

Systems Dimensions Limited

77/78 Annual Report



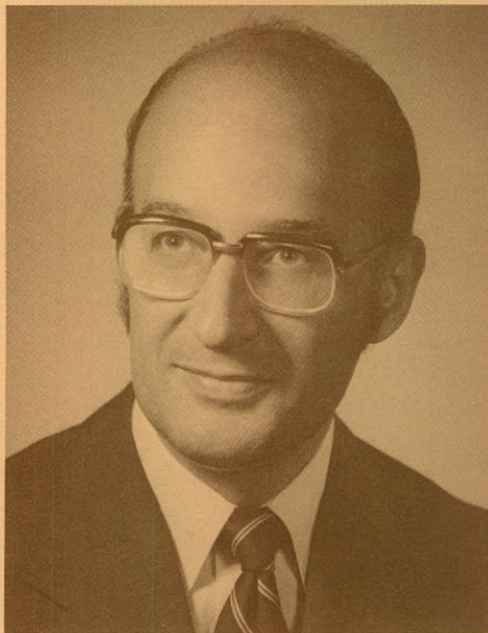
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SDL's ninth Annual Report is published in order to provide a picture of our continued growth and performance. This information is provided in the context of full disclosure, meeting as closely as possible the normal disclosure requirements of public companies.

SDL
September 1978

Report from the President



The year ended June 30th, 1978 showed a significant improvement in operating results.

Revenue increased 14% over the prior year to \$21,171,000.

The profit performance was a gratifying turnaround from a loss of \$693,000 in the prior year to a profit before tax of \$792,000.

The Company ended the period in a strong financial position with working capital of over \$7,400,000.

This performance is a tribute to our very dedicated staff in both the United States and Canada.

Events During The Year

The major event was, of course, the purchase of the Company by Coastal Enterprises Limited of Nova Scotia. Coastal Enterprises now owns all the issued and outstanding shares of the Company. The shares were, therefore, delisted from the Toronto and Montreal Stock Exchanges in March 1978.

The major administrative change has been the creation of the new twelve person Board of Directors. The management group has remained the same. The Board was pleased to announce an addition to senior management with the promotion of Mr. Jim Hunter to Vice President, effective July 1st 1978. Mr. Hunter had been our Regional General Manager for Central and Western Canada.

In May 1978, SDL acquired A.D.P. Systems Ltd. of Winnipeg, Manitoba. A.D.P. is a computer services company with a ten year history of providing services primarily in the Manitoba area. Recently A.D.P. Systems Ltd. was awarded a major contract by IATA for the reconciliation of airline coupons in Canada for all airlines and travel agents.

Finally, we were particularly pleased with the rapid growth of our business in the United States. Our Boston office exceeded \$2,000,000 in revenue and our recently established Washington office exceeded \$1,000,000. Our business in the United States now accounts for 20% of our total revenue.

The Computer Services Industry

The success of the Computer Services Industry has resulted from its ability not only to react to change, but to capitalize on it.

The industry has led in bringing to clients many innovative services in remote computing, new applications, and personalized service. In particular, the industry has made computing power available to tens of thousands of smaller companies and organizations that would not otherwise have had the advantages of improved productivity that can only come through the use of modern computer services.

Once again, the industry is taking the lead in capitalizing on new technology and anticipating the changing needs of our clients. As the cost of computer cycles declines relative to the

people cost of developing new applications, the ability of computer services companies to share application development costs among many potential users will become increasingly important.

It was with this trend in mind that SDL announced a major reorganization during the year. The aim is to enable us to be more effective in meeting the needs of our clients for value added services. These changes are described elsewhere in this report.

In North America, the computer services segment is expected to continue to grow at a faster rate than the computer industry as a whole. The industry association forecasts an annual growth rate of 17.1% in North America for the next five years.

I believe that SDL's financial strength and market position in the United States and Canada will enable it to grow rapidly in this expanding industry.

Outlook

In June, the Board of Directors approved a major expansion plan to further develop the market in the United States. As part of this plan, SDL will be opening a processing facility in the Washington area in the first half of 1979. This multi-million dollar expansion will allow us to serve many of our clients in the United States on an installation closer to their place of business.

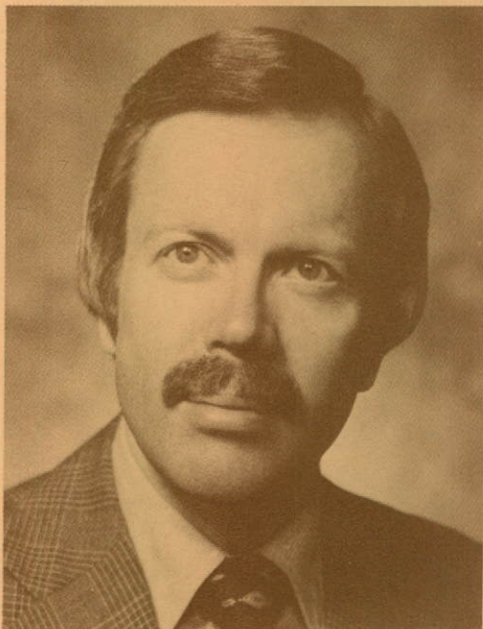
With this expansion and the addition of A.D.P. Systems Ltd., we expect the revenue to continue to show good growth during 1978-79.



G.A. Fierheller
President

September 1978

Executive Vice President's Message



The Past Year

The fiscal year beginning July 1st, 1977, started with a great deal of excitement regarding the ownership of SDL. Almost since its inception, SDL had been a public company. One result of this was that SDL employees had always owned a portion of the Company. The change to being what, for practical purposes, is a private company was a new experience for SDL employees. As might be expected, they adjusted quickly and worked not only to return the Company to profitable operation but to exceed our plans and expectations. This extraordinary effort was recognized by the Board of Directors who passed a resolution which "expressed its appreciation for the job done by the employees of turning around the financial performance of the Company during fiscal '78. The Directors also expressed their confidence that the Company would continue to move forward rapidly from this point".

In an operational sense, the past year was one of focusing on objectives and creating plans to meet these objectives. We expanded our planning cycle in three distinct phases:

- Corporate Plan — A strategic plan for the next three years
- Business Plan — A tactical plan for the twelve months of our fiscal year
- Profit Plan — The budget to implement the Business Plan

The results of increased focusing on objectives has already started to show benefits:

- New services have been announced
- Additional new services are under development throughout the Company
- Our position in our major market, Ottawa, has been solidified
- A new organization has been established
- Key people have been reassigned
- Productivity of our employees has reached record levels
- Overall costs have been held flat — in spite of continued escalation of the cost of most items
- Revenue has grown significantly — in spite of strong competitive pressures in all of our markets
- Working capital remains strong — even after the purchase of a major processing system
- Accounts Receivable days outstanding have been dramatically reduced
- A major expansion in the United States has been approved by the Board of Directors

New Organization

An outgrowth of our planning for the future was a new organization structure. This new organization separated the operations of the Company into two "service" divisions. This

separation provided more focus on development, marketing, and delivery of each type of service.

SDL has three divisions:

- Systemnet Division
- Infoservices Division
- Finance & Administration Division

The Systemnet Division offers services primarily to the user who understands how to use a computer system. These users access our computer facility in Ottawa to perform activities they have developed, such as. . .

- program development
- database management
- commercial applications
- scientific applications
- computer simulation
- project management

The Systemnet Division has sales offices in Ottawa, Washington and Calgary, and the operation of the Ottawa Systemcentre is the responsibility of the Systemnet Division. The Systemnet Division also has a Research and Development Department to investigate and develop new services.

The Infoservices Division offers services primarily to the user who can benefit from computer technology but does not want to commit the personnel resources necessary to totally understand the operation of today's sophisticated computer systems. The range of services offered to this type of user is extremely broad.

Current offerings are:

- econometric services (services to economists)
- statistical services (reducing statistical data to management information)
- financial applications (such as SDL's Payroll Service)
- manufacturing applications (applications tailored to the manufacturing sector)
- customized applications (We call these Application Services)
- utility accounting services (services to electrical utility companies)

The Infoservices Division has sales offices in Ottawa, Toronto, Montreal, Quebec City, Boston and New York. Development of new services in the Infoservices Division is financed corporately. They are developed in Branch offices in order that development is close to the marketplace.

The Finance and Administration Division includes the Head Office functions necessary to ensure that we maintain and enhance financial and administrative control of the Company.

Outlook for Next Year

To a large extent, the benefits of the planning efforts of the past year will be realized in this and subsequent years. The most major impact will be the effect of our expansion in the United States.

The Washington facility will deliver a service comparable to that provided by our Ottawa facility. The experience we have gained over the past 10 years in operating a large-scale, general purpose computer complex in Ottawa will be transferred to this new location.

Based on the knowledge we have gained by selling services in the United States over the past six years, we are confident we can profitably deliver computer services at competitive rates. Our objective is to match our Canadian reputation for delivering a high quality service, backed by technical expertise which sets the standard for the industry.

We also plan to capitalize on the momentum gained by establishing the new centre, by expanding other services in the United States. These complementary plans will be geared to providing value added services to both commercial and government users. New value added services are also planned for each of our Canadian markets.

Our plans for the coming year also recognize the importance of continued development of our people and improved financial performance. In the medium term, the major constraint to growth is the rate at which we can expand our staff while still maintaining the necessary level of expertise. Part of our reorganization was directed towards concentration of personnel responsibility to fewer managers. The objective of this concentration was to allow more effective development of our personnel resources without impacting productivity. During the coming year, we plan to augment this effort by adding a senior resource person who can work with managers in developing managerial skills, primarily in the areas of recruiting and training.

Financially, our plans for Fiscal '79 include . . .

- Growth in revenue
- Continued attention to costs
- Maintenance of a strong working capital position

Summary

The past year has been one of planning, redirection and return to profitable operation.

Fiscal '79 will be a year of providing new services and addressing additional client needs. Client satisfaction will remain our dominant objective.



W.W. Beairst
Executive Vice President

Summary of a Decade



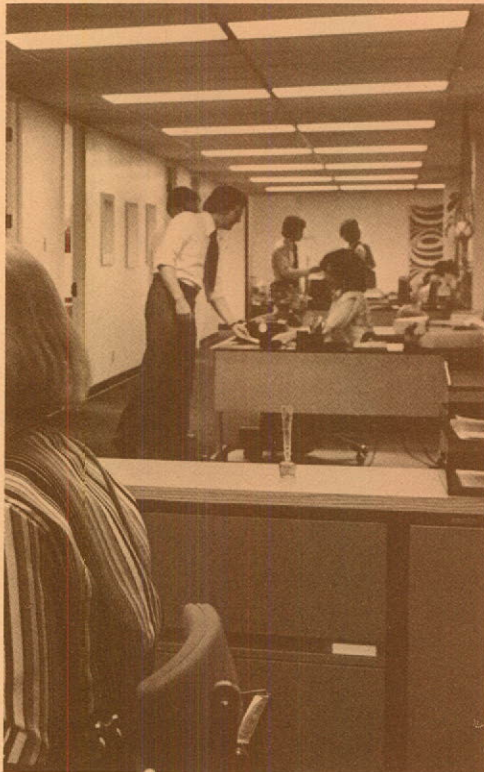
- March 1968** SDL founded.
- July 1969** Operations started in Ottawa Systemcentre with 65 employees servicing Toronto, Montreal and Ottawa.
- June 1970** Sales \$1.3 million and 100 employees. Services expanded to New York and Boston.
- June 1971** Sales \$4.1 million with 167 employees.
- November 1971** Softwarehouse Limited, a contract programming firm, acquired.
- June 1972** Profitable operations attained. Sales \$5.9 million with 198 employees.
- September 1972** SDL International, Inc. established to market services in New York and Boston.
- October 1972** Systems Research Group acquired in Toronto.
- June 1973** SDL Informatique Limitée established to market services in the Province of Quebec.
Sales \$9.9 million with 350 employees.
- July 1973** Anathon Computer & Educational Systems, Inc. of New York City acquired.
- September 1973** Informatel in Quebec City acquired. Quebec City office opened.
- June 1974** Sales \$14.0 million and 520 employees.
- September 1974** Washington D.C. office opened.
- June 1975** Sales \$21.3 million with 589 employees.
- November 1975** Calgary office opened.
- December 1975** Vancouver office opened.
- June 1976** Sales \$19.9 million with 450 employees.
- June 1977** Sales \$18.0 million with 445 employees.
- August 1977** Coastal Enterprises Limited of Nova Scotia acquires control of SDL.
- June 1978** SDL acquires A.D.P. Systems Ltd. of Winnipeg.
Sales \$20.8 million with 431 employees.

Consolidated Statement of Income

	Year ended June 30	
	1978	1977
Sales	\$20,810,000	\$18,017,000
Interest income	361,000	509,000
	<u>21,171,000</u>	<u>18,526,000</u>
Costs and expenses:		
Operations	8,703,000	10,196,000
Marketing and administration	7,153,000	6,207,000
Depreciation	3,471,000	1,812,000
Research and development (Note 8)	198,000	366,000
Interest and debenture discount	651,000	375,000
Amortization of branch development costs	203,000	263,000
	<u>20,379,000</u>	<u>19,219,000</u>
Income (loss) before income taxes and extraordinary item	792,000	(693,000)
Income taxes:		
Current	514,000	—
Deferred	(144,000)	—
	<u>370,000</u>	<u>—</u>
Income (loss) before extraordinary item	422,000	(693,000)
Reduction in income taxes due to carry forward of prior year losses	184,000	—
Net income (loss) for the year	<u>\$ 606,000</u>	<u>\$ (693,000)</u>



Consolidated Balance Sheet



ASSETS

	1978	June
Current assets:		
Term deposits and notes	\$ 1,674,000	
Note receivable	3,900,000	
Marketable securities, at cost (quoted value — \$461,500)	359,000	
Accounts receivable	4,134,000	
Prepaid expenses	<u>328,000</u>	
	10,395,000	
Fixed assets, at cost (Note 1)	26,854,000	
Less: Accumulated depreciation	<u>15,013,000</u>	
	11,841,000	
Deferred charges (Note 2)	<u>571,000</u>	
Goodwill	<u>3,096,000</u>	
	<u>\$25,903,000</u>	

APPROVED BY THE BOARD:

E. a. Fierhaber Director

Hubert J. ... Director

LIABILITIES

1977		June 30	
		1978	1977
	Current liabilities:		
\$ 6,025,000	Bank indebtedness	\$ 162,000	\$ 150,000
—	Accounts payable and accrued liabilities	1,517,000	1,517,000
—	Income taxes payable	330,000	—
4,492,000	Accrued debenture interest	131,000	131,000
242,000	Revenue received in advance	32,000	180,000
<u>10,759,000</u>	Current portion of long-term debt	<u>793,000</u>	<u>62,000</u>
		<u>2,965,000</u>	<u>2,040,000</u>
	Deferred income taxes	<u>27,000</u>	<u>141,000</u>
	Long-term debt:		
	5% secured convertible debentures, Series A due February 15, 1989 (Note 3)	6,931,000	6,932,000
20,198,000	Equipment purchase contracts (Note 6)	1,777,000	222,000
11,666,000	Other	<u>132,000</u>	<u>—</u>
<u>8,532,000</u>		<u>8,840,000</u>	<u>7,154,000</u>

SHAREHOLDERS' EQUITY

	Share capital (Note 4):		
	Authorized —		
	4,000,000 common shares without par value		
	Issued —		
	2,409,258 shares (1977 — 2,392,498)	13,702,000	13,654,000
790,000	Retained earnings (deficit)	<u>369,000</u>	<u>(237,000)</u>
<u>2,671,000</u>		<u>14,071,000</u>	<u>13,417,000</u>
<u>\$22,752,000</u>		<u>\$25,903,000</u>	<u>\$22,752,000</u>

Consolidated Statement of Changes in Financial Position

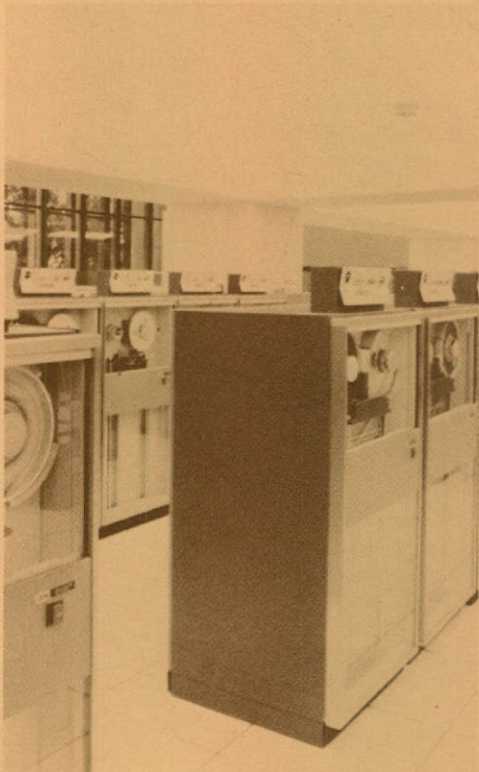


	Year ended June 30	
	1978	1977
Source of working capital:		
Income (loss) before extraordinary item	\$ 422,000	\$ (693,000)
Add: Non-cash charges included therein —		
Depreciation of fixed assets	3,471,000	1,812,000
Amortization of deferred charges	219,000	280,000
Deferred income taxes	(144,000)	—
From operations	<u>3,968,000</u>	<u>1,399,000</u>
Reduction in income taxes due to carry forward of prior year losses	184,000	—
Increase in equipment purchase contracts	1,555,000	222,000
Issue of share capital	48,000	15,000
	<u>5,755,000</u>	<u>1,636,000</u>
Application of working capital:		
Acquisition of shares in subsidiary company (Note 5) —		
Cost of investment	417,000	—
Working capital deficiency acquired	342,000	—
Consideration included in long-term debt	(109,000)	—
	<u>650,000</u>	<u>—</u>
Purchase of fixed assets	6,393,000	616,000
Debentures converted to share capital	1,000	—
	<u>7,044,000</u>	<u>616,000</u>
Increase (decrease) in working capital	(1,289,000)	1,020,000
Working capital, beginning of year	8,719,000	7,699,000
Working capital, end of year	<u>\$7,430,000</u>	<u>\$8,719,000</u>

Consolidated Statement of Retained Earnings

Year ended June 30
1978 1977

Retained earnings (deficit), beginning of year	\$ (237,000)	\$ 456,000
Net income (loss) for the year	<u>606,000</u>	<u>(693,000)</u>
Retained earnings (deficit), end of year	<u>\$ 369,000</u>	<u>\$ (237,000)</u>



Notes to Consolidated Financial Statements

June 30, 1978



1. Fixed assets:

	June 30, 1978			June 30, 1977
	Cost	Accumulated depreciation	Net	Net
Land	\$ 612,000	\$ —	\$ 612,000	\$ 610,000
Building	2,769,000	587,000	2,182,000	2,220,000
Computer equipment	21,189,000	13,273,000	7,916,000	4,413,000
Furniture and equipment	1,474,000	817,000	657,000	758,000
Leasehold improvements	810,000	336,000	474,000	531,000
	<u>\$26,854,000</u>	<u>\$15,013,000</u>	<u>\$11,841,000</u>	<u>\$8,532,000</u>

2. Deferred charges:

	June 30, 1978			June 30, 1977
	Cost	Accumulated amortization	Net	Net
Debenture discount	\$ 350,000	\$ 159,000	\$ 191,000	\$ 207,000
Branch development costs	985,000	605,000	380,000	583,000
	<u>\$ 1,335,000</u>	<u>\$ 764,000</u>	<u>\$ 571,000</u>	<u>\$ 790,000</u>

3. Debentures:

The debentures are convertible into common shares of the Company at the holder's option at any time up to February 15, 1979. The trust deed provides that the conversion rate shall be adjusted from time to time under conditions having generally to do with the issue price of the Company's shares. The minimum conversion rate is 80 common shares for each \$1,000 principal amount of debenture.

The conversion rate at June 30, 1978, was 85.88 common shares for each \$1,000 principal amount of debenture to be converted representing a conversion price of \$11.64 per common share.

The debentures are redeemable at the Company's option. In the event that the debentures are not converted, the Company has agreed to pay to the Trustee, by way of a sinking fund, sums sufficient to retire \$1,000,000 principal amount of debentures in each year commencing in 1980.

The debentures are secured by the real property of the company, its IBM Model 360/85 computer together with associated peripheral equipment, and a first floating charge on all its assets and undertakings.

4. Share capital:

	June 30, 1978		June 30, 1977	
	Number of shares	Amount	Number of shares	Amount
Balance, beginning of year	2,392,498	\$13,654,000	2,391,620	\$13,639,000
Issued during the year:				
Conversion of debentures	85	1,000	—	—
Stock options	16,675	47,000	—	—
Business acquisition	—	—	878	15,000
Balance, end of year	<u>2,409,258</u>	<u>\$13,702,000</u>	<u>2,392,498</u>	<u>\$13,654,000</u>

At June 30, 1978, 595,234 shares were reserved, under the provisions of the debenture Trust Deed, for issuance on conversion of outstanding debentures.

During the year, all stock options granted under the Company's Employee Stock Option Plan were either exercised or expired.

5. Acquisition of A.D.P. Systems Limited:

On May 31, 1978, the Company purchased all of the outstanding shares of A.D.P. Systems Limited, a Winnipeg company engaged in supplying computer services. The total purchase consideration of \$450,000 consisted of \$250,000 cash and \$200,000 payable in instalments as follows: 1979 — \$75,000; 1980 — \$75,000; and 1981 — \$50,000.

The acquisition was accounted for using the purchase method; the results of A.D.P.'s operations have been included in the consolidated financial statements from June 1, 1978. The following is a summary of net assets acquired:

Fixed assets	\$ 387,000
Working capital deficiency	(342,000)
Long-term debt	(22,000)
Deferred income taxes	(31,000)
Goodwill (excess of purchase price over net tangible assets acquired)	<u>425,000</u>
Cost of acquisition	417,000
Imputed finance charge	<u>33,000</u>
Total consideration	<u>\$ 450,000</u>

6. Contracts and leases:

Equipment purchase contracts outstanding at June 30, 1978 are payable in monthly instalments of \$79,683 including principal and interest to July, 1981. These contracts are secured by the Company's IBM Model 370/168 AP and peripheral equipment.

At June 30, 1978, the Company was committed to various leases having original terms extending over one year for office premises and computer equipment. Minimum annual rentals under these leases amount to: 1979 — \$807,000; 1980 — \$623,000; 1981 — \$548,000; 1982 — \$487,000; 1983 — \$404,000; 1984 — \$150,000; and 1985 — \$80,000. The Company will receive annual rental income on certain premises subleased to third parties amounting to: 1979 — \$179,000; 1980 — \$182,000; 1981 — \$182,000; 1982 — \$182,000; 1983 — \$164,000; and 1984 — \$34,000.

7. Income taxes:

At June 30, 1978, the Company and a subsidiary had accumulated non-capital losses for income tax purposes of \$623,000. These losses, which expire in varying amounts in the years 1980 to 1983, may be carried forward and used to offset taxable income earned in future years.

8. Government assistance:

Government assistance grants of \$115,000 received during the year have been applied to reduce research and development costs.

9. Remuneration of directors and officers:

	Year ended June 30	
	1978	1977
Number of directors	12	10
Remuneration of directors	\$ 39,000	\$ 34,000
Number of officers	4	6
Remuneration of officers	\$233,000	\$280,000
Number of officers who are directors	2	1

10. Capital expenditures:

The Company has ordered an IBM Model 3033 computer to replace the IBM Model 370/168 AP. The Company plans initially to lease the new equipment for a trial period following which it will be purchased at a cost of \$4,800,000 and the replaced equipment will be sold. These transactions are expected to take place in the fiscal year ending June 30, 1979.

Summary of Accounting Policies

June 30, 1978

Principles of consolidation —

The consolidated financial statements include the accounts of Systems Dimensions Limited and its subsidiary companies, all of which are wholly-owned.

Currency translation —

Accounts of the U.S. subsidiary are translated into Canadian dollars as follows:

1. fixed assets, related depreciation, and other non-current assets: at the rates of exchange in effect at dates of acquisition.
2. other assets and liabilities: at year end rates.
3. results of operations, other than charges for depreciation and amortization on non-current assets: at average rates of exchange in effect during the year.

Exchange gains and losses are reflected in net income in the year in which they arise.

Depreciation of fixed assets —

Fixed assets are depreciated on a straight-line basis as follows:

Building	— 40 years
Computer equipment:	
Model 370/168 AP and related peripheral equipment	— 20 months to March 31, 1979
Model 360/85 and related peripheral equipment	— 10 years to 1980
Other computer equipment	— 10 years
Computer tapes and discs	— 5 years
Furniture and equipment	— 10 years
Leasehold improvements	— over the term of leases

The depreciable cost of the Model 370/168 AP has been reduced by the estimated residual value at March 1979. Otherwise no allowance is made for residual values.

Deferred charges and amortization —

The expenses incurred in developing a new branch are initially deferred and amortized on a straight-line basis over the 5 years following the commencement of normal operations.

Discount arising on the issuance of debentures —

The discount is amortized over the term of the debentures.

Research and development costs —

Research and product development costs are expensed in the year in which they are incurred.

Valuation of goodwill on acquisition of businesses —

Consideration paid in excess of the net book value of businesses acquired is shown as goodwill. Goodwill arising from acquisitions prior to July 1, 1977 is being retained without amortization until a reduction in the value of such goodwill is evident. Goodwill arising on the acquisition of the shares of A.D.P. Systems Limited in 1978 is being amortized on a straight-line basis over 5 years commencing July 1, 1978.



Auditors' Report

To the Shareholders of
Systems Dimensions Limited:

We have examined the consolidated balance sheet of Systems Dimensions Limited as at June 30, 1978 and the consolidated statements of income, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the Company as at June 30, 1978 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Prisc Waterhouse Co.

Chartered Accountants
Ottawa Ontario
August 25, 1978.



Board of Directors

René Amyot, Q.C.
Partner
Amyot, Lesage, De Grandpré,
Colas, Bernard & Drolet
Québec City, Québec

William W. Beairsto
Executive Vice President
Systems Dimensions Limited
Ottawa, Ontario

Pierre Côté
Emond and Côté Limitée
Québec City, Québec

Kenneth V. Cox
Chairman & Chief Executive Officer
The New Brunswick Telephone
Company Limited
Saint John, N.B.

George A. Fierheller
President
Systems Dimensions Limited
Ottawa, Ontario

Prof. J. Wesley Graham
Director, Computer Systems Group
University of Waterloo
Waterloo, Ontario

Robert N. Granger
Partner
Aird & Berlis
Toronto, Ontario

David J. Hennigar
Regional Director
Burns Fry Limited
Halifax, N.S.

John J. Jodrey
President
Minas Basin Pulp & Power
Company Limited
Hantsport, N.S.

J. Tom MacQuarrie
Partner
Stewart, MacKeen & Covert
Halifax, N.S.

E.S. Miles
Toronto, Ontario

Eric L. Versteeg
Partner
Aird & Berlis
Toronto, Ontario

Officers

George A. Fierheller
President

William W. Beairsto
Executive Vice President

James W. Hunter
Vice President
Systemnet Division

Frank F. Van Humbeck
Vice President
Research and Development

Norman L. Williams
Vice President
Finance and Administration

Auditors

Price Waterhouse & Co.
Ottawa

Legal Counsel

Aird & Berlis
Toronto

Amyot, Lesage, De Grandpré,
Colas, Bernard & Drolet
Québec City, Québec

Honeywell Wotherspoon
Ottawa

Bankers

Bank of Nova Scotia
Manufacturers Hanover Trust

Transfer Agent

Canada Permanent Trust

