive foreign investment company, or a PFIC, some holders of our Class A voting shares would be subject to additional taxation, which could cause the price of our Class A voting shares to decline.***

We believe that our Class A voting shares should not be treated as stock of a PFIC for U.S. federal income tax purposes, and we expect to continue operations in such a manner that we will not be a PFIC. If, however, we are or become a PFIC, some holders of our Class A voting shares could be subject to additional U.S. federal income taxes on gains recognized with respect to our Class A voting shares and on certain distributions, plus an interest charge on certain taxes treated as having been deferred under the PFIC rules.

## **Item 4. Information on the Company**

### **THE COMPANY**

#### **Corporate History and Overview**

Birks & Mayors is a leading North American luxury jewelry brand which designs, develops, makes and retails fine jewelry, time pieces, sterling silver and gifts. As of May 31, 2007, Birks & Mayors operated 67 luxury jewelry stores, 38 stores under the Birks brand, located in all major cities across Canada, and 29 stores under the Mayors brand, located in Florida and Georgia. As a luxury



## **Table of Contents**

jeweler, most of our jewelry products are constructed of 18 karat gold, platinum or sterling silver, with or without precious gemstones, with significant emphasis on quality craftsmanship and distinctive design. For the fiscal year ended March 31, 2007, we had net sales of \$294.3 million.

Birks' predecessor company was founded in Montreal in 1879 and developed over the years into Canada's premier retailer, designer and manufacturer of fine jewelry, timepieces, sterling and plated silverware and gifts. In addition to being a nationwide retailer with a strong brand identity, we are also highly regarded in Canada as a designer and maker of jewelry and a provider of recognition programs, service awards and business gifts. We believe that operating our stores, under the Birks and Mayors brands, distinguishes us from many competitors because we offer distinctively designed, exclusive products, a larger selection of distinctive higher quality merchandise at many different price points, and place substantial emphasis on the professionalism and training of our sales force.

From 1950 through 1990, Birks expanded significantly and by the early 1990s had approximately 220 stores in Canada and the United States. Birks undertook a period of rapid expansion in the 1980s, followed in the early 1990s by a period of declining margins and a significant erosion in consumer spending coupled with significantly higher indebtedness resulting from a family buy-out, which combined to cause Birks to experience significant financial losses. These financial difficulties ultimately led to the purchase of Birks by Borgosesia Acquisitions Corporation in 1993, a predecessor company of Regaluxe Investment S.á.r.l., which is referred to in this annual report as Regaluxe. Effective March 28, 2006, Regaluxe was acquired through a merger with Iniziativa S.A., which is referred to in this annual report as Iniziativa S.A. As of June 4, 2007, following a reorganization, Iniziativa S.A. and Montrolux S.A. transferred all of the shares they respectively held in the Company to their parent company, Montrovest B.V. Following the 1993 acquisition of Birks, Birks' operations were rationalized and a program of returning Birks to its historic core strength as the leading Canadian luxury jeweler was initiated.

In August 2002, Birks invested \$15.05 million to acquire approximately 72% of the voting control in Mayors, which was experiencing an unsuccessful expansion beyond its core markets and significant losses.

Between August 2002 and November 2005 it became apparent to both Mayors and Birks management that it was in the best interest of the shareholders to combine the two companies. Management believed that such combination would create a stronger capital base, improve operating efficiencies, reduce the impact of regional issues, simplify the corporate ownership of Mayors, eliminate management and board of directors inefficiencies with managing intercompany issues, and possibly increase shareholder liquidity. Upon the consummation of the merger on November 14, 2005, each outstanding share of the Mayors common stock not then owned by Birks was converted into 0.08695 Class A voting shares of Birks. As a result of the merger, Mayors common stock ceased trading on the American Stock Exchange ( AMEX ) and Birks & Mayors began trading on the AMEX under the trading symbol BMJ. Since the merger, Birks & Mayors has worked very diligently to fully integrate the Birks business with Mayors and believes the integration process is substantially complete. As a result of the merger, we believe the combined company has a stronger capital base, improved operational efficiencies and diversity and depth of its products and distribution capabilities.

During fiscal 2007, we opened a new Mayors store located in Estero, Florida and closed a Birks store located in London, Ontario. Additionally, we signed a lease to open a new Mayors store location in Weston, Florida which we plan to open in the summer of 2007. We also expect to sign a lease for a second new Mayors store in Jacksonville, Florida which is expected to open during the fall of 2007.

Since the beginning of fiscal 2005, we invested approximately \$21.0 million of capital expenditures in our business. This was comprised of capital expenditures in our stores of \$7.7 million (primarily associated with leasehold improvements and fixturing) and approximately \$13.3 million in our corporate operations (primarily associated with our information technology infrastructure, head offices and the addition of our Rhode Island manufacturing facility). We expect to invest an additional \$11 million to \$13 million of capital expenditures in the fiscal year ending March 29, 2008 of which approximately two-thirds will be in the U.S. and one-third will be in Canada. We expect to finance these expenditures mainly from operating cash flow.

Our sales are divided into two principal product categories: jewelry and timepieces. Jewelry also includes sales of other product offerings we sell such as giftware, as well as repair and custom design services.

## Table of Contents

The following table compares our sales of each product category for the last three fiscal years (dollars in thousands):

	March 31, 2007		Fiscal Year-Ended March 25, 2006		March 26, 2005	
Jewelry	\$ 181,525	61.7%	\$ 177,955	64.6%	\$ 152,268	63.4%
Timepieces	112,757	38.3%	97,446	35.4%	88,026	36.6%
<b>Total</b>	<b>\$ 294,282</b>	<b>100.0%</b>	<b>\$ 275,401</b>	<b>100.0%</b>	<b>\$ 240,294</b>	<b>100.0%</b>

The following table sets forth our operations in geographic markets in which we operate (dollars in thousands):

	March 31, 2007	Fiscal Year Ended March 25, 2006	March 26, 2005
<b>Net Sales</b>			
Canada	\$ 127,866	\$ 115,391	\$ 96,879
U.S.	166,416	160,010	143,415
<b>Total Revenues</b>	<b>\$ 294,282</b>	<b>\$ 275,401</b>	<b>\$ 240,294</b>
<b>Long-lived assets</b>			
Canada	\$ 30,777	\$ 24,743	\$ 23,251
U.S.	11,850	9,774	9,228
<b>Total long-lived assets</b>	<b>\$ 42,627</b>	<b>\$ 34,517</b>	<b>\$ 32,479</b>

Birks & Mayors is a Canadian corporation. Our corporate headquarters are located at 1240 Phillips Square, Montreal, Quebec, Canada H3B 3H4. Our telephone number is (514) 397-2511. Our website is [www.birksandmayors.com](http://www.birksandmayors.com).

## **Table of Contents**

### **Products**

We offer distinctively designed, exclusive products and a large selection of distinctive high quality merchandise at many different price points. This merchandise includes designer jewelry, diamond, gemstone, and precious metal jewelry, rings, wedding bands, earrings, bracelets, necklaces, charms, baby jewelry, timepieces and giftware. Part of our strategy is to increase our exclusive offering of internally designed and/or produced goods to our customers, consisting primarily of bridal, diamond and other fine jewelry as well as gold and sterling silver jewelry and timepieces, all of which leverage the Birks and Mayors brands' loyalty in their respective markets and in order to differentiate our products with unique and exclusive designs. In addition, we sell many of the finest brand name Swiss timepieces.

Our Canadian stores, operating under the Birks brand, carry a large selection of brand name timepieces, including our own proprietary watch line as well as timepieces made by Cartier, Baume & Mercier, Omega, Tag Heuer, Jaeger Le Coultre, Gucci, Concorde, Rado, Longines, Mont Blanc and Tissot. We also carry an exclusive collection of high quality jewelry and timepieces that we manufacture. We emphasize our own jewelry offerings and particularly our signature designers, Toni Cavelti, Jose Hess, Michele della Valle and Esty but also include designer jewelry made by Roberto Coin, Van Cleef & Arpels, H. Stern, Kwiat, and Ladyheart, which are exclusive to our stores in Canada. We also offer a variety of high quality giftware, including writing instruments and giftware made by Mont Blanc and Cartier.

Our U.S. stores, operating under the Mayors brand, carry a large selection of brand name timepieces, including timepieces made by Rolex, Cartier, Patek Philippe, Panerai, Baume & Mercier, Omega, Charriol, Tag Heuer, Breitling, Corum, Rado, Chopard, Jaeger Le Coultre and Raymond Weil. Designer jewelry offerings in our stores operating under the Mayors brand include jewelry made by H. Stern, Aaron Basha, Charriol, Roberto Coin and DiModolo and a variety of high quality giftware, including writing instruments and giftware made by Cartier, Correia and Mont Blanc. In addition, stores operating under the Mayors brand carry Birks brand timepieces and jewelry products on an exclusive basis in the United States.

We have two primary channels of distribution: the retail division, which accounts for approximately 96% of sales, and the corporate sales division, which accounts for approximately 4% of sales.

### **Product Design, Development, Sourcing and Manufacturing**

We established a product development process that supports our strategic mission to further develop and enhance our product offering in support of the Birks brand development. The centerpiece of this process is our Design Review Committee, which ultimately approves all new product designs and introductions. During fiscal 2007, fiscal 2006, and fiscal 2005, approximately 40%, 35%, and 32% of our jewelry products were internally designed, sourced or manufactured, respectively. Products which are not designed and internally manufactured are sourced from suppliers worldwide, enabling us to sell fine quality merchandise often not available from other jewelers in our markets. Our staff of buyers procure distinctive high quality merchandise directly from manufacturers, diamond cutters, and other suppliers worldwide. Our gemstone acquisition team, product sourcing team and category managers specialize in sourcing merchandise in categories such as diamonds, precious gemstones, pearls, timepieces, gold jewelry, and giftware. Retail and merchandising personnel frequently visit our stores and those of competitors to compare value, selection, and service, as well as to observe client reaction to merchandise selection and determine future needs and trends.

We have manufacturing facilities in Montreal, Vancouver, Rhode Island and Florida that enable us to offer unique, exclusive and high-quality products through an efficient supply chain. Our manufacturing capabilities provide quality control; image enhancement by enabling us to promote our craftsmanship and exclusive design and manufacturing capabilities; improved economics by retaining the margin that would otherwise be paid to a third party provider; and capability to provide customized and/or special design jewelry for customers.

The Montreal facility is the largest in volume of our manufacturing facilities and is involved in all aspects of manufacturing fine jewelry with the exception of the cutting of rough diamonds and other precious stones. Its focus is on manufacturing stone set jewelry. The Rhode Island factory is involved in the production of silver and gold jewelry as well as in stone set jewelry, while each of the Vancouver and Florida facilities focus on specific types of stone set jewelry and hand made one of a kind jewelry pieces.

## **Table of Contents**

### **Availability of Products**

Although purchases of several critical raw materials, notably gold, diamonds and gemstones, are made from a relatively limited number of sources, we believe that there are numerous alternative sources for all raw materials used in the manufacture of our finished jewelry, and that the failure of any principal supplier could have a material adverse effect on our operations. Any material changes in foreign or domestic laws and policies affecting international trade may have a material adverse effect on the availability of the diamonds, other gemstones, precious metals and non-jewelry products we purchase.

In fiscal 2007, we purchased jewelry, timepieces and giftware for sale in our stores from over 200 suppliers. Many of these suppliers have long-standing relationships with us. We compete with other jewelry retailers for access to vendors that will provide us with the quality and quantity of merchandise necessary to operate our business. Our relationships with primary suppliers, like Rolex, are generally not pursuant to long-term agreements. Although we believe that alternative sources of supply are available, the abrupt loss of any of our vendors, especially Rolex, or a decline in the quality or quantity of merchandise supplied by our vendors could cause significant disruption in our business. In fiscal 2007, merchandise supplied by Rolex and sold through our stores operating under the Mayors brand accounted for approximately 22% of our total net sales. If Rolex terminated its distribution agreement with us, such termination would have a material adverse effect on our business, financial condition and operating results. We believe that current relationships with our vendors are good.

### **Seasonality**

Our sales are highly seasonal, with the third fiscal quarter (which includes the holiday shopping season) historically contributing significantly higher sales than any other quarter during the year. Sales in the first, second, third and fourth quarters in fiscal 2007 were 23%, 19%, 39% and 19%, respectively. Sales during the first quarter of Fiscal 2007 included an extra week. Sales by quarter in Fiscal 2006 were 21%, 19%, 40%, 20%.

### **Retail Operations, Merchandising and Marketing**

#### ***General***

We believe we are distinguished from most of our competitors because we offer distinctively designed, exclusive products and a selection of distinctive high quality merchandise at a wide range of price points. We keep the majority of our inventory on display in our stores rather than at our distribution facility. Although each store stocks a representative selection of jewelry, timepieces, giftware and other accessories, certain inventory is tailored to meet local tastes and historical merchandise sales patterns of specific stores.

We believe that our stores' elegant surroundings and distinctive merchandise displays play an important role in providing an atmosphere that encourages sales. We pay careful attention to detail in the design and layout of each store, particularly lighting, colors, choice of materials and placement of display cases. We also use window displays as a means of attracting walk-in traffic and reinforcing our distinctive image. Our Visual Display department designs and creates window and store merchandise case displays for all of our stores. Window displays are frequently changed to provide variety and to reflect seasonal events such as Christmas, Valentine's Day and Mother's Day.

#### ***Personnel and Training***

We place substantial emphasis on the professionalism of our sales force to maintain our position as a leading luxury jeweler. We strive to hire only highly motivated, professional and customer-oriented individuals. All new sales professionals will attend an intensive training program where they are trained in technical areas of the jewelry business, specific sales and service techniques and our commitment to client service. Management believes that attentive personal service and knowledgeable sales professionals are key components to our success.

As part of our commitment to continuous, on-the-job training, we have established Birks University and Mayors University, a formalized system of in-house training with a primary focus on client service, selling skills and product knowledge that involves extensive classroom training, the use of detailed operational manuals, in-store mentorship programs and product knowledge testing. In addition, we conduct in-house training seminars on a periodic basis and administer training modules with audits to (i) enhance the quality and professionalism of all sales professionals, (ii) measure the level of knowledge of each sales professional, and (iii) identify needs for additional training. We also provide all management team members with more extensive training that emphasizes leadership skills, general management skills, on-the-job coaching and training instruction techniques.



## **Table of Contents**

### ***Advertising and Promotion***

One of our key marketing goals is to build on our reputation in our core markets as a leading luxury jewelry brand offering high quality merchandise in an elegant, sophisticated environment. For example, we frequently run advertisements that associate the Birks and Mayors brands with internationally recognized brand names such as Cartier, Patek Philippe, Rolex, and Van Cleef and Arpels, among others. Advertising and promotions for all stores are developed by our personnel in conjunction with outside creative professionals.

Our advertising reinforces our role as a world class luxury brand that aims to deliver a total shopping experience that is as memorable as our merchandise. Our marketing efforts, which consist of advertising, billboards, direct mailings, special events, media relations, public relations, distinctive store design and elegant displays, are shaped in large part by the brand positioning strategies as well as demographic and consumer trends affecting both the jewelry industry generally and the markets in which we operate.

### ***Credit Operations***

We have two private label credit cards, one for each of our brands. The Canadian operation for stores operating under the Birks brand is administered by Wells Fargo Canada, a wholly-owned Canadian subsidiary of Wells Fargo. The U.S. operation for stores operating under the Mayors brand is administered, principally, by Wells Fargo. In addition, stores operating under the Mayors brand also have a Mayors private label credit card which we administer.

Our credit programs are intended to complement our overall merchandising and sales strategy by encouraging larger and more frequent sales to a loyal customer base. Sales under the Birks credit card, which are made with less than 20% recourse to us, accounted for approximately 8% of our net sales during fiscal 2007. Sales under Mayors proprietary credit card and Mayors private label credit card, which are made without recourse to us, together accounted for approximately 16% of our net sales during fiscal 2007.

### ***Distribution***

Our retail locations receive the majority of their merchandise directly from our distribution warehouses located in Tamarac, Florida, Montreal, Québec, and Dorval Québec. Merchandise is shipped from the distribution warehouse utilizing various air and ground carriers. We also transfer merchandise between retail locations to balance inventory levels and to fulfill client requests, and a very small portion of merchandise is delivered directly to the retail locations from suppliers.

### ***Competition***

Our research indicates that the North American retail jewelry industry is approximately a \$63.1 billion industry and is highly competitive and fragmented, with a few very large national and international competitors and many medium and small regional and local competitors. The market is also fragmented by price and quality. Although Birks and Mayors are luxury jewelry brands, we compete with companies within and outside of this segment. Our competitors include national and international jewelry chains as well as independent regional and local jewelry retailers. We also compete with other types of retailers such as specialty stores and, to a lesser extent, catalog showrooms, discounters, direct mail suppliers, televised home shopping networks, and Internet sites. Many of these competitors have greater financial resources than we do. We believe that competition in our markets is based primarily on the total brand experience including trust, quality craftsmanship, product design and exclusivity, product selection, service excellence, including after sales service, and, to a certain extent, price. With the consolidation of the retail industry that is occurring, we believe that competition with other general and specialty retailers and discounters will continue to increase. Our success will depend on various factors, including general economic and business conditions affecting consumer spending, the performance of national and international retail operations, the acceptance by consumers of our merchandising and marketing programs, store locations and our ability to properly staff and manage our stores.

## **Table of Contents**

### **Regulation**

Our operations are affected by numerous federal, provincial and state laws that impose disclosure and other requirements upon the origination, servicing and enforcement of credit accounts and limitations on the maximum amount of finance charges that may be charged by a credit provider. In addition to our proprietary private label credit cards, credit to our clients is primarily available through credit cards such as American Express®, Visa®, MasterCard® and Discover®, without recourse to us in the case of a client's failure to pay. Any change in the regulation of credit that would materially limit the availability of credit to our traditional customer base could adversely affect our results of operations and financial condition.

We generally utilize the services of independent customs agents to comply with U.S. and Canadian customs laws in connection with our purchases of gold, diamond and other jewelry merchandise from foreign sources.

### **Trademarks and Copyrights**

The designations Birks and Mayors, and the Birks and Mayors logos, are our principal trademarks and are essential to our ability to maintain our competitive position in the luxury jewelry segment. We maintain a program to protect our trademarks and will institute legal action where necessary to prevent others from either registering or using marks that are considered to create a likelihood of confusion with our trademarks. We are also the owner of the original jewelry designs created by our in-house designers and have entered into agreements with several outside designers pursuant to which these designers have assigned to us the rights to use copyrights of designs and products created for us.

### **Properties**

Our head office is in Montreal, Québec. On December 12, 2000, we sold our head office building for Cdn\$14,250,000 to Anglo Canadian Investments, L.P. As a condition of the transaction, we agreed that we would lease, on a net basis, the entire property from the purchaser, acting as landlord. We entered into a lease agreement pursuant to which we lease the office building including the Montreal flagship store for a term of 20 years ending December 11, 2020. The current net annual rental rate is Cdn\$1,663,750 (approximately \$1.5 million U.S. dollars) for the period terminating on December 11, 2007, and increases on a compounded basis by 10% on each third annual anniversary date thereafter (except for the last two years when no increase will take place). The lease is an absolute triple net lease to the landlord, and we are responsible for any and all additional expenses, including, without limitation, taxes and structural expenses. Subject to specific terms and conditions, we have four options to renew and extend the term of the lease for four further terms of five years each, except for the last option which is five years less eleven days, terminating on November 30, 2040. Subject to specific terms and conditions, we also have two options to purchase the premises, which may be exercised no later than six months prior to the end of the fifteenth year of the term of the lease and the end of the twentieth year of the term of the lease, respectively. Our U.S. operations are managed through a local headquarter located in Tamarac, Florida. We entered into a lease agreement for this location for a term of 15 years terminating on November 30, 2020. The current net annual rental rate is \$526,631 for the period ending November 30, 2007. We have two options to renew for 5 years each.

We lease all of our other store locations. We believe that all of our facilities are well maintained and in good condition and are adequate for our current needs. We are actively negotiating the renewal of all leases that expire in the next 12 months.

## Table of Contents

Following is a listing of all our properties as of March 31, 2007:

	Size		
	(Square Feet)	Expiration of Lease	Location
<b>Operating Stores</b>			
<i>Canada:</i>			
Bayshore Centre	2,544	September 2008	Ottawa, ON
Bloor	15,620	September 2014	Toronto, ON
Carrefour Laval	3,391	August 2012	Laval, QC
Chinook Shopping Centre	2,342	March 2015	Calgary, AB
Cornwall Centre	2,349	April 2010	Regina, SK
Willowdale Fairview Mall	2,351	August 2008	North York, ON
Fairview Pointe-Claire	4,210	January 2012	Pointe-Claire, QC
First Canadian Place	2,243	May 2008	Toronto, ON
Guildford Town Centre	3,889	August 2009	Surrey, B.C.
Halifax	3,316	January 2009	Halifax, N.S.
Hillside Shopping Centre	2,639	March 2010	Victoria, B.C.
Lime Ridge Mall	2,450	September 2011	Hamilton, ON
Edmonton Manulife Centre	4,196	November 2009	Edmonton, AB
Montreal Flagship Store	19,785	December 2020	Montreal, QC
Oakridge Shopping Centre	2,176	May 2008	Vancouver, B.C.
Oakville Place	2,729	March 2010	Oakville, ON
Park Royal	3,537	September 2012	West Vancouver, B.C.
Pen Centre	3,588	April 2010	St. Catherines, ON
Place Ste-Foy	2,366	June 2017	Ste-Foy, QC
Polo Park Centre	3,135	January 2008	Winnipeg, MB
Promenades St-Bruno	2,346	February 2013	St-Bruno, QC
Rideau Centre	7,233	April 2009	Ottawa, ON
Richmond Centre	1,562	April 2012	Richmond, B.C.
Rockland Centre	3,019	August 2008	Mount Royal, QC
Saskatoon	3,249	October 2008	Saskatoon, SK
Scarborough Town Centre	3,709	May 2008	Scarborough, ON
Sherway Gardens	4,611	February 2010	Etobicoke, ON
Southcentre Shopping Centre	2,986	August 2009	Calgary, AB
Southgate Shopping Centre	2,905	September 2008	Edmonton, AB
Square One	3,360	April 2012	Mississauga, ON
St-John	2,038	August 2015	St-John, N.B.
Toronto Dominion Square	7,895	October 2011	Calgary, AB
Toronto Eaton Centre	4,552	April 2012	Toronto, ON
Vancouver	20,221	January 2010	Vancouver, B.C.
Victoria	2,460	December 2010	Victoria, B.C.
West Edmonton Mall	3,730	March 2010	Edmonton, AB
Whistler Village	552	December 2008	Whistler, B.C.
Yorkdale	2,530	April 2015	Toronto, ON

**Table of Contents**

	Size		
	(Square Feet)	Expiration of Lease	Location
<b>Operating Stores</b>			
<i>United States:</i>			
Altamonte Mall	5,782	January 2011	Altamonte Springs, FL
Aventura Mall	3,447	January 2009	N. Miami Beach, FL
Bell Tower Shops	4,578	January 2012	Fort Myers, FL
Town Center at Boca Raton	5,878	January 2017	Boca Raton, FL
Westfield Brandon	4,110	June 2015	Brandon, FL
Broward Mall	2,236	January 2010	Plantation, FL
Buckhead	10,000	April 2009	Atlanta, GA
Westfield Citrus Park	3,953	January 2010	Tampa, FL
City Place at West Palm Beach	3,792	January 2011	West Palm Beach, FL
Coconut Point	3,522	September 2016	Estero, FL
Dadeland Mall	5,700	January 2017	Miami, FL
The Falls	1,643	January 2009	Miami, FL
Florida Mall	5,070	January 2010	Orlando, FL
The Galleria at Fort Lauderdale	5,954	July 2016	Ft. Lauderdale, FL
International Plaza	5,583	January 2012	Tampa, FL
Lenox Square Mall	4,587	December 2007	Atlanta, GA
Lincoln Road	4,250	May 2009	Miami Beach, FL
Mall of Georgia	3,486	January 2010	Buford, GA
Mall at Millenia	4,532	January 2013	Orlando, FL
Mall at Wellington Green	4,001	January 2012	Wellington, FL
Miami International Mall	3,246	January 2016	Miami, FL
North Point Mall	4,752	January 2012	Alpharetta, GA
Perimeter Mall	5,157	January 2009	Atlanta, GA
PGA Commons	5,197	April 2014	Palm Beach Gardens, FL
Seminole Towne Center	3,461	January 2016	Sanford, FL
The Shops at Sunset Place	2,051	January 2010	South Miami, FL
Westfield Southgate	4,605	March 2010	Sarasota, FL
Treasure Coast Square	2,607	May 2017 (2)	Jensen Beach, FL
Village of Merrick Park	4,894	January 2013	Coral Gables, FL
Weston Commons	4,000	April 2017 (3)	Weston, FL
St-John's Town Center	3,458	10 years from opening date (4)	Jacksonville, FL
<b>Other Properties</b>			
Tamarac office	47,851	November 2020	Tamarac, FL
Montreal corporate office	58,444	December 11, 2020 (1)	Montreal, QC
New York office	1,950	December 2010	New York, New York
Rhode Island (5)	19,200	December 2024	Woonsocket, R.I.
Cavelti Factory	824	January 2011	Vancouver, B.C.
Dorval Montreal (6)	7,667	March 2011	Dorval, QC

- (1) This represents the remaining area of our corporate office building which is used for offices, factories and a distribution center.
- (2) This location was relocated within the mall as of June 1, 2007.
- (3) This will be a new location. Expected opening is the end of June 2007.
- (4) Based on terms and conditions of a negotiated lease that has not yet been fully executed. Store not yet under construction, but expected grand opening is the end of October 2007.
- (5) In March 2005, we acquired the manufacturing facility in Rhode Island. The facility was acquired from Scojen Limited Partnership with a \$1.3 million loan from the Rhode Island Industrial Facilities Corporation, the RIIFC, and a loan guaranty from the Rhode Island Industrial-Recreational Building Authority, the IRBA. The IRBA and RIIFC are quasi-public corporations created by the State of Rhode Island to promote economic development in Rhode Island. The loan was effected through a structure consisting of capital lease financing and mortgage insurance. The term of the lease is 20 years at an interest cost of 5% per annum plus a 1% guarantee fee per annum. At the end of the 20 year lease we will have the option to purchase the property for \$1,000. For tax purposes, we are considered the current owner of the property.

- (6) This is a new location since March 2007 for the distribution center.

## **Table of Contents**

Total annual base rent for these locations for fiscal 2007 was approximately \$14 million.

### **Item 4A. Unresolved Staff Comments**

Not applicable.

### **Item 5. Operating and Financial Review and Prospects**

The following discussion should be read in conjunction with, and is qualified by, our consolidated financial statements and the notes thereto included elsewhere in this annual report. The following discussion includes certain forward-looking statements. For a discussion of important factors, including the continuing development of our business, actions of regulatory authorities and competitors and other factors which could cause actual results to differ materially from the results referred to in the forward-looking statements, see Item 3., Key Information under the heading Risk Factors and the discussion under the heading Forward-Looking Information at the beginning of this annual report.

Throughout this annual report, we refer to our fiscal years ended March 31, 2007, March 25, 2006, and March 26, 2005, as fiscal 2007, fiscal 2006 and fiscal 2005, respectively. Our fiscal year ends on the last Saturday in March of each year. Our last completed fiscal year, which ended March 31, 2007, consisted of 53 weeks with one fourteen-week period and three thirteen-week periods. Fiscal 2006 and fiscal 2005 consisted of 52 weeks, reported in four thirteen-week periods.

#### **Overview**

Birks & Mayors is a leading designer, maker and purveyor of luxury jewelry, timepieces and giftware in the United States and Canada. At March 31, 2007, our retail operation's total square footage was approximately 262,000. The average square footage of our three Birks flagship stores in Canada was approximately 18,500. The average square footage for all other Birks brand retail stores in Canada at March 31, 2007, was approximately 3,300 and the average square footage for Mayors brand retail stores in the Southeastern United States was approximately 4,400.

We operate our business in two geographic areas, Canada and the Southeastern United States. We have two reportable segments, Retail and Other. Retail is comprised of all our retail operations in the U.S. and Canada on a combined basis. In Canada, we operate stores under the Birks brand. In the Southeastern United States, we operate stores under the Mayors brand. Other consists primarily of our corporate sales division which services business customers by providing them unique items for recognition programs, service awards and business gifts and also includes manufacturing which manufactures unique products primarily for the retail segment of our business.

Our net sales are comprised of revenues (including retail, corporate, catalogue and internet sales), net of discounts, in each case, excluding sales tax. Sales are recognized at the point of sale when merchandise is taken or shipped. Sales of consignment merchandise are recognized on a full retail basis at such time that the merchandise is sold. Revenues for gift certificates and store credits are recognized upon redemption. Customers use cash, checks, debit cards, third-party credit cards, proprietary credit cards and house accounts (primarily for corporate sales customers) to make purchases. The level of our sales is impacted by the number of transactions we generate and the size of our average retail sale. For the fiscal years ended March 31, 2007, March 25, 2006 and March 26, 2005, our average retail sale was \$1,049, \$898 and \$739, respectively, which excludes service and repair transactions.

Our operating costs and expenses are primarily comprised of cost of sales and selling, general and administrative expenses. Cost of sales includes cost of merchandise, direct inbound freight, direct labor related to repair services, the costs of our design and creative departments, manufacturing costs, inventory shrink, damage and obsolescence, jewelry, watch and giftware boxes as well as depreciation and amortization of production facilities and production tools, dies and molds and, in addition, product development costs. Selling, general and administrative expenses (SG&A) include, but are not limited to, all non-production payroll and benefits (including non-cash compensation expense), store and head office occupancy costs, overhead, credit card fees, information systems, professional services, consulting fees, repairs and maintenance, travel and entertainment, insurance, legal, human resource and training expenses. Occupancy, overhead and depreciation are generally less variable relative to net sales than other components of SG&A such as credit card fees and certain elements of payroll, such as commissions. Another significant item in SG&A is marketing expenses which include marketing, public relations and advertising costs (net of amounts received from vendors for cooperative



## **Table of Contents**

advertising) incurred to increase customer awareness of both the Company's retail brands and the Birks product brand. Marketing has historically represented a significant portion of our SG&A. As a percentage of sales, marketing expenses represented 3.9%, 3.9%, and 4.0% of sales for the fiscal years ended March 31, 2007, March 25, 2006, and March 26, 2005, respectively. Additionally, SG&A includes indirect costs such as freight, including inter-store transfers, receiving costs, distribution costs, and warehousing costs. The amount of these indirect costs in SG&A was approximately \$4.9 million, \$4.2 million and \$3.0 million for fiscal years 2007, 2006 and 2005 respectively. Depreciation includes depreciation and amortization of our stores and head office, including buildings, leasehold improvements, furniture and fixtures, computer hardware and software and automobiles and trucks.

We believe that the key drivers of our performance are our ability to:

execute our merchandising strategy to increase net sales through comparable store sales growth and expand gross margin in existing stores by developing and marketing higher margin exclusive and unique products, and developing our internal capability to design, develop, manufacture or source products;

execute our marketing strategy to enhance customer awareness and appreciation of our two retail brands, Birks and Mayors as well as the Birks product brand, and to increase customer traffic, client acquisition and retention and net sales through regional and national advertising campaigns on television, billboards, and print, catalog mailings, in-store client events, community relations, media and public relations, partnerships with key suppliers, such as Mayors relationship with Rolex, and associations with prestige institutions;

provide a superior client experience through consistent outstanding customer service that will ensure customer satisfaction and promote the frequency and value of customer spending;

expand distribution by selective new store openings in existing and new markets; and

increase our retail stores' average retail transaction, conversion rate, productivity of our store professionals and four wall profitability.

### ***Foreign Currency***

Because we have operations in the United States and Canada, our results are affected by foreign currency changes. Revenue and expenses incurred in Canadian dollars are translated into U.S. dollars for reporting purposes. Changes in the value of the Canadian dollar compared to the U.S. dollar between periods impact our results and affect period over period comparison. Over the past three years the value of the Canadian dollar has increased significantly compared to the U.S. dollar which, for reporting purposes, has increased our net sales, expenses, and our profits from our Canadian operations.

### ***Comparable Store Sales***

We use comparable store sales as a key performance measure for our business. We do not include our non-retail store sales in comparable store calculations. Stores enter the comparable store calculation in their thirteenth full month of operation. Stores that have been resized and stores that are relocated are evaluated on a case-by-case basis to determine if they are functionally the same store or a new store and then are included or excluded from comparable store sales, accordingly. Comparable store sales is calculated in local currency terms and measures the percentage change in net sales for comparable stores in a period compared to the corresponding period in the previous year. If a comparable store is not open for the entirety of both periods, comparable store sales measures the change in net sales for the portion of time that such store was open in both periods.

The percentage increase in comparable stores sales for the periods presented below is as follows:

**Fiscal Year Ended**

