

# VS Services

Annual Report 1985  
VS Services Ltd.

**VS Services Ltd.** is a major diversified service company engaged primarily in food-service management to health care, business, industry, education, and public markets.

The Company has 18 operating divisions and subsidiaries, including Versa Services; Versa Food Services; Versabec, Inc.; Diplomat® Office Coffee System; Major Foods Limited; Parnell Foods (1981) Limited;

The Great Canadian Soup Company; and Complete Purchasing Services.

VS Services has more than 11,000 full-time employees in over 3,000 operating units across Canada.

VS Services, a publicly traded company since 1961, has provided food-services to Canadians for more than 35 years.

Our corporate goals at VS Services are: to run a sound service management company, with a high and constantly increasing level of quality for our services and products; to produce appropriate returns for those with a stake in our business; to continue the growth of our sales revenues through extension of present accounts, negotiation of new

contracts, and acquisition of additional businesses; to improve the prospects for our employees and managers through effective training and development programs and improved opportunities; and by playing a larger role in the Canadian business community, to maintain and heighten the image and reputation of VS Services.

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On peut se procurer l'édition française de ce rapport en écrivant au secrétaire.

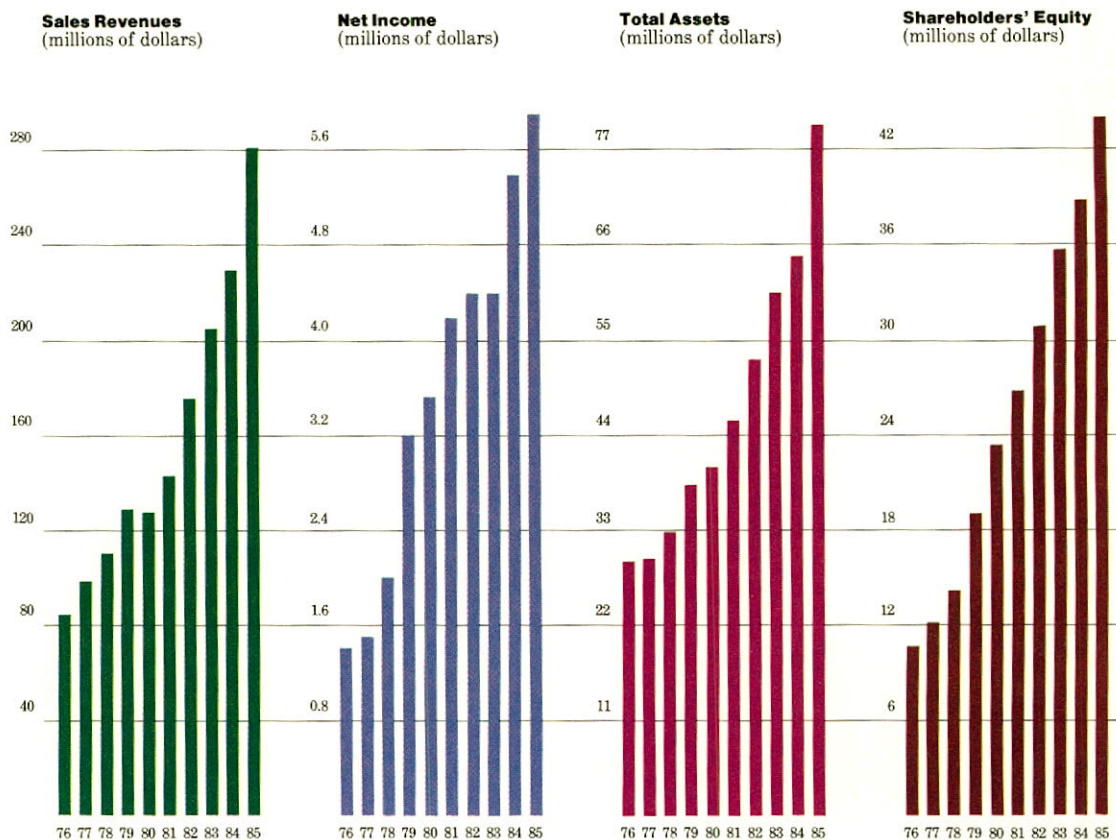
The Annual meeting of the Company will be held on February 5, 1986 at 11:00 a.m. at VS Services Ltd. corporate office, Islington & Evans, Toronto, Ontario.



## Financial Highlights

Fifty-two weeks ended September 25, 1985 and September 26, 1984  
(In thousands except per share data)

	1985	1984	% Increase
<b>Operations</b>			
Revenues from operations	\$281,176	\$227,894	23.4
Income from operations	9,355	7,290	28.3
Net income	5,902	5,426	8.8
Working capital	18,337	18,122	1.2
Funds provided from operations	11,849	9,699	22.2
Dividends paid	1,725	1,429	20.7
<b>Common Share Data</b>			
Average number of shares outstanding	2,904	2,837	2.4
Book value per share	\$ 15.03	\$ 13.58	10.7
Earnings per share	\$ 2.00	\$ 1.89	5.8
Dividends per share	\$ 0.56	\$ 0.48	16.7
<b>Financial Position</b>			
Total assets	\$ 80,005	\$ 64,788	23.5
Shareholders' equity	44,024	38,818	13.4



From left,  
James E. Graham,  
President and  
Chief Executive  
Officer and  
Dixon S. Chant,  
Chairman of the  
Board



### Financial Highlights

Fiscal 1985 was the most successful financial year in your Company's history.

Sales revenues rose to \$281 million, an increase of 23% over the previous year which itself was a record-breaking year for VS Services. Net profits were also improved at \$5.9 million, an increase of 9% over 1984.

Earnings per share were \$2.00, an increase of 5.8%; shareholders' equity increased to \$44 million, a gain of 13% over 1984's level of \$39 million.

### Operational Highlights

During this challenging year, in which Canada's industrial base did not expand dramatically, record sales were established by each operating division, and record profits were earned by every division except Parnell and Vending.

### Health Care

Health Care continues to be the largest single sector of our business. This division presently serves more than 170 clients across Canada, many of whom have been with VS Services for a decade or longer. We apply our expertise to enable them to work more effectively in today's economic climate.

### Restaurant and Leisure

This division increased its sales revenues mainly from additional business with existing accounts. The Canadian National Exhibition Stadium, always an important account, achieved new records this year due to the exceptional performance of the Toronto Blue Jays baseball club. VS Services also provides all food services at the Montreal International Airport at Dorval, P.Q., through 14 separate outlets, including fine restaurants, fast foods and kiosks; and at other important locations such as Lansdowne Park/Ottawa Civic Centre, Palais des congrès in Montreal, and African Lion Safari, Rockton, Ontario.

### Education Division

Our Education Division continued to be a leader in this major market. We completed our first full year at Canada's largest educational institution, the University of Toronto, and are well positioned for the current school year. In September, 1985, the Education Division in Ontario came under the direction of Versa Food Services. Elsewhere in Canada, Education clients continue to be served by Versa Services.

### Business and Industry

Our Business and Industry Dining Divisions operate more corporate employee cafeterias and executive dining rooms than any other Canadian company. Client locations include banks, insurance companies, office complexes, light industries and major



manufacturers. Versa Food Services serves accounts in Manitoba and Ontario; accounts in Atlantic Canada, British Columbia and Alberta are served by Versa Services; and Versabec Inc. serves accounts in Quebec.

### **Vending**

The Vending Division provides a full range of wholesome quality foods and beverages. Vending machines are located in office buildings, businesses and industrial facilities, educational facilities, hospitals, and some public areas—wherever it is important to provide quality food services on a 24-hour basis.

The Vending business pays the highest average wages of any entry in the Canadian food service industry. For example, the earnings of a vending person providing service to machines in industry are more than 300% greater than those of a person serving food in nearby fast food outlets. This is one of the reasons why vending is not generally considered a healthy industry. Your Company continues to seek realistic ways and means of keeping its Vending services competitive with other food service sectors, in order to maintain vending as a viable vehicle to provide food and beverage service.

Due both to Versa expansion and to shrinkage of competition, the vending divisions of Versa, Major, Parnell and Versabec now represent Canada's largest and only national food vending business. Our intention is to uphold the highest possible standards and quality in this troubled industry.

### **Parnell Foods**

Management worked hard throughout the year to return Parnell Foods to profitability. The cost of overhead services, including personnel, purchasing and accounting, was reduced by utilizing VS Corporate

departments; while retaining, on a totally separate basis, Parnell's marketing, sales and operational activities.

### **Acquisitions and Divestitures**

As planned, fiscal 1985 was devoted to learning to profitably operate the acquisitions of prior years. Additionally, we negotiated on several acquisition possibilities, with finalization expected early in 1986. During 1985, we sold the Versa Play and Learn Children's Centre.

### **Management**

Mr. William Hawes was appointed Corporate Vice President of Marketing for VS Services, in addition to his position as President and Chief Operating Officer of Parnell Foods. Mr. Paul Glover was promoted to General Manager, Corporate Marketing. Mr. Don Green was appointed Corporate Vice President, Vending Project, to examine and recommend on future directions for the Company's total vending business.

### **In Recognition**

This, the most successful year in the corporate history of VS Services, could not have been realized without the loyalty, support and encouragement of our more than 11,000 full-time employees, our suppliers, and our clients. To all of them we offer our thanks, and we will work to continue to merit this trust and support.



**Dixon S. Chant**  
Chairman of the Board



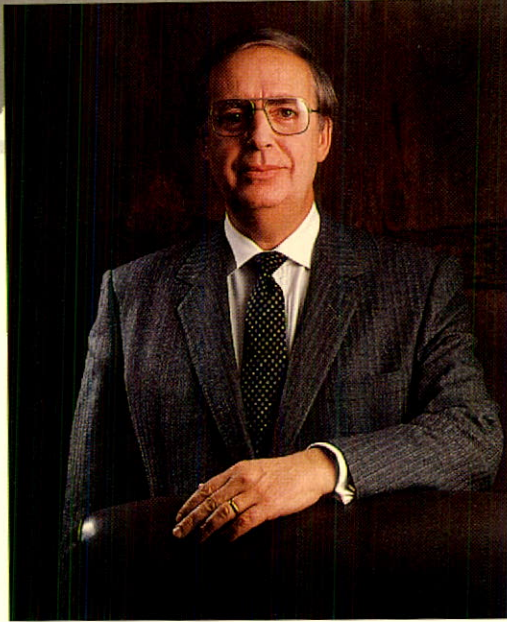
**James E. Graham**  
President and Chief Executive Officer

November 18, 1985



We anticipate considerable growth,  
both through  
internal expansion  
and acquisitions.

**Kenneth C. Daigle,  
President and Chief  
Operating Officer of  
Versa Services,  
helped his Division  
achieve continually  
improved levels of  
quality and service.**



Versa Services provides services to the Health Care, Educational, Business and Industry, Housekeeping and Correctional Facilities markets; and all VS services to the Quebec market through Versabec, Inc.

### **Financial Highlights**

- Revenues exceeded \$144 million, an increase of 11% over 1984, and income from operations was up by 8%.
- We anticipate considerable growth through expansion of present services and development/acquisition of additional services.

### **Health Care**

Versa Services is Canada's industry leader in providing professional food management services to hospitals, special care institutions, and facilities for seniors. Our more than 170 national clients range from small facilities with fewer than 50 beds to complex operations with over 1,800 beds.

**Our Quality Assurance and Operating Standards Audit Program** completed its first full year of operations. This important program assists clients in meeting the requirements for accreditation as proposed by the Canadian Council on Hospital Accreditation.

**Computer-controlled programs** improve all aspects of food delivery service, from inventory control through accounting, menu composition, nutritional analysis and productivity.

**Cost containment** helps reduce or eliminate unnecessary costs, through improved employee scheduling, purchasing, and management controls; and through introduction of new trends in dietary, housekeeping, laundry and maintenance services. Staff benefits include improved quality of work life and ongoing training programs.

### **Educational**

Versa Services serves over 50,000 meals each day to the education market, from elementary through College and University levels. Our special cost-controlling computerized feature, FOCUS®, provides a wide choice of favourite student menu items, eliminating runouts and achieving high product consistency.

### **Business and Industry**

Versa Services provides in-house cafeteria services to the business and industrial markets in British Columbia, Alberta, Manitoba, and Atlantic Canada; and in Quebec through Versabec, Inc.

**Careful planning  
and scheduling are  
key ingredients in  
the preparation of  
the more than  
50,000 meals  
which we serve  
daily to students  
and educators  
across Canada.**



Hospital patients  
enjoy the wide  
variety of delicious  
and nutritious  
meals which are

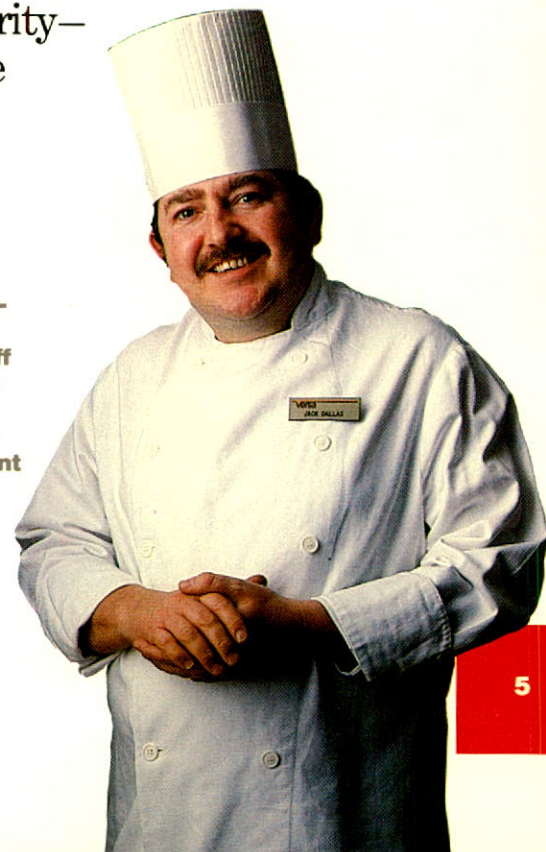
provided by our  
health care  
services.



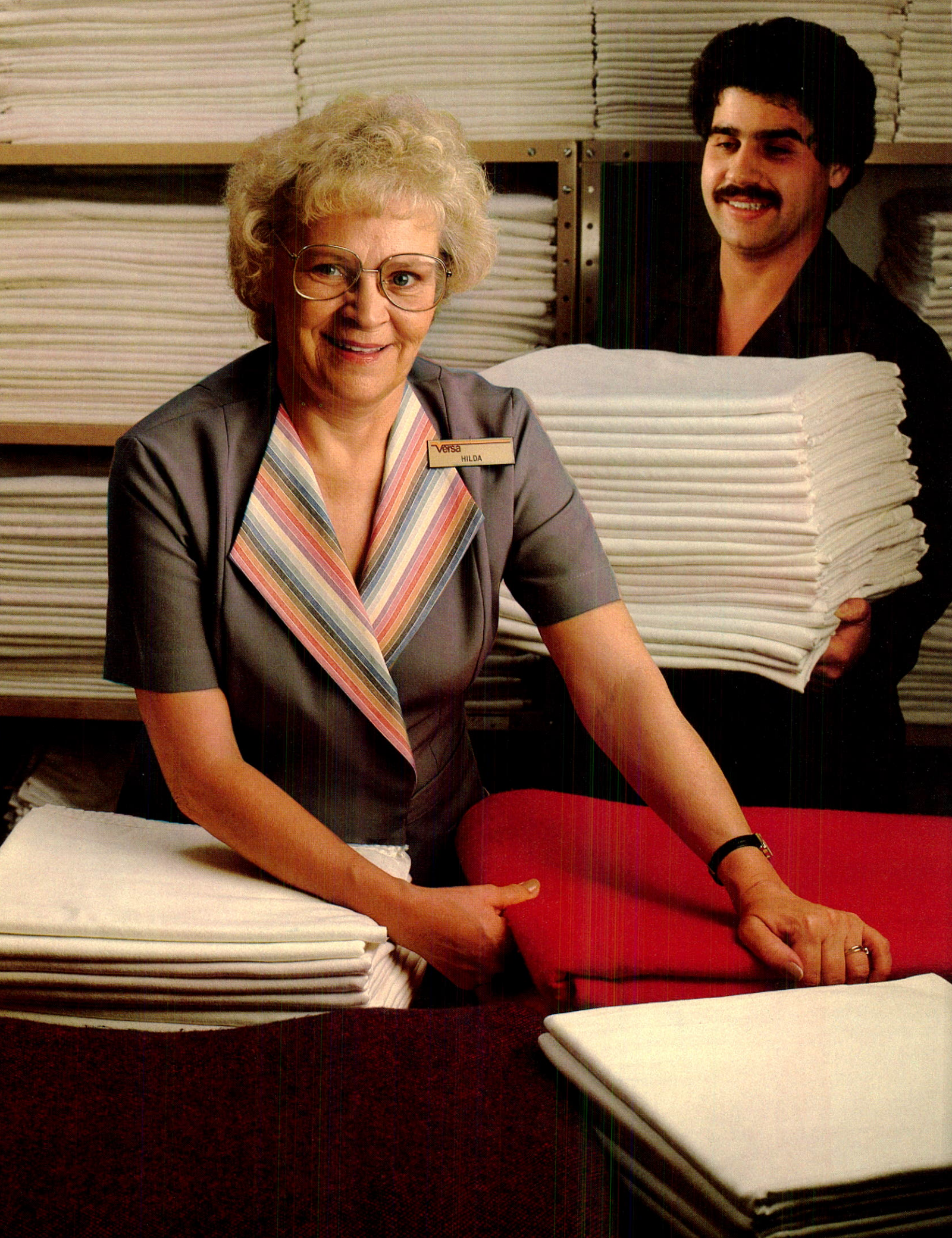
**"My top priority—  
make it taste  
good!"**

**Jack Dallas,  
Queen Elizabeth  
Hospital**

**Our chefs, dieti-  
tians, food produc-  
tion personnel,  
managers and staff  
take great pride in  
preparing food to  
the highest stand-  
ards for every client  
and food service  
location.**









### Housekeeping

Our Housekeeping, Laundry and Maintenance Division provides high quality, cost effective services to health care, education and business clients. Additional services provided include materials management and preventive maintenance.

**Materials management** provides clients with a realistic purchasing, storage and distribution program that guarantees product delivery as, when and where needed. Benefits include savings of both time and money, and guaranteed service and delivery.

**Preventive maintenance** uses computer technology to develop sophisticated programs which tell when and where each maintenance review should be done, and what equipment overhauls and changes are necessary. Benefits include longer lasting equipment, and substantial energy savings from more efficient operations.

### Versabec, Inc.

Versabec is Quebec's leading food service management organization, and offers food services to the Quebec market. In anticipation of strong growth, Versa Services has appointed Vice President Frank O'Hara to supply corporate resources to help develop this important market. Mr. Georges Tavernier, Vice President and General Manager, continues his responsibility for the overall leadership of the Versabec business.

### Correctional Facilities

Versa Services provides nutritional food services for inmates and staff of correctional facilities. Client benefits include improved cost control; freeing up of staff for other areas; staff and inmate participation in menu planning; and inmate training programs.

**Housekeeping and laundry services emphasize high quality standards, and pay careful attention to cost containment.**



### Management Changes

Mr. Ken Daigle, President and Chief Operating Officer of Versa Services, supervised the relocation of Versa Services headquarters to Vancouver, B.C. in September of 1985. Mr. Peter McCawley, Executive Vice President of Versa Services, operates from Toronto with responsibility for Ontario, Quebec, and Atlantic Canada.

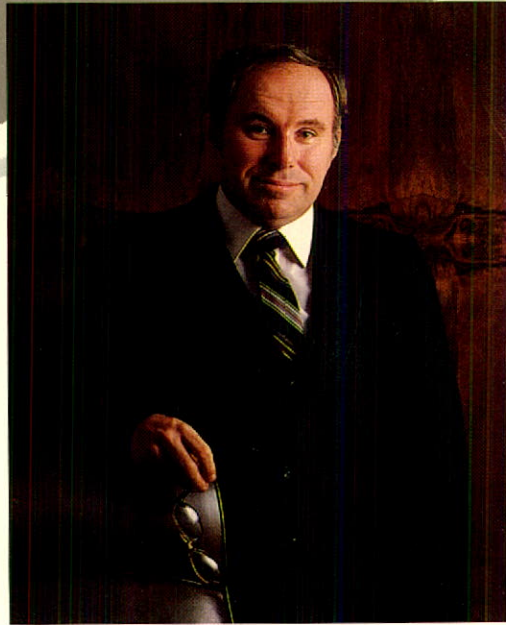
During the year, Mr. Frank O'Hara, previously Vice President, Alberta, moved to the new position of Vice President, Health Care, with special responsibilities in areas of development of Housekeeping and Dietary Management in Central Canada. Mr. Brian Phillips became General Manager, British Columbia; and Mr. Mike Foley became General Manager, Alberta.

**Versa Services is Canada's industry leader in providing professional dietary services to facilities for seniors and special care institutions.**



Our objective—to provide our clients with continually improving levels of quality and service.

**Robert E. Boone, President and Chief Operating Officer of Versa Food Services, directed his enthusiastic, hard working and successful management team.**



Versa Food Services provides food and beverage services to the At Work markets in Ontario and Manitoba, and in Atlantic Canada through our interest in Major Foods. It also has responsibility for Office Coffee Systems; Restaurant and Leisure clients; and Complete Purchasing Services.

### **Financial Highlights**

- Versa Food Services had an excellent year in fiscal 1985, thanks to growth in existing accounts, as well as through new business development.
- Revenues exceeded \$98 million, a gain of 10% over the preceding year; and income from operations was up by 20%.
- Our forecast is for improved revenues and income in the forthcoming year.

### **Restaurant and Leisure**

This Division enjoyed another excellent year, largely through strong team performances at Exhibition Stadium in Toronto, and improved traffic at Montreal International Airport, Dorval.

The Toronto Blue Jays ended the season as Number One in their Division, helping Versa Food to remain Number One in serving the needs of their sports fans. Our other Leisure business benefited from the growing experience of a strong management team, under the direction of Group Vice President David Denham.

During the year, the Division gained a long term contract at St. John's International Airport, Newfoundland; and successfully rebid on a new 15-year contract at Montreal International Airport. We also opened our first public restaurant—The Country Store—at Market Lane, Woodbridge, north of Toronto.

### **Office Coffee**

Our Office Coffee Division had another year of record sales. Through its 12 national branches, it provides convenient, complete coffee and other beverage services, with total volume now in excess of 140 million cups of coffee annually.

We serve our clients across Canada under the trade name of Diplomat®, and in Winnipeg under the equally well-known name of Aroma®. The Division is directed by Group Vice President Barry Allen, assisted by Gord Sommerville for Eastern Operations, and Ray Johnson for Western Operations.

**Food vending services provide a convenient quality service in industrial locations, office complexes, schools, hospitals, and public areas.**



**Versa Food  
Services operates  
more dining rooms  
for employees of**

**corporate clients  
than any other  
company in  
Canada.**



**"I really like my work—  
something new every day!"**

**M. Cristina  
Goncalves,  
Shell Canada**

**Ongoing staff  
training programs  
help improve the  
quality of work life  
for our staff; and  
introduce new  
trends in food  
services for the  
benefit of our  
clients and  
customers.**









### **Vended Foodservices**

The Vending Division provides a convenient, quality vending-oriented food service approach across Canada, often augmented by personalized attendant service. Although the Division made strong sales gains in 1985 with both new and existing clients, profit performance did not match the growth of sales revenues.

Under the direction of Corporate Vice President Don Green, we intend to continue to increase our business and improve profits through a coordinated, consolidated regional approach which more directly addresses the needs of our clients and customers.

### **Business and Industry Dining**

Our Business and Industry Dining Divisions operate more dining rooms for employees of corporate clients than any other company in Canada. We have developed a skilled group of chefs, dietitians, production personnel, managers, controllers and shippers, many with experience in public restaurants; and we place strong emphasis on staff training.

The Business Dining Division is under the direction of Group Vice President David Denham, while the Industrial Dining Division is managed by General Manager Carla Kelman.

### **Major Foods Limited**

Major Foods, in which VS Services holds a 51% interest, is the leader in Atlantic Canada in providing top quality Vending and Manual foodservices. The Company is directed by General Manager Ed Bell, with assistance from his dedicated management

team. Its founder, Jim Sawler, provides strong direction as Chairman of the Board.

Major Foods had another record year, with increased sales in Newfoundland and New Brunswick, an improved sales mix in Nova Scotia, development of a centralized vending refurbishment centre, and more emphasis on personalized management training.

### **Complete Purchasing Services**

This Division provides the benefits of combined purchasing power to smaller nursing homes and institutions with 70 beds or less in Ontario and Atlantic Canada.

### **In Summary**

The businesses which make up Versa Food Services share a common objective: to provide both clients and customers with continually improved levels of quality and service. Their success in realizing this objective reflects the enthusiasm and hard work of our managers and staff.

**Office Coffee Division provides its clients across Canada with a complete, trouble-free service of coffee and other beverage and snack services.**

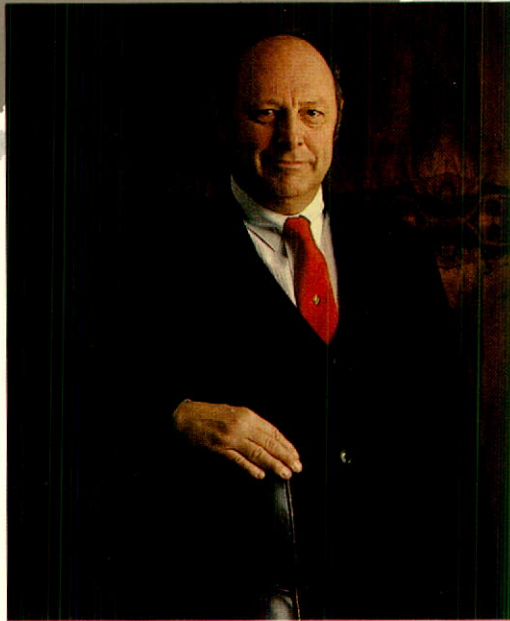
**Just as the Toronto Blue Jays are Number One in their division, Versa Food Services is Number One in serving the needs of Canada's leisure time market.**





We anticipate a good profit level in 1986, and satisfactory profits in subsequent years.

**William J. Hawes, President and Chief Operating Officer of Parnell Foods, guided his Division through a year of substantial challenges and positive improvements.**



Parnell Foods (1981) Limited provides cafeteria and vending services to accounts in business and industry, education, retirement homes and correctional institutions in the Ontario marketplace; and operates a chain of public restaurants, The Great Canadian Soup Company.

VS Services acquired Parnell Foods in the first week of fiscal 1985. During the year, Parnell's real estate holdings were sold,

which will produce savings in the future. The Company anticipates a good level of profit for Parnell Foods in 1986; and satisfactory profit levels in subsequent years.

### Friendly Rivals

Parnell Foods and Versa Food Services had been major competitors for the same areas of business, and continue to be friendly rivals. Each Company has a different management style and approach.

Parnell has its own unique benefits to offer. It is constantly updating its menus to reflect changing tastes and food trends; adjusting the configurations of its locations, to improve traffic patterns and provide better service; paying constant and careful attention to the atmosphere of its locations, to keep them fresh and sparkling.

Parnell develops its own food presentation concepts. Vending foodservices are supplied by its own kitchen; and its Modular Division prepares food centrally for distribution to accounts with limited facilities.

### The Great Canadian Soup Company

The Great Canadian Soup Company provides a good quality value-priced product in restaurants in office complexes with public access. The nine restaurants in the chain are located in Ontario, Quebec, Alberta, and upstate New York. This concept has a sound track record, and we are researching expansion possibilities through company-owned or franchising opportunities.

Parnell Foods is directed by Mr. William Hawes, President and Chief Operating Officer. This past year has been one of great change and substantial challenges for the Company. With a strong management team, and full corporate support, Parnell Foods feels very positive about 1986 and the future.



**The Great Canadian Soup Company provides quality foods, priced for value, through its chain of public restaurants.**



**Responsibility for  
Financial Statements**


**To the Shareholders of VS Services Ltd.**

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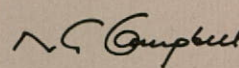
The accompanying consolidated financial statements have been prepared by management in accordance with generally accepted accounting principles consistently applied and have been audited by Clarkson Gordon, Chartered Accountants, whose report is included on this page. These statements, which necessarily include estimates and approximations, reflect information available to November 15, 1985, and we believe they set forth a fair presentation of the Company's financial position and the results of its operations.

Management maintains an accounting system, incorporating extensive internal controls, the effectiveness of which is regularly appraised by our internal auditors. An important element of this system is the establishment of an annual budget against which performance is monitored, variations are investigated, and corrective action is taken where required.

The Board of Directors has an audit committee, composed entirely of outside directors, which meets with management as well as with the internal and external auditors to review the financial statements and the independent auditors' report prior to approval of the statements by the Board of Directors.



R. E. Boone, C.A.  
Sr. Vice President  
and Chief Financial  
Officer



R. G. Campbell, C.G.A.  
Corporate Vice President,  
Finance

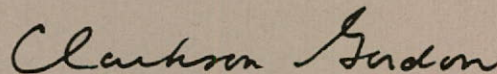
Toronto, Canada  
November 15, 1985

**Auditors' Report  
to the Shareholders**

We have examined the consolidated balance sheet of VS Services Ltd. as at September 25, 1985 and the consolidated statements of income, retained earnings and changes in financial position for the fifty-two weeks then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the

company as at September 25, 1985 and the results of its operations and the changes in its financial position for the fifty-two weeks then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding fifty-two week period.



Toronto, Canada  
November 15, 1985

Clarkson Gordon  
Chartered Accountants



**Consolidated Statement of  
Income and Retained Earnings**Fifty-two weeks ended September 25, 1985  
and September 26, 1984

(in thousands of dollars)	Note	1985	1984
<b>Revenues</b>		<u>\$281,176</u>	<u>\$227,894</u>
Expenses:			
Purchased materials consumed		108,637	86,453
Other operating, selling and administrative		157,140	130,103
Depreciation		5,591	3,761
Amortization of other assets		453	287
		<u>271,821</u>	<u>220,604</u>
<b>Income from operations</b>		9,355	7,290
Investment income		1,373	1,579
Interest on long-term debt		(432)	(123)
		10,296	8,746
Minority interest		150	165
<b>Income before income taxes</b>		<u>10,146</u>	<u>8,581</u>
Income taxes:	7		
Current		4,491	3,095
Deferred		(247)	60
		<u>4,244</u>	<u>3,155</u>
<b>Net income</b>		<u>\$ 5,902</u>	<u>\$ 5,426</u>
<b>Earnings per share</b>	6	<u>\$ 2.00</u>	<u>\$ 1.89</u>
<b>Retained earnings, beginning of year, as restated</b>	11	\$ 21,075	\$ 17,078
Net income		5,902	5,426
Dividends on common and preferred shares (\$0.56 per share, \$0.48 in 1984)		(1,725)	(1,429)
<b>Retained earnings, end of year, (1984 restated)</b>	11	<u>\$ 25,252</u>	<u>\$ 21,075</u>

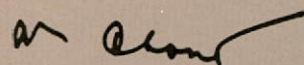


**Consolidated Balance Sheet**

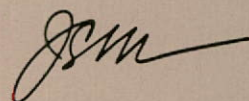
September 25, 1985 and September 26, 1984

(in thousands of dollars)	Note	1985	1984
<b>Assets:</b>			
Current:			
Cash and short-term investments		\$24,320	\$18,758
Receivables		18,989	14,034
Income taxes receivable			1,852
Inventories		7,624	6,346
Prepayments		595	275
<b>Total current assets</b>		<u>51,528</u>	<u>41,265</u>
Notes receivable	10	593	446
Fixed assets	3	21,631	17,963
Other assets	4	6,253	5,114
<b>Total assets</b>		<u>\$80,005</u>	<u>\$64,788</u>
<b>Liabilities and Shareholders' Equity:</b>			
Current:			
Accounts payable and accrued charges		\$30,025	\$23,135
Income taxes payable		1,097	
Current debt	5	2,069	8
<b>Total current liabilities</b>		<u>33,191</u>	<u>23,143</u>
Long-term debt	5	573	582
Deferred income taxes		1,642	1,820
Minority interest		575	425
<b>Shareholders' Equity:</b>			
Preferred stock—			
Authorized 300,000			
Issued and outstanding 192,500 (1984—171,000)	6	147	75
Common stock—			
Authorized—unlimited			
Issued and outstanding 2,919,666 shares			
(1984—2,853,285 shares)	6	18,625	17,668
Retained earnings		25,252	21,075
<b>Total shareholders' equity</b>		<u>44,024</u>	<u>38,818</u>
<b>Total liabilities and shareholders' equity</b>		<u>\$80,005</u>	<u>\$64,788</u>

On behalf of the Board:



Dixon S. Chant, Director



James E. Graham, Director



**Consolidated Statement of  
Cash Flows**Fifty-two weeks ended September 25, 1985  
and September 26, 1984

(in thousands of dollars)	1985	1984
<b>Cash provided by / (used in) operating activities:</b>		
Net income	\$ 5,902	\$ 5,426
Add: Charges to operations not requiring a current cash payment		
Depreciation and amortization	6,044	4,048
Deferred income taxes	(247)	60
Minority interest	150	165
	<u>\$11,849</u>	<u>\$ 9,699</u>
Net change in non-cash working capital	2,739	(1,836)
<b>Cash provided by operating activities</b>	<u>\$14,588</u>	<u>\$ 7,863</u>
<b>Cash provided by / (used in) investment activities:</b>		
Acquisitions, net of cash acquired	(1,825)	(1,871)
Additions to fixed assets	(4,585)	(4,886)
Reduction to other assets	313	
Additions to notes receivable	(147)	(9)
	<u>\$(6,244)</u>	<u>\$ (6,766)</u>
<b>Cash used in investment activities</b>	<u>\$(6,244)</u>	<u>\$ (6,766)</u>
<b>Cash provided by / (used in) financing activities:</b>		
Repayment of debt	(2,086)	(171)
Issue of shares	1,029	362
Dividends	(1,725)	(1,429)
	<u>\$(2,782)</u>	<u>\$ (1,238)</u>
<b>Cash used in financing activities</b>	<u>\$(2,782)</u>	<u>\$ (1,238)</u>
Net increase/(decrease) in cash during the year	5,562	(141)
Cash position, beginning of year	<u>18,758</u>	<u>18,899</u>
<b>Cash position, end of year</b>	<u>\$24,320</u>	<u>\$18,758</u>



**Notes to Consolidated  
Financial Statements**

September 25, 1985

**1. Significant accounting policies**

Corporate entity – The Company has substantially all of its operations in one dominant industry segment—food management services.

Consolidation – The consolidated financial statements include the accounts of all subsidiaries. All significant intercompany transactions have been eliminated and net income decreased by the portion of the income applicable to the minority shareholders.

Inventories – Inventories are valued at the lower of cost (first in—first out) and net realizable value.

Fixed assets – Fixed assets are recorded at cost. Depreciation and amortization are provided using the straight-line method at the following rates: vending equipment—12.5% to 20.0%, vehicles—33.3%, other equipment—10.0% to 20.0%, buildings—2.5% to 4%, leasehold improvements—life of the initial term of the lease.

Other assets – Other assets include investments in location acquisition costs and technical and systems know-how which are being amortized over their estimated useful lives not to exceed 40 years from the date of incurring the cost.

Deferred income taxes – Income taxes are provided on the tax allocation basis. The resultant deferred income taxes are due principally to claiming depreciation for tax purposes in excess of straight-line depreciation.

Earnings per share – Earnings per common share are calculated on the basis of the weighted average number of common shares outstanding during the year.

**2. Acquisitions**

On October 3, 1984, the Company acquired 100% of the shares of Parnell Foods (1981) Limited, a company engaged in food management services. The acquisition has been accounted for as a purchase and accordingly the results of its operations since October 3, 1984 have been included in the consolidated financial statements. Assets acquired were \$5,962,000, including \$1,905,000 of location acquisition costs (goodwill), and debt was assumed in the amount of \$4,137,000. The purchase price was \$1,825,000 of which \$1,325,000 was paid in cash and the balance of \$500,000 by the issue of 25,000 common shares of the Company.

**3. Fixed assets**

The major categories of fixed assets are:

(In thousands)	1985			1984
	Original Cost	Accumulated Depreciation	Net book Value	Net book Value
Land	\$ 492	\$ —	\$ 492	\$ 492
Vending equipment	29,018	18,981	10,037	7,603
Vehicles	1,397	1,142	255	103
Other equipment	14,170	7,794	6,376	5,842
Buildings	3,158	561	2,597	2,808
Leasehold improvements	4,189	2,315	1,874	1,115
Total	<u>\$52,424</u>	<u>\$30,793</u>	<u>\$21,631</u>	<u>\$17,963</u>

**4. Other assets**

These include investments in location acquisition costs of \$5,715,000 (1984—\$4,551,000) and technical and systems know-how of \$538,000 (1984—\$563,000). Location acquisition costs represent the excess of the cost of purchase over the fair value of net tangible assets of purchased businesses at the date of acquisition less subsequent write-offs. Technical and systems know-how represents the unamortized cost of on-going assistance provided by ARA Services Inc., the majority shareholder.



**Notes to Consolidated  
Financial Statements**

September 25, 1985

**5. Debt**

Of the \$2,069,000 current debt, \$2,060,000 is a 14% term loan maturing April 15, 1986 which is secured by specific assets of Parnell Foods (1981) Limited. The remaining debt of \$582,000 is a 13.5% mortgage which is secured by specific assets of Major Foods Limited, a subsidiary of the Company. The current portion is \$9,000. Repayments are: \$9,000 in 1986, \$10,000 in 1987 and the balance of \$563,000 in 1988.

**6. Share capital**

Common shares – The Company has a stock option plan for certain employees. During 1985, 24,881 were exercised for consideration of \$230,000, 2,818 were cancelled, and options on 30,200 shares were granted at fair market value. At September 25, 1985, options on 77,968 shares were outstanding (including options on 4,600 shares granted to employees who are officers) at prices ranging from \$17.00 to \$24.63. These options become exercisable in various cumulative equal amounts beginning one year after each option was granted and expire five years from date of grant.

Common stock issued and outstanding is:

(In thousands of dollars except for share data)	No. of shares	Amount
Common shares, beginning of year	2,853,285	\$17,668
Issued for acquisition of Parnell Foods (1981) Limited	25,000	500
Issued for options exercised	24,881	230
Issued for conversion of preferred stock	16,500	227
Common shares, end of year	<u>2,919,666</u>	<u>\$18,625</u>

Preference Shares – The Company has a Preference Share Incentive Plan, the purpose of which is to provide an incentive to certain key employees to achieve the longer term objectives of the Company. These non-cumulative shares are retractable and redeemable under certain conditions, both at the issue price and are convertible into common shares over a six-year period from the date of issue on a one-for-one basis. During 1985, 38,000 preference shares were issued for \$836,000 and 16,500 shares were converted to common shares. Interest free loans have been made to the purchasers of these shares. The loans which are secured by the preference shares are repayable upon conversion to common shares unless otherwise continued by the approval of the Compensation Committee. Notes receivable in respect of the shares purchased under this plan in the amount of \$3,209,000 at September 25, 1985 (\$2,672,000 at September 26, 1984) are recorded as a reduction of the dollar value of preferred stock issued and outstanding.

If all the employee stock options and preference shares outstanding as at September 25, 1985 had been exercised or converted into common shares at the date of issue, earnings per share would have been \$1.91 (\$1.81 in 1984). For purposes of calculating this fully diluted earnings per share figure, earnings applicable to common shares were increased by the dividends paid on preference shares (\$96,000) and the earnings at an after tax rate of 7.0% on cash generated from stock options exercised (\$854,284). The number of common shares outstanding was adjusted to reflect the additional shares (216,064) that would have resulted on the exercise of stock options and conversion of preference shares calculated on a weighted average basis.

**7. Income taxes**

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

(Percentage)	1985	1984
Combined basic federal and provincial income tax rate	50.8%	50.8%
Corporate surtax	0.4	0.2
Tax exempt investment income	(4.8)	(6.6)
Manufacturing and processing deduction	(3.3)	(2.9)
Investment tax credit	(3.3)	(2.0)
Inventory allowance	(0.9)	(0.9)
Other	2.9	(1.8)
Effective rate reflected in the income statement	<u>41.8%</u>	<u>36.8%</u>



**Notes to Consolidated  
Financial Statements**

Fifty-two weeks ended September 25, 1985

**8. Commitments**

The company has undertaken operating lease obligations extending for varying periods up to 1991 involving minimum annual rental as follows:

(In thousands)	Year	Amount
	1986	\$2,045
	1987	1,770
	1988	1,605
	1989	1,234
	1990	792
	Thereafter	1,015

**9. Pension plans**

The Company contributes to several pension plans covering substantially all eligible employees. Contributions were charged to expense and amounted to \$651,000 in 1985 (\$1,256,000 in 1984). Based on the most recent actuarial reports pension fund assets in each plan exceed the liabilities of the plan. At September 25, 1985 the book value and the market value of the assets in the various employee pension plans administered by the Company were \$15,442,000 and \$15,623,000 respectively.

**10. Transactions with related parties**

During the year the Company made an interest free loan of \$135,000 to an officer of the Company under the Company's home purchase plan. All loans made under this plan are interest free and are repayable under agreements with terms of up to thirteen years. At September 25, 1985, \$396,000 was outstanding from twelve employees, three of whom are officers, or persons related to officers of the Company. The amount outstanding of \$344,000 is included in notes receivable and the current balance of \$52,000 is included in accounts receivable.

During the year the Company made interest free loans amounting to \$836,000 to ten key employees (six of whom are officers, three of whom are directors) under the terms of the Preference Share Incentive Plan described in Note 6. At September 25, 1985, \$3,209,000 of these loans are outstanding to the above employees, and are recorded as a reduction of the dollar value of preferred stock issued and outstanding.

**11. Prior period adjustment**

The Company has reached a settlement in the amount of \$1,400,000 with respect to an action commenced against it in 1972 by Canada Square Corporation Limited. This has been reflected as a prior period adjustment in these financial statements. Retained earnings at the beginning of 1984 have been reduced by \$742,000 which is the \$1,400,000 settlement less the related income tax effect of \$658,000. Accounts payable and income taxes receivable for 1984 have been increased by \$1,400,000 and \$658,000 respectively.

**12. Comparative figures**

Comparative figures for 1984 have been reclassified where appropriate to conform to 1985 presentation.



**Ten Year  
Statistical Review**

(In thousands of dollars except per share data)

1985

1984

**Income Summary:**

Revenues from operations	\$281,176	\$227,894
Purchased materials consumed	108,637	86,453
Operating, selling and administrative expenses	157,140	130,103
Depreciation	5,591	3,761
Amortization of other assets	453	287
<b>Total expenses</b>	<b>271,821</b>	<b>220,604</b>
Income from operations	9,355	7,290
Investment income	1,373	1,579
Interest on long-term debt	(432)	(123)
Operating profits on foreign operations sold, net of income taxes		
Income before minority interest, income taxes and extraordinary items	10,296	8,746
Minority interest on continuing operations	150	165
Income taxes	4,244	3,155
Income before extraordinary items	5,902	5,426
Extraordinary items, net		
<b>Net income</b>	<b>\$ 5,902</b>	<b>\$ 5,426</b>

**Financial Position:**

Current assets (As per Note 11 to the financial statements)	\$ 51,528	\$ 41,265
Investment in associated company		
Notes receivable	593	446
Fixed assets	21,631	17,963
Other assets	6,253	5,114
<b>Total assets</b>	<b>80,005</b>	<b>64,788</b>
Current liabilities (As per Note 11 to the financial statements)	33,191	23,143
Long-term debt	573	582
Deferred income taxes	1,642	1,820
Minority interest	575	425
Shareholders' equity (As per Note 11 to the financial statements)	44,024	38,818
<b>Total liabilities and shareholders' equity</b>	<b>\$ 80,005</b>	<b>\$ 64,788</b>

**Other Data:**

Earnings per share before extraordinary items	\$2.00	\$1.89
net income	\$2.00	\$1.89
Dividends per common share	\$0.56	\$0.48



1983	1982	1981	1980	1979	1978	1977	1976
<u>\$204,093</u>	<u>\$174,833</u>	<u>\$142,483</u>	<u>\$127,569</u>	<u>\$128,981</u>	<u>\$108,754</u>	<u>\$ 98,218</u>	<u>\$ 83,999</u>
75,999	67,201	55,385	48,962	50,666	41,442	36,399	32,049
117,925	99,236	79,898	71,534	71,636	62,146	57,586	48,685
3,494	2,537	1,660	1,586	1,615	1,288	1,149	1,148
267	211	171	174	174	162	159	156
<u>197,685</u>	<u>169,185</u>	<u>137,114</u>	<u>122,256</u>	<u>124,091</u>	<u>105,038</u>	<u>95,293</u>	<u>82,038</u>
6,408	5,648	5,369	5,313	4,890	3,716	2,925	1,961
1,062	1,984	2,685	1,641	992	526	49	61
(106)	(127)		(130)	(310)	(398)	(434)	(593)
						316	279
7,364	7,505	8,054	6,824	5,572	3,844	2,856	1,708
85	(13)						
<u>2,864</u>	<u>3,114</u>	<u>3,865</u>	<u>3,318</u>	<u>2,621</u>	<u>1,793</u>	<u>1,108</u>	<u>764</u>
4,415	4,404	4,189	3,506	2,951	2,051	1,748	944
				241		(252)	543
<u>\$ 4,415</u>	<u>\$ 4,404</u>	<u>\$ 4,189</u>	<u>\$ 3,506</u>	<u>\$ 3,192</u>	<u>\$ 2,051</u>	<u>\$ 1,496</u>	<u>\$ 1,487</u>
\$ 38,354	\$ 32,240	\$ 30,544	\$ 27,110	\$ 24,090	\$ 19,896	\$ 16,631	\$ 13,860
1,814	416	956	1,001	1,524	1,634	1,782	2,095
15,740	15,308	10,129	7,872	8,100	7,185	6,738	410
4,628	4,879	4,191	4,420	4,594	4,259	4,421	5,623
<u>60,536</u>	<u>52,843</u>	<u>45,820</u>	<u>40,403</u>	<u>38,308</u>	<u>32,974</u>	<u>29,572</u>	<u>29,541</u>
21,927	19,633	17,471	15,610	15,126	12,855	11,293	10,508
753	345			2,966	4,932	5,320	7,372
1,760	1,692	1,499	1,341	1,167	1,054	811	218
260	175						803
<u>35,836</u>	<u>30,998</u>	<u>26,850</u>	<u>23,452</u>	<u>19,049</u>	<u>14,133</u>	<u>12,148</u>	<u>10,640</u>
<u>\$ 60,536</u>	<u>\$ 52,843</u>	<u>\$ 45,820</u>	<u>\$ 40,403</u>	<u>\$ 38,308</u>	<u>\$ 32,974</u>	<u>\$ 29,572</u>	<u>\$ 29,541</u>
\$1.57	\$1.60	\$1.56	\$1.38	\$1.26	\$0.97	\$0.83	\$0.45
\$1.57	\$1.60	\$1.56	\$1.38	\$1.36	\$0.97	\$0.71	\$0.71
\$0.44	\$0.40	\$0.30	\$0.24	\$0.18	\$0.11		



**Quarterly Results**

(In thousands of dollars except per share data)

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total 1985
<b>1985</b>					
Revenues from operations	\$ 69,394	\$ 67,563	\$ 72,925	\$ 71,294	\$281,176
Income from operations	2,029	1,448	2,656	3,222	9,355
Net income	1,244	1,191	1,638	1,829	5,902
Earnings per common share	0.43	0.41	0.55	0.61	2.00
Dividends per common share	0.14	0.14	0.14	0.14	0.56
Price range per common share					
High	22.50	24.50	23.50	25.50	25.50
Low	21.75	21.88	21.00	21.50	21.00

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total 1984
<b>1984</b>					
Revenues from operations	\$55,807	\$54,372	\$58,985	\$58,730	\$227,894
Income from operations	1,762	1,557	2,093	1,878	7,290
Net income	1,173	1,172	1,460	1,621	5,426
Earnings per common share	0.41	0.41	0.51	0.56	1.89
Dividends per common share	0.12	0.12	0.12	0.12	0.48
Price range per common share					
High	18.38	20.00	20.00	22.13	22.13
Low	17.50	17.63	19.00	19.50	17.50



## Directors and Officers

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### DIRECTORS

**\*Robert E. Boone**

Senior Vice President  
VS Services Ltd.  
Toronto

**\*Dixon S. Chant**

*Chairman of the Board*  
President  
Argus Corporation Limited  
Toronto

**†Hon. Guy Charbonneau**

Chairman  
Pratte-Morrisette Ltée  
Montreal

**†Lee F. Driscoll, Jr.**

Partner  
Ballard, Spahr, Andrews & Ingersoll  
Philadelphia

**Karl Duesterberg**

President and Chief Executive Officer  
Apetito Karl Duesterberg  
GmbH & Co.  
Rheine, West Germany

**\*Claude Feninger**

President—International Sector  
ARA Services, Inc.  
Philadelphia

**\*William S. Fishman**

Director  
ARA Holding Co.  
Philadelphia

**\*James E. Graham**

President and Chief Executive Officer  
VS Services Ltd.  
Toronto

**\*Gowan T. Guest, Q.C.**

Partner  
Messrs. Owen, Bird  
Vancouver

**\*Joseph Neubauer**

President and Chief Executive Officer  
and Chairman of the Board  
ARA Services, Inc.  
Philadelphia

**David F. Sobey**

Chairman and Chief Executive Officer  
Sobeys Stores Limited  
Stellarton, Nova Scotia

**Martin W. Spector**

Executive V.P. Secretary & Director  
ARA Services, Inc.  
Philadelphia

**†Dr. Jennifer M. Sturgess**

Director  
Warner-Lambert/  
Parke-Davis Research Institute  
Toronto

**Michael J. White**

Partner  
Day, Ault & White  
Toronto

\*member of the Executive Committee

†member of the Audit Committee

### OFFICERS

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Chairman of the Board

**James E. Graham**

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**Kenneth C. Daigle**

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Finance

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Corporate Vice President  
Marketing

**Philippe H. Coupey**

Corporate Vice President  
Personnel

**Don H. Green**

Corporate Vice President

**Corinne L. Sklar**

Corporate Counsel and Secretary

**Hugh N. MacDonald**

Treasurer

**Miro Mandarich**

Corporate Controller



**Principal Operating Divisions  
and Companies**

**OFFICERS: Versa Food Services**

**Robert E. Boone**  
President and Chief Operating Officer

**J. Barry Allen**  
Group Vice President

**David A. Denham**  
Group Vice President

**Michael P. Oschefski**  
Vice President  
Education Division

**Frank W. Thomson**  
Vice President  
Sales

**OFFICERS: Versa Services**

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President and Chief Operating Officer

**Peter E. McCawley**  
Executive Vice President

**Frank W. Thomson**  
Vice President  
Sales

**Drew R. Hickerson**  
Vice President  
Ontario Health Care

**Frank J. O'Hara**  
Vice President

**Bruce T. Chadwick**  
Vice President  
Atlantic Canada

**James P. Sawler**  
Vice President  
Atlantic Sales

**Gil Schneider**  
Vice President  
Western Sales

**DIRECTORS: Versabec, Inc.**

**Rosaire Archambault, Sr.**  
President  
Archambault Musique  
Division of E. D. Archambault Inc.  
Montreal

**Robert E. Boone**  
Senior Vice President  
VS Services Ltd.  
Toronto

**Hon. Guy Charbonneau**  
Chairman  
Pratte-Morrisette Ltée  
Montreal

**Kenneth C. Daigle**  
Executive Vice President  
VS Services Ltd.  
Toronto

**Lt. Col. R. Guy Godbout**  
Chairman  
Cogan Wire and Metal  
Products (1974) Ltd.  
Quebec City

**James E. Graham**  
President and Chief Executive Officer  
VS Services Ltd.  
Toronto

**Peter E. McCawley**  
Executive Vice President  
Versa Services  
Toronto

**Philippe Roberge**  
Partner  
Tees, Watson, Poitevin,  
Javet & Roberge  
Montreal

**Georges A. Tavernier**  
Vice President and General Manager  
Versabec, Inc.  
Montreal

**DIRECTORS: Major Foods Limited**

**Robert E. Boone**  
Senior Vice President  
VS Services Ltd.  
Toronto

**Ralph S. Chancey**  
President  
Standard Manufacturing Ltd.  
St. John's, Newfoundland

**James E. Graham**  
President and Chief Executive Officer  
VS Services Ltd.  
Toronto

**G. E. Graham**  
Vice President  
New Brunswick Telephone Company  
Limited  
Saint John, New Brunswick

**John W. Lindsay**  
President  
J. W. Lindsay Enterprises Limited  
Dartmouth, Nova Scotia

**Peter E. McCawley**  
Executive Vice President  
Versa Services  
Toronto

**Carlisle Norwood**  
Vice President  
East Coast Properties Limited  
Dartmouth, Nova Scotia

**James P. Sawler**  
*Chairman of the Board*  
Vice President, Atlantic Sales  
Versa Services  
Dartmouth, Nova Scotia

**DIRECTORS: Parnell Foods (1981) Limited**

**Robert E. Boone**  
Senior Vice President  
VS Services Ltd.  
Toronto

**Russell G. Campbell**  
Corporate Vice President  
Finance  
VS Services Ltd.  
Toronto

**John R. Corbett**  
Vice President Development  
Tim Donut Limited  
Oakville, Ontario

**James E. Graham**  
President and Chief Executive Officer  
VS Services Ltd.  
Toronto

**William J. Hawes**  
President and Chief Operating Officer  
Parnell Foods (1981) Limited  
Oakville, Ontario

**OFFICERS: Parnell Foods (1981) Limited**

**James E. Graham**  
*Chairman of the Board and  
Chief Executive Officer*

**William J. Hawes**  
President and Chief  
Operating Officer

**Howard Stanleigh**  
Director of Finance  
and Secretary



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**CORPORATE OFFICES**

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Telex: 01931659

**Parnell Foods (1981) Limited**

406 Newbold Street  
London, Ontario N6E 1K1  
Telephone: (519) 681-0110

**Versabec, Inc.**

8180 Montview Avenue  
Montreal, Quebec H4P 2L7  
Telephone: (514) 341-7770  
Telex: 05825604

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**Exchange Listings**

The common shares of VS Services Ltd. (ticker symbol VSL) are listed on the Toronto Stock Exchange and the Montreal Stock Exchange.

**Auditors**

Clarkson Gordon  
Toronto

**Transfer Agent & Registrar**

National Trust Company  
Toronto





**Islington & Evans**  
**Box 950, Station "U"**  
**Toronto, Ontario M8Z 5Y7**