

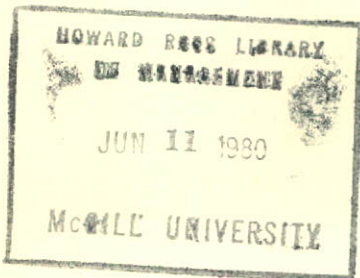


Levy Industries Limited

ANNUAL REPORT

For the Year Ended

December 31, 1979



Levy Industries Limited

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

NOTICE IS HEREBY GIVEN that the annual meeting of the shareholders of LEVY INDUSTRIES LIMITED ("the Corporation") will be held in the Toronto Room of the Hotel Triumph, 2737 Keele Street, Downsview, Ontario, on the 26th day of June, 1980, at the hour of 9:30 o'clock in the forenoon (Toronto time) for the following purposes:—

1. To receive and consider the consolidated financial statements of the Corporation and its subsidiaries for the year ended December 31, 1979, together with the report of the auditors thereon;
2. To elect directors;
3. To appoint auditors;
4. To transact such further or other business as may properly come before the meeting or any adjournment thereof.

DATED at Toronto the 2nd day of June, 1980.

By Order of the Board,

W. P. ROSENFELD

Secretary

NOTE: Shareholders who are unable to be present personally at the meeting are requested to sign and return, in the envelope provided for that purpose, the accompanying form of proxy for use at the meeting.

Levy Industries Limited

INFORMATION CIRCULAR

MANAGEMENT SOLICITATION

This information circular is furnished in connection with the solicitation of proxies by the management of LEVY INDUSTRIES LIMITED (the "Corporation") for use at the annual meeting of the shareholders of the Corporation to be held on the 26th day of June, 1980, at 9:30 o'clock in the forenoon (Toronto time) in the Toronto Room of Hotel Triumph, 2737 Keele Street, Downsview, Ontario, for the purposes set out in the foregoing notice of meeting. The cost of solicitation will be borne by the Corporation.

The forms of proxy forwarded to shareholders with the notice of meeting confer discretionary authority upon the proxy nominees with respect to amendments or variations of matters identified in the notice of meeting or other matters which may properly come before the meeting. The shares represented by proxies solicited by management will be voted at the meeting.

The management knows of no matters to come before the meeting other than matters referred to in the notice of meeting. However, if any other matters which are not now known to the management should properly come before the meeting, the shares represented by the proxies solicited by management will be voted on such matters in accordance with the best judgement of the proxy nominees.

Proxies given by shareholders for use at the meeting may be revoked at any time prior to their use.

Voting Shares:

On June 2, 1980, the Corporation had outstanding 1,262,962 common shares without par value, each carrying the right to one vote per share. Seaway Multi-Corp Limited ("Seaway") beneficially owned 1,242,347 common shares of the Corporation or 98.4% of the outstanding equity shares of the Corporation. Registered holders of common shares on the date of the meeting will be entitled to be present and to vote at the meeting in person or by proxy.

Election of Directors:

It is intended that the shares represented by proxies solicited by management will be voted in favour of the election as directors of the Corporation of each of the persons whose name appears hereunder to serve until the next annual meeting of shareholders or until his successor is elected or appointed.

The following tables and the notes thereto state the names of such persons, their principal occupations or employments, the respective periods during which they have served as directors of the Corporation and the approximate number of equity shares of the Corporation, beneficially owned directly or indirectly by each of them, as of June 2, 1980.

<u>Name</u>	<u>Occupation</u>	<u>Period as a Director of the Corporation</u>	<u>Equity Shares beneficially owned directly or indirectly Levy Industries Limited</u>
Mark A. Levy	Chairman of the Board of Directors of the Corporation	From July 17, 1970	3,858
Benjamin Levy	President of the Corporation	From July 17, 1970	1,578
Morris P. Levy	Executive Vice-President of the Corporation	From July 17, 1970	3,056
Edward Levy	Vice-President and Assistant to the President of the Corporation	From July 17, 1970	778
Harry L. Solomon	President, Exquisite Form Brassiere (Canada) Ltd.	From July 17, 1970	—
Mark Speyer	Vice-President, Purchasing of the Corporation	From July 17, 1970	—
Peter L. Levy	President, Levy Auto Parts Co. Limited	From July 17, 1970	—
Harry A. Malcolmson	Barrister & Solicitor, Rosenfeld, Malcolmson, Lampkin & Levine	From July 17, 1970	—
William P. Rosenfeld	Barrister & Solicitor, Rosenfeld, Malcolmson, Lampkin & Levine	From July 17, 1970	—
Harold J. Levy	Barrister & Solicitor,	From July 17, 1970	—
Howard N. Levy	Senior Officer, Domestic Operations, Levy Auto Parts Company, a division of the Corporation	From August 31, 1972	—
Kenneth P. Foreht	Vice-President of the Corporation, President, Stellar Business Services Limited	From June 8, 1976	—

The information as to shares beneficially owned, not being within the knowledge of the Corporation, has been furnished by the respective directors individually.

All the issued and outstanding shares of Benlevy Corporation Limited are beneficially owned by the immediate family of Benjamin Levy, all the issued outstanding shares of Peplevy Corporation Limited are beneficially owned by the immediate family of Morris P. Levy, all the issued and outstanding shares of Edlevy Corporation Limited are beneficially owned by the immediate family of Edward Levy, all the issued and outstanding shares of 424986 Ontario Limited, 424987 Ontario Limited and 424988 Ontario Limited are beneficially owned by the immediate family of Mark A. Levy.

Benlevy Corporation Limited, Peplevy Corporation Limited, Edlevy Corporation Limited, 424986 Ontario Limited, 424987 Ontario Limited and 424988 Ontario Limited are the controlling shareholders of Seaway Multi-Corp Limited.

Remuneration:

The aggregate direct remuneration paid or payable by the Corporation and its consolidated subsidiaries to its directors and senior officers in its last completed financial year ended December 31, 1979, was \$444,000.

Appointment of Auditors:

Management proposes to nominate Messrs. Laventhol & Horwath as auditors of the Corporation to hold office until the next annual meeting of the shareholders. **It is intended that the shares represented by proxies solicited by management will be voted in favour of the appointment of Messrs. Laventhol & Horwath.** This firm was appointed as auditor of the Corporation on August 14, 1970, and has served since that date.

DATED at Toronto the 2nd day of June 1980.

Levy Industries Limited

The Shareholders

Levy Industries Limited

I am pleased to report that your company earned a net profit of \$1,365,000 in the fiscal year 1979. This amount includes \$773,000 from discontinued operations which income will be replaced by savings in interest due to the amount received from the sale of Premium Forest Products Limited and Lloyd-Truax Limited. The sale of these two subsidiaries and the cash provided from operations contributed to the company's marked increase in working capital as is reflected in Statement of Changes in Financial Position.

The Cold Storage Division and the Auto Parts Division both continue to show increases in sales and net profit. This trend has continued into 1980. The company's first quarter sales in 1980 amounted to \$7,250,000, which is an increase of \$2,250,000 over the same period in 1979 and an increase of \$3,900,000 over the same period in 1978. Management anticipates this trend to continue in view of the large backorder position and successful negotiations of new orders.

The company's Cold Storage Division has been expanded and is negotiating for new sites in Western Canada.

Earnings from operation in 1980 is expected to surpass those achieved in 1979.

Yours truly

A handwritten signature in black ink, appearing to read 'B. Levy', written in a cursive style.

President

Levy Industries Limited

CONSOLIDATED BALANCE SHEET December 31, 1979

ASSETS

	<u>1979</u>	<u>1978</u>
		(Restated, Notes 1 and 4)
Current		
Cash	\$ 152,143	\$ 35,712
Accounts receivable (Note 2)	5,132,207	3,827,151
Inventories	12,131,401	10,553,234
Prepaid expenses and sundry assets	300,502	211,057
Note receivable, current portion	99,480	—
Net investment in lease, current portion	44,891	44,891
Due from parent company	<u>1,673,675</u>	<u>982,366</u>
	19,534,299	15,654,411
Note receivable (Note 3)	890,240	712,051
Net investment in lease (Note 4)	351,005	395,896
Equity in subsidiaries sold (Note 1)	—	3,511,396
Property, plant and equipment (Note 5)	26,939,239	27,020,028
Other (Note 6)	<u>553,896</u>	<u>653,813</u>
	<u>\$48,268,679</u>	<u>\$47,947,595</u>

LIABILITIES

Current		
Bank advances (Note 7)	\$ 4,685,265	\$ 4,867,881
Notes payable	224,000	979,000
Accounts payable and accrued liabilities	4,021,891	2,915,339
Income and other taxes payable (Note 8)	1,724,287	1,371,541
Current portion of long term debt (Note 9)	<u>810,740</u>	<u>746,393</u>
	11,466,183	10,880,154
Long term debt (Note 9)	5,708,821	7,060,144
Minority interest	<u>10,985</u>	<u>4,045</u>
	<u>17,185,989</u>	<u>17,944,343</u>

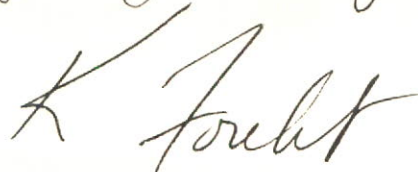
SHAREHOLDERS' EQUITY

Capital and other equity accounts	<u>31,082,690</u>	<u>30,003,252</u>
	<u>\$48,268,679</u>	<u>\$47,947,595</u>

See accompanying notes

Approved on behalf of the Board

 Director

 Director

Levy Industries Limited

CONSOLIDATED STATEMENT OF INCOME Year ended December 31, 1979

	<u>1979</u>	<u>1978</u> (Restated, Notes 1 and 4)
Sales and revenues	\$23,943,111	\$15,234,102
Costs and expenses		
Cost of products sold	12,386,388	7,805,059
Other operating costs and expenses	7,795,776	5,256,065
Interest on long term debt	892,930	805,909
Bank and other interest	1,149,932	615,118
Depreciation and amortization	434,766	439,330
	<u>22,659,792</u>	<u>14,921,481</u>
Income from continuing operations before income taxes	<u>1,283,319</u>	<u>312,621</u>
Income taxes (recovery)		
Current	645,912	30,667
Deferred	32,421	(111,187)
	<u>678,333</u>	<u>(80,520)</u>
Income from continuing operations	604,986	393,141
Net income (loss) from discontinued operations (Note 1)	773,000	(634,748)
Minority interest in income and losses of subsidiaries.	(2,940)	(38)
Income (loss) before extraordinary items	1,375,046	(241,645)
Extraordinary gains (loss) (Note 10)	(9,528)	971,828
Net income (Note 11)	<u>\$ 1,365,518</u>	<u>\$ 730,183</u>

See accompanying notes

Levy Industries Limited

CONSOLIDATED STATEMENT OF RETAINED EARNINGS Year ended December 31, 1979

	<u>1979</u>	<u>1978</u>
		(Restated, Notes 1 and 4)
Balance (deficit), beginning of year, as restated (Note 4)	\$(3,594,478)	\$(4,438,612)
Net income	<u>1,365,518</u>	<u>730,183</u>
	<u>(2,228,960)</u>	<u>(3,708,429)</u>
Dividends paid on Class "A" preference shares	(286,080)	(114,433)
Transfer to purchase fund for Class "A" preference shares	(31,214)	—
Amortization of appraisal excess	<u>196,157</u>	<u>228,384</u>
	<u>(121,137)</u>	<u>113,951</u>
Balance (deficit), end of year	<u><u>\$(2,350,097)</u></u>	<u><u>\$(3,594,478)</u></u>

See accompanying notes

Levy Industries Limited

CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY December 31, 1979

	<u>1979</u>	<u>1978</u>
		(Restated, Notes 1 and 4)
Capital stock		
Authorized		
348,160 Class "A" 6% cumulative preference shares \$12 par value, redeemable at \$12.48		
1,706,033 Common shares without par value		
Issued		
317,870 Class "A" preference shares	\$ 3,814,440	\$ 3,814,440
1,262,962 Common shares	8,435,959	8,435,959
	<u>12,250,399</u>	<u>12,250,399</u>
Contributed surplus (Note 12)	52,731	52,731
Purchase fund for Class "A" preference shares	82,870	51,656
Excess of appraised value of land and buildings over book value (Note 1)	21,046,787	21,242,944
Retained earnings (deficit)	<u>(2,350,097)</u>	<u>(3,594,478)</u>
	<u>\$31,082,690</u>	<u>\$30,003,252</u>

See accompanying notes

Levy Industries Limited

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION Year ended December 31, 1979

	1979	1978
		(Restated, Notes 1 and 4)
Funds provided by		
Operations		
Net income from continuing operations	\$ 604,986	\$ 393,141
Items not affecting working capital, principally depreciation, amortization, and deferred income taxes	627,803	363,901
	1,232,789	757,042
Issue of long term debt	1,107,998	1,777,260
Business interruption gain	—	530,000
Sale of subsidiaries (including net income of \$773,000 to deemed date of sale)	4,156,980	2,625,930
Reduction of income taxes on application of prior years' losses	117,888	441,828
	6,615,655	6,132,060
Funds used for		
Retirement of long term debt	2,459,321	2,205,884
Other assets	271,113	165,276
Property, plant and equipment	305,282	2,043,580
Dividends paid on Class "A" preference shares	286,080	114,433
	3,321,796	4,529,173
Increase in working capital	3,293,859	1,602,887
Working capital, beginning of year	4,774,257	3,171,370
Working capital, end of year	\$ 8,068,116	\$ 4,774,257

See accompanying notes

Levy Industries Limited

AUDITORS' REPORT

To the Shareholders of
Levy Industries Limited

We have examined the consolidated balance sheet of Levy Industries Limited as at December 31, 1979 and the consolidated statements of income, retained earnings (deficit), shareholders' equity and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at December 31, 1979 and the results of its operations and changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Canada
May 16, 1980



Chartered Accountants

Levy Industries Limited

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 1979

1. ACCOUNTING POLICIES

Consolidation policy

The consolidated financial statements include the accounts of the company and all its subsidiaries. Premium Forest Products Limited and Lloyd-Truax Limited were sold in the latter part of 1979. For accounting purposes the effective date was deemed to be September 30, 1979 and accordingly the 1979 results of operations of these subsidiaries to that date are shown separately in the statement of income. The 1978 comparative figures have been restated to show the investment in these subsidiaries at their equity value in the balance sheet. The loss on the sale of these subsidiaries is shown under extraordinary items (Note 10).

Translation of foreign currencies

Amounts in foreign currencies have been translated into Canadian dollars at the rates of exchange in effect at the balance sheet date for current items and at the rates in effect at acquisition dates for noncurrent items. Operating income and expenses are translated at average rates during the year except for depreciation which is on the same basis as fixed assets.

Inventories

Certain types of inventories approximating \$8.8 million, for which costs cannot be determined, have been valued on the basis of a percentage of historical selling prices. The other inventories have been valued at the lower of cost and net realizable value. This valuation is consistent with that used in preceding years.

Property, plant and equipment

Certain land and buildings are recorded at appraised values as of December 31, 1977, based on appraisals by General Appraisal of Canada Limited, dated March 8, 1978 and July 1, 1978, and E. Karl Farstad & Associates dated July 20, 1978. The excess of the appraised value over the book value is shown in the Statement of Shareholders' Equity. A portion of the appraisal excess applicable to buildings is being transferred annually to retained earnings in amounts equal to the annual depreciation provided on such appraisal excess. The current year's transfer amounts to \$196,157. Land purchased after December 31, 1977 and plant and equipment are recorded at cost. Depreciation is provided on the straight-line basis at the following annual rates:

Buildings	2½%
Machinery and equipment	10 - 30%

Deferred charges

Financing costs are being amortized over the terms of the related debts, over periods not exceeding 5 years.

2. ACCOUNTS RECEIVABLE

Included in accounts receivable is an amount of \$1,500,000 which is the minimum value placed by the insurers of the business interruption claim (arising from the fire which occurred at the Canada Cycle and Motor Company Limited (C.C.M.), St. Jean factory on February 17, 1977). Rights to this claim were acquired by the company as part of the consideration for the sale of C.C.M. in 1978. The company has claimed \$2,788,505 and the insurers have paid a portion of the amount receivable into court. The company is presently in the process of taking legal action against the insurance agents for amounts not paid by the insurers and in the opinion of legal counsel the company's claim to an amount of at least \$1,500,000 is well founded.

3. NOTE RECEIVABLE

On December 17, 1979, the Company sold all the issued and outstanding shares of its' wholly owned subsidiaries, Premium Forest Products Limited ("Premium") and Lloyd-Truax Limited, for \$4,200,000 of which \$3,000,000 was received in cash and \$1,200,000 by the purchasers' assumption of a long term debt. In addition the company received a promissory note for \$998,400 from Premium in respect of an intercompany debt. The note is receivable over a period of 10 years with interest thereon at 9½% per annum commencing December 30, 1979, and is secured by a standby letter of credit from a Canadian chartered bank. Subsequent to the year end, the same chartered bank loaned the company an amount equal to the balance due on the promissory note on the security of the note and the standby letter of credit. In the event of default of the note or nonrenewal of the letter of credit, the proceeds of the letter of credit will be used to repay the loan in full.

4. NET INVESTMENT IN LEASE

In 1979, the Company adopted the recommendations of the Canadian Institute of Chartered Accountants relating to accounting for leases. Accordingly, this has been applied retroactively to the leasing of a building which meets the criteria of a direct financing lease. The lease grants an option to the lessee to acquire the building for \$250,000 in 1983. As a result, net income for 1978 has been decreased by \$13,347 and retained earnings as at December 31, 1977 has been decreased by \$64,076.

The company's net investment in the lease is as follows:

	<u>1979</u>	<u>1978</u>
Minimum lease payments receivable	\$292,500	\$382,500
Residual value	250,000	250,000
Less unearned income	<u>(146,604)</u>	<u>(191,713)</u>
	395,896	440,787
Less current portion	<u>(44,891)</u>	<u>(44,891)</u>
	<u>\$351,005</u>	<u>\$395,896</u>

Future minimum lease payments receivable:

1980	\$ 90,000
1981	90,000
1982	90,000
1983	22,500
	<u>\$292,500</u>

5. PROPERTY, PLANT AND EQUIPMENT

	<u>1979</u>	<u>1978</u>
Buildings, at appraised value	\$ 9,270,000	\$ 9,270,000
Machinery and equipment, at cost	3,317,948	2,996,411
	<u>12,587,948</u>	<u>12,266,411</u>
Less accumulated depreciation	3,046,281	2,640,463
	<u>9,541,667</u>	<u>9,625,948</u>
Land, at appraised value	15,070,000	15,070,000
Land, at cost	2,327,572	2,324,080
	<u>\$26,939,239</u>	<u>\$27,020,028</u>

6. OTHER ASSETS

	<u>1979</u>	<u>1978</u>
Deferred charges, at cost less amortization		
Deferred financing charges	\$ 167,307	\$ 119,078
Product development costs	—	178,344
	<u>167,307</u>	<u>297,422</u>
Deferred income taxes	113,740	83,542
Share issue expenses	272,849	272,849
	<u>\$ 553,896</u>	<u>\$ 653,813</u>

7. BANK ADVANCES

Accounts receivable and inventories are pledged as collateral for the bank advances.

8. INCOME TAXES

The company and its subsidiaries have accumulated losses for income tax purposes in current and prior years amounting to approximately \$911,000 which may be used to reduce taxable income as follows:

\$ 92,000 to 1980
105,000 to 1981
62,000 to 1982
320,000 to 1983
332,000 to 1984

The benefit from the utilization of these losses to reduce taxable income in future years has not been recognized in the accounts.

9. LONG TERM DEBT

	<u>1979</u>	<u>1978</u>
Levy Industries Limited		
Loan due December 1, 1981	\$ —	\$1,200,000
First mortgage loan, 2% over prime, maturing September 24, 1984	1,050,000	—
Conditional sales contracts	25,004	40,956
9½% first mortgage	—	636,375
W. & M. Holdings Limited		
9½% first mortgage loan maturing December 1, 1983	252,221	303,173
Levy-Russell Limited		
8% sinking fund debentures, Series "A" secured by first mortgage maturing November 15, 1982	1,200,000	1,600,000
12¾% chattel mortgage due November 1, 1982	274,771	326,015
Conditional sales contracts	142,472	34,674
Drivetrain Remanufacturing Limited		
Obligations under capital leases	57,998	—
Russell Industries Limited		
Conditional sales contracts	61,582	83,084
11½% first mortgage loan, maturing February 1, 1982	1,745,513	1,777,260
Levy Service Industries Limited		
First mortgage loan, 4¾% over prime, maturing July 21, 1982	1,710,000	1,805,000
	<u>6,519,561</u>	<u>7,806,537</u>
Less amounts due within one year	810,740	746,393
	<u>\$5,708,821</u>	<u>\$7,060,144</u>

The aggregate amount of principal payments required in each of the next five years is approximately as follows:

1980	\$ 810,740
1981	738,000
1982	3,851,000
1983	103,000
1984	1,016,000

10. EXTRAORDINARY GAINS (LOSS)

	<u>1979</u>	<u>1978</u>
Loss on sale of subsidiaries (Note 1)	\$ (127,416)	\$ —
Reduction of income taxes on application of prior years' losses	117,888	441,828
Business interruption claim (net of costs and taxes)	—	530,000
	<u>\$ (9,528)</u>	<u>\$971,828</u>

11. INCOME PER COMMON SHARE

	<u>1979</u>		<u>1978</u>	
Common shares outstanding	1,262,962		1,262,962	
		<u>Per</u>		<u>Per</u>
		<u>Share</u>		<u>Share</u>
Income (loss) before extraordinary items	\$1,375,046		\$(241,645)	
Preferred dividend requirement	<u>228,866</u>		<u>228,866</u>	
Income (loss) for common shareholders				
before extraordinary items	1,146,180	0.91	(470,511)	(0.37)
Extraordinary gains (loss)	<u>(9,528)</u>	<u>(0.01)</u>	<u>971,828</u>	<u>0.77</u>
Net income for common shareholders	<u>\$1,136,652</u>	<u>\$0.90</u>	<u>\$501,317</u>	<u>\$0.40</u>

As at December 31, 1979, dividends on the Class "A" preference shares are \$286,082 (five quarters) in arrears.

12. CONTRIBUTED SURPLUS

This amount represents the gain on Class "A" preference shares which were purchased in prior years for cancellation at a cost less than their par value.

13. REMUNERATION OF DIRECTORS AND SENIOR OFFICERS

The aggregate direct remuneration paid by the company and its subsidiaries to the directors and senior officers of the company amounted to \$444,000 (1978 — \$408,000).

14. CONTINGENCIES AND COMMITMENTS

- (a) Certain subsidiaries of the company maintain pension plans covering most of their employees. The total unfunded past service liability which has not been provided for at December 31, 1979 approximates \$430,000 and will be funded in varying amounts over a maximum of 14 years.
- (b) The company, in the agreement for the sale of the shares of Canada Cycle and Motor Company Limited in June, 1978, extended to the purchaser certain covenants, representations and warranties. As security for any obligations which may arise under that agreement, the company agreed to provide to a corporate trustee a mortgage of \$1,500,000 on certain of its real estate, until June 24, 1983 (with extensions in specified circumstances). The company has been notified of certain alleged claims but in the opinion of management these claims are unfounded and without merit.

