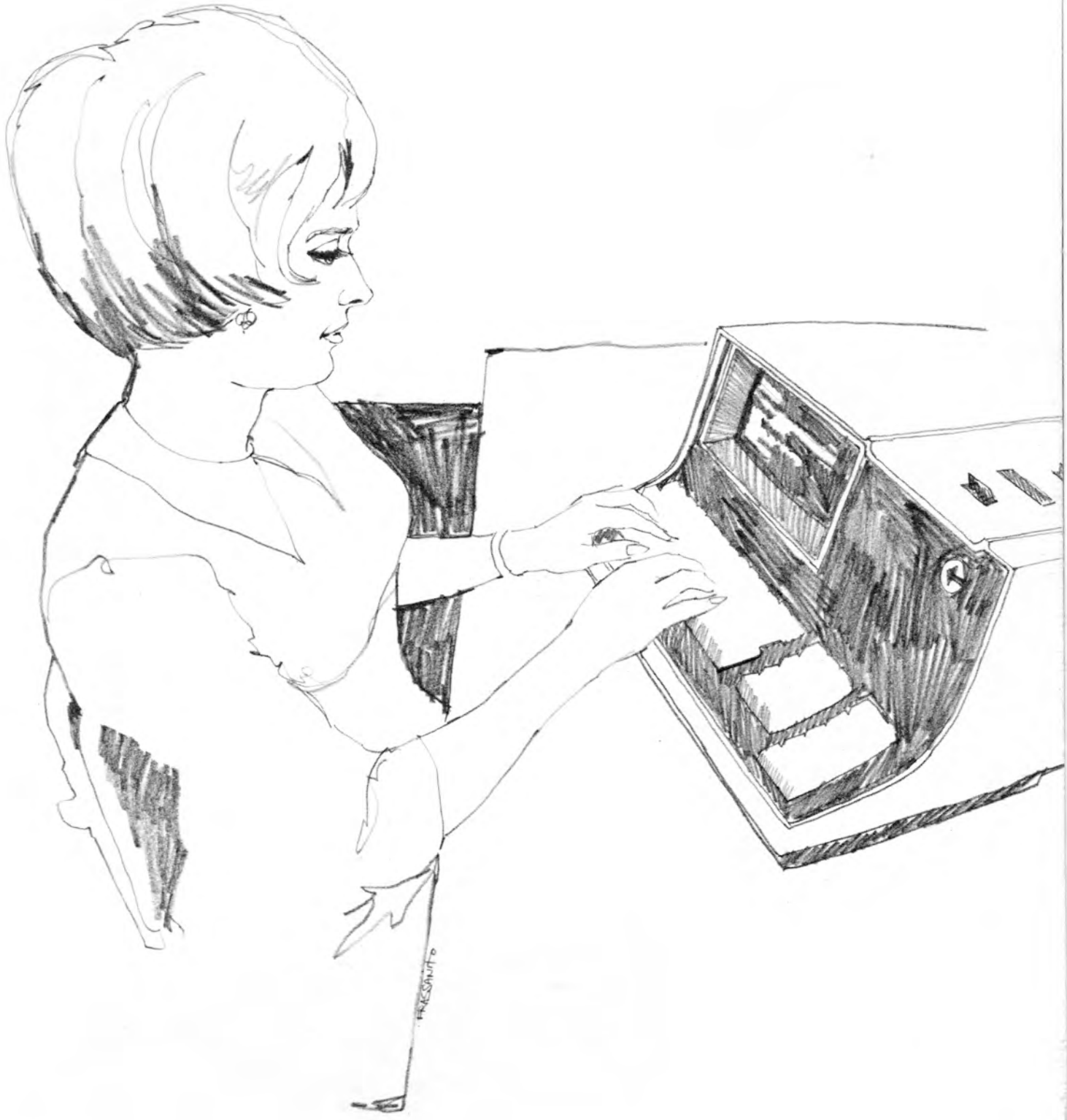
COMPUTER TERMINAL CORPORATION

ANNUAL REPORT 1971



## ABOUT YOUR COMPANY

Computer Terminal Corporation was founded in July, 1968 and is involved in the development, manufacturing, marketing, maintenance and financing of computer related equipment.

### People and Places

The Company employs approximately 300 fulltime personnel and maintains 21 sales-service locations in the United States. The Company's products are also marketed through distributor representatives in thirteen foreign countries, with TRW Electronics-International serving as master distributor.

### Banking and Ownership

Of the 3,340,000 shares outstanding, 700,000 are publicly held. Major investors include TRW, Inc., First National City Bank of New York, New Court Securities, Inc., Technology Fund, Inc., Cambridge Associates and other large institutional investors. The Company's investment bankers are White-Weld & Co., and its commercial bank is Frost National Bank of San Antonio, Texas.

### Facilities

Manufacturing, engineering and administrative facilities are located at 9725 Datapoint Drive in San Antonio. Total floor space of this modern, two-year-old building is 85,000 sq. ft. This structure, plus an adjacent 8,000 sq. ft. office building and 14 acres of land are owned by the Company. The Company also leases sales-service office facilities in 7 major metropolitan areas.

### Financial Brief

| | For the Fiscal Years Ending: | | |
|---|---|---|---|
| | July 25 1971 | July 26 1970 | July 27 1969 |
| Dollar value of units shipped for sale or lease* | $5,493,000 | $4,188,000 | $ —— |
| Revenues | $3,097,000 | $3,847,000 | $ —— |
| Cost & Expenses | $6,847,000 | $5,064,000 | $ 688,000 |
| Net Loss | $3,750,000 | $1,217,000 | $ 688,000 |
| Loss per Common Share | $ 1.25 | $ .57 | $ .50 |
| Average number of shares outstanding | 2,995,609 | 2,119,383 | 1,371,520 |
| Stockholders' Equity | $2,470,000 | $3,120,000 | $ 344,000 |

*The dollar value of shipments is calculated by multiplying the units of equipment shipped for sale or lease by the appropriate sales price. Equipment shipped for lease to end-users, for purpose of the above comparison, have been priced at end-user list selling prices. The Company sells its products at discounts to International Distributors and to Original Equipment Manufacturers. The Company also gives quantity discounts to end-users.

**TO OUR STOCKHOLDERS:** In 1968 when Computer Terminal Corporation, your Company, was formed, its principal product objective was to develop and successfully bring to market, at a reasonable price, a truly flexible intelligent source data capture terminal in the shortest possible time frame.

During Fiscal Year 1971, shipments of this product, the Datapoint 2200 Intelligent Terminal, began. By the end of the Fiscal Year, this product line had been expanded to include a number of peripherals. By year end, Fiscal 1971, over $530,000 of Datapoint 2200 products had been shipped for lease or sale. During the first three accounting periods of Fiscal 1972, an additional $410,000 worth were shipped for lease or sale. We are justifiably proud of having achieved our original primary product goal in so short a time. The initial acceptance of the product in the market place has been excellent.

The Company also experienced growth and expansion of its original product line, the Datapoint 3300 Terminal. During the year, the Datapoint 3000 Terminal, a lower priced version of the 3300 with somewhat lesser capability than its parent, was introduced. The Datapoint 3000 has been very competitive and 372 of these terminals were installed from October 1970 through the Fiscal year-end. Also, an evolution of the 3300, the Datapoint 3360 Terminal was introduced in early 1971, and has made steady progress in the market place. The 3360 is a system product that performs the same functions as an IBM 2260. Although it is compatible on a system basis, it is not intended to be directly competitive with the 2260 on a one-to-one basis. However, it is designed to be significantly competitive with the 2260 in multiple unit applications and in applications requiring dispersed location of terminals.

On July 1, 1971, the Company signed an International Marketing Agreement with TRW Electronics-International to provide for the distribution of Datapoint products overseas. With TRW serving as the Master Distributor, agreements with four international distributing organizations have been signed and negotiations with eight more are in progress. These agreements and others which are expected to follow will give Computer Terminal Corporation essentially worldwide sales and service coverage.

Shipments of all products grew steadily throughout the year. Total sales value of units shipped for sale or lease during Fiscal 1971 reached $5,493,000 compared to $4,188,000 during Fiscal 1970, a gain of 31%.

Your Company's management would very much like to be able to inform you at this time that these achievements and growth have been attained without adversities and that your Company has unquestionably passed through all those crises to which young companies in our industry are subjected. Regretfully, we are not yet able to do this. While total shipments for sale or lease were 31% greater than total shipments for the prior Fiscal Year, revenues for FY 1971 were $730,000 below FY 1970. The Company's Net Loss increased from $1,217,000 to $3,750,000. There are several factors which contributed to the unfavorable complexion of these financial data.

First, during FY 1970, the Company sold a substantial portion of its shipments at discounted prices to distributors for cash. These transactions were reflected as revenues during the period in which the sales were consummated. During the final accounting periods of Fiscal 1970, and throughout Fiscal 1971, the prevailing conditions in the Nation's economy and the data processing market place necessitated a decision on the part of your Company to also lease its products directly to the equipment user. During Fiscal Year 1971, equipment shipments to end-users were predominately made under lease agreements. Proceeds from such leases, and depreciation of leased equipment cost, are reflected respectively in Revenues and Cost of Sales in increments as the rentals are received by the Company from the equipment user. This type of transaction has the initial effect of reducing currently reported revenues and extending the time frame required to achieve a net profit.

Second, new interpretations of Accounting Principles Board Opinion No. 7, resulted in a change in our method of accounting for transactions which are legally sales of equipment to a leasing company. During FY 1970, under then generally accepted accounting practices, these transactions were accounted for as sales, with the proceeds of the transaction, net of the cost of the equipment, reflected in the Company's financial statements as income during the periods in which the transactions were consummated. Under new interpretations, proceeds from the transaction, net of the cost of the equipment, have been accounted for as deferred income, and such deferred income is recognized in the Company's financial statements in increments as rental payments are received by the leasing company from the equipment user. In summary, this change in accounting method decreased reported revenues, increased reported losses, decreased Total Stockholders'

Equity, and, the Deferred Income resulting therefrom, although not a legal liability of the Company, is considered a liability for certain accounting purposes. These effects resulted in the Company being unable to comply with certain covenants in its 7-1/2% Convertible Subordinated Notes due October 23, 1980. (This is more fully explained in the Notes to Financial Statements of this Annual Report.) The Company has obtained the necessary Waivers of Compliance from Noteholders with respect to certain provisions of the Notes for a maximum period of time ending July 31, 1972. Prior to this date, it is anticipated that the Company and the Noteholders will negotiate an amendment to the Purchase Agreement of October 23, 1970 that will mitigate this problem.

Third, as a result of changing its marketing approach from distributor and O.E.M. sales activities to direct end-user selling and leasing, the Company experienced a significant increase in Marketing and Field Service expenses. Much of the increased expense is attributable to start-up expenses of a nationwide end-user marketing and field service organization and to the initial expenses of introducing the Datapoint 2200 product line. However, the Company also deviated from its original end-user marketing strategy and embarked upon a marketing program that required financial and human resources far beyond its means. Because of these factors the increase in Marketing expense is out of proportion with the results. Actions have been taken to effect a return to a lean, well aimed end-user sales force (the Company's original marketing strategy) and these expenses have been reduced substantially without detrimental impact on new order bookings.

Fourth, General and Administrative expenses and Interest expense increased substantially. The increase in G & A expense resulted largely from the establishment of a $290,000 reserve against a potential loss on prior sales to distributors who have failed to make payment and with whom the Company is now involved in litigation. (See Note 8 to Notes to Financial Statements), and increased expenses relating to the Company's expanded facilities which were completed during FY 1971. The increase in Interest expense was incurred as a result of the issuance of $2,472,000 in 7-1/2% Convertible Subordinated Notes in October of 1970 and a mortgage loan placed during FY 1971 for the Company's facilities at 9725 Datapoint Drive.

In the past several months your Company has effected some personnel changes in key management positions. Mr. G. R. Mazur, former Chairman of the Board, and Mr. M. J. Franklin, former Executive Vice President, Marketing and Finance, are no longer associated with the Company. Mr. V. D. Poor, formerly Vice President, Engineering, of the Company, has undertaken the responsibilities of Vice President, Marketing and Field Service. Mr. M. E. Faherty, who has held various financial and administrative positions with Recognition Equipment, Inc., North Carolina National Bank, Celanese Corporation and U.S. Steel Corporation, has joined the Company as Vice President, Finance.

Your Company's current financial resources are considerably strained. The growing and sizeable leased equipment pool owned by the Company reduces the initial cash inflow per shipment and results in additional cash requirements. The Company has entered into discussions with several sources for additional funds with which to finance its leases and operations (neither the Company nor the leasing company expect the existing leasing agreement, scheduled to expire on December 31, 1971, to remain in effect for any significant period beyond that date). The Company's management, Board of Directors, Investment Bankers and major Investors are expending their utmost efforts to obtain financing arrangements which will sustain the Company until such time as the revenues from its pool of leased equipment are sufficient to meet the Company's cash and profit requirements, and enable the Company and its Stockholders to realize the potential benefits to be derived from the growth and achievements of the past three years. We are hopeful that favorable results from these efforts can be reported to you in the near future.

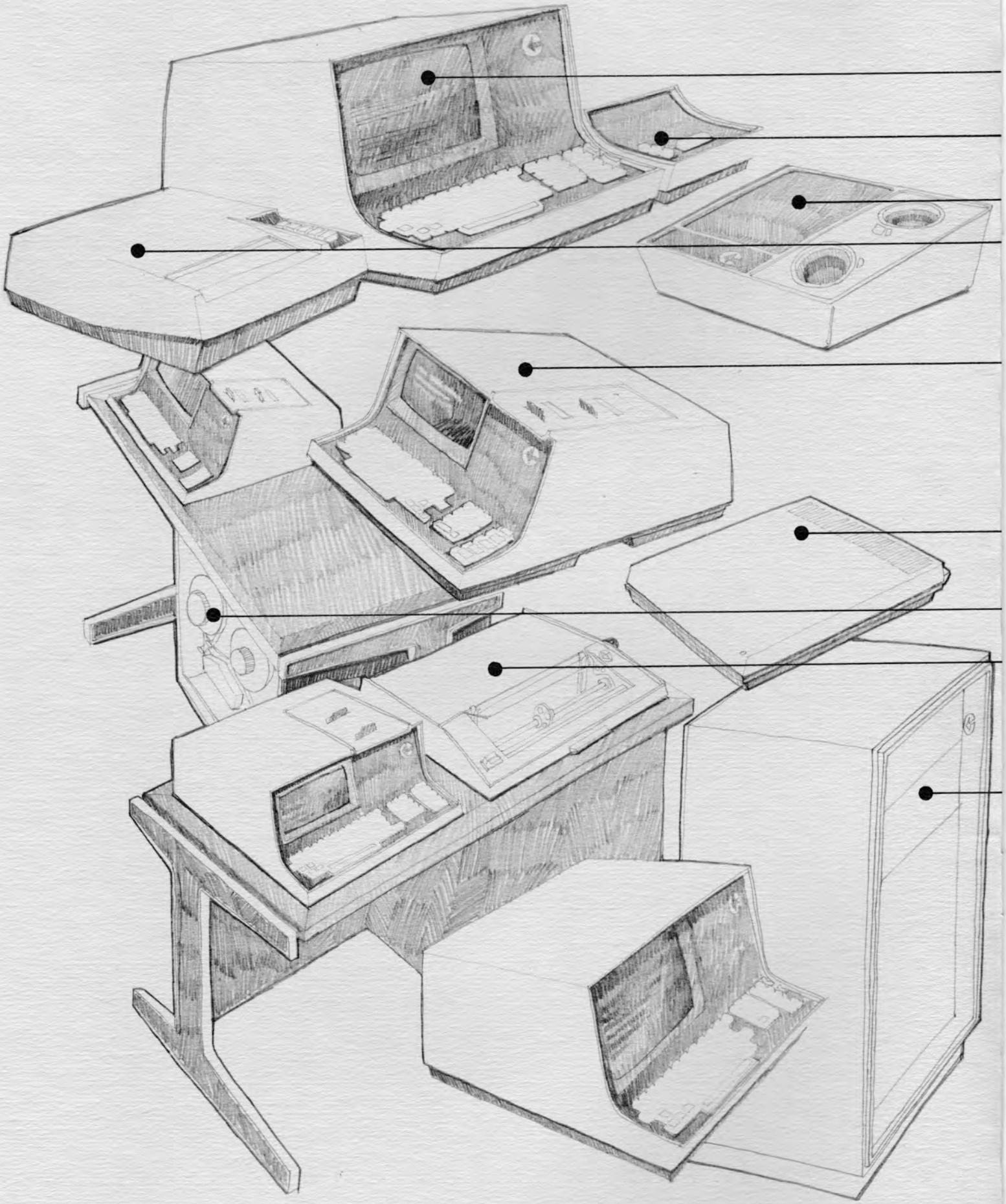
We believe that the Company has now established a firm product and market base which indicates steady and rapid growth, subject to obtaining acceptable financing arrangements. The Company's shipments continue to grow. The dollar value of equipment shipped for sale or lease during the first twelve weeks of FY 1972 was $1,485,000 as compared to $763,000 during the same period in FY 1971.

In addition to the Company's Audited Financial Statements, the following pages give brief descriptions and other information about the Company's products and market activities.

COMPUTER TERMINAL CORPORATION

JPRay

J. P. Ray
President



## THE DATAPOINT PRODUCT LINE

**DATAPOINT 3300/3000** The world leader in CRT display terminals, over 2500 installed, completely Teletype compatible.

**DATAPOINT 3300/Tape** This cassette tape unit provides local storage and off-line editing, with error-free highspeed transmission

**DATAPOINT ACOUSTIC COUPLER** Turns a telephone into a simple, low cost computer access device.

**DATAPOINT 3300/Printer** A small, quiet thermal printer with a print speed of 30 characters per second, three times that of a standard teletype-writer.

**DATAPOINT 2200** A fully programmable, desk top computer featuring an 8192 byte computer, two cassettes, a full upper and lower case keyboard and display. The 2200 has virtually unlimited applications in business and science, from monitoring a nuclear reactor to preparing error-free business data at the source.

**DATAPOINT 2210** Allows the 2200 to communicate with other remote 2200's or with some other computer.

**DATAPOINT 2200/Tape** A 9 track, industry compatible magnetic tape memory system for pooling data from many remote 2200's.

**DATAPOINT 2200/Printer** A 30 character per second wide carriage impact printer, for heavy duty business applications.

**DATAPOINT 3360** A cluster system of economical high performance terminals, compatible with an IBM 2260/65 system, approximately half the cost of IBM.

**DATAPOINT SERVICES** Most important of all, a wide range of services, including customer training, field service, and a library of basic software, is provided by Computer Terminal Corporation.

## Marketing, Markets and Applications

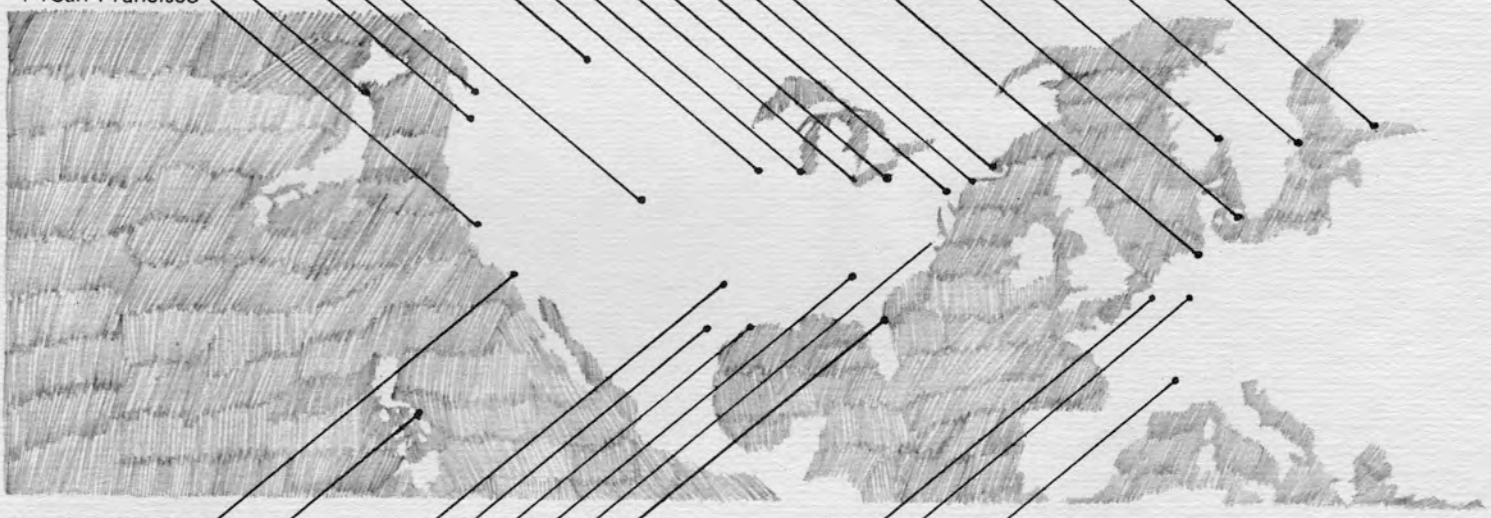
Computer Terminal Corporation markets a growing line of data handling terminals, including intelligent source data entry systems, under the Datapoint tradename. These products are marketed in the United States by the Company directly to end-users, and, under Original Equipment Manufacturers (O.E.M.) agreements, to other companies which resell the equipment under their own brandname. The Company's products are sold in markets outside of the United States through distributors with TRW Electronics-International serving as the Master Distributor.

In the United States, the Company provides support to its end-user customers through its staff of professional system engineers and its own field service organization. (The map on the adjacent page shows the location of the Company's Field Service offices and the countries outside of the United States in which its products are sold.) At its headquarters in San Antonio, Texas, the Company maintains a complete training facility, staffed by full-time instructors, where, in addition to providing training for its own staff, training in software development, system design and equipment service is provided for its U. S. customers and personnel of its international distributors. The markets for which the Company's products are intended are extensive. We believe the base has been established from which these markets can be successfully penetrated.

The **Datapoint 3300/3000 Terminals** are sold in the general purpose interactive terminal market. Virtually every computer system in service today is designed to support the interactive discipline used by these products. Authoritative sources indicate that there are already in excess of 150,000 interactive terminals in service. A large percentage of these are teletypewriter machines. Both the 3300/3000 are soft display CRT terminals that offer higher speeds and greater operator efficiency in many applications over these teletypewriter machines. The Company has already delivered over 2,500 of the 3300/3000 terminals, and thus has a respectable percentage of the interactive CRT terminal market—a market that is growing steadily.

The **Datapoint 3360** product line is a system of CRT interactive terminals that allows a cluster of high speed terminals to be connected to an IBM 360 or 370 computer mainframe. The 3360 was designed to replace the IBM 2260 system in applications where clusters of 9 or more terminals requiring display of 1,000 or more characters is desired. It offers particularly favorable economic advantages over the 2260 where clusters of 20 or more terminals are required, and if the terminals are to be located in dispersed locations, the 3360 economies are even more attractive. The largest 3360 installation existing today is in a nationwide credit data inquiry system where over 300 of these terminals are installed from coast to coast in a network operating from a large data file. In addition, 3360 systems are installed in banks, insurance companies, hospitals, and state government agencies. It is reported that there are in excess of 30,000 of the 2260 CRT systems installed. This provides a large potential market for the 3360 and because of its considerable economic and performance advantages, the 3360 is doing well in the market place.

The **Datapoint 2200** is the Company's newest product line. It also has the largest potential market. It is, to the best of our knowledge, the first product of its kind to be successfully introduced into the



(1) Boston
(1) New York
(2) Philadelphia
(1) Cleveland
(1) Detroit
(1) Chicago
(1) Minneapolis
(3) Canada

(1) Denver
(2) Seattle
(1) Portland

(3) Japan
(1) San Francisco

(1) Los Angeles

(3) Philippines

(1) Dallas
(1) San Antonio
(1) Houston
(1) Atlanta
(1) Washington
(1) Daytona

(3) Venezuela
(3) South Africa

(3) Belgium
(3) Germany

(3) Switzerland

(3) Finland

(3) Sweden

(3) Norway

(3) Denmark

(3) Holland

(1) U.S. Sales and Field Service Office
(2) U.S. Field Service Office
(3) Foreign Countries in Which Datapoint Products are sold.

market place, (i.e., not only announced, but also sold and delivered and upon being delivered, performed as advertised). The Datapoint 2200 is a low-cost, flexible, intelligent terminal with a unique small computer built into its desk top unit. It has communications capability, a CRT display, the capability to generate hardcopy printouts of captured data, and, with its other optional peripheral components, the Datapoint 2200 can be configured to provide a small, but full-featured stand-alone EDP system at a very low cost. The market for small low-cost, stand-alone data processing systems is still largely untapped.

Existing and potential applications for the Datapoint 2200 are certainly numerous. However, the primary application/market for which it has been designed is source data capture (the capture and conversion of data to computer language at the point at which the data is originated, by the people who originate it and are therefore most familiar with it). This is a concept which has for some time been recognized as offering, for a substantial portion of data capture applications, significant efficiencies and economies over centralized, batch capture and conversion of data. However, there has not been available, until the introduction of the Datapoint 2200, the type of a low-cost, flexible, intelligent terminal processor with communications capability necessary to convert the concept into a reality. The cost of equipment, personnel, transportation and supplies used for the capture and conversion of data for computer usage is estimated to be in excess of $100 million per month. Much of this cost is the result of handling and rehandling data during the capture and conversion process. Properly utilized, the Datapoint 2200 can enable customers to reduce their data capture and conversion costs by fifty percent or more for substantial numbers of applications, with the additional benefit of improving accuracy.

At this time the Company has over 200 Datapoint 2200 systems installed in banking, insurance, manufacturing, inventory control, retail merchandise distribution, education, accounting and other application areas.

## FINANCIAL STATEMENTS

### ACCOUNTANTS' REPORT

The Board of Directors
Computer Terminal Corporation

We have examined the balance sheet of Computer Terminal Corporation as of July 25, 1971 and the related statements of operations, stockholders' 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 of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, such financial statements present fairly the financial position of Computer Terminal Corporation at July 25, 1971 and its results of operations, changes in stockholders' equity and changes in financial position for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year, except for the change in the method of accounting for certain transactions with a leasing company (see note 1 of notes to financial statements).

Peat, Marwick, Mitchell & Co.

San Antonio, Texas
September 29, 1971

**Computer Terminal Corporation**

## BALANCE SHEET

**As of July 25, 1971**
**with comparative figures for 1970**

### Assets

| | 1971 | 1970 |
|---|---|---|
| Current assets: | | |
| Cash | $ 48,401 | $ 311,456 |
| Certificates of deposit | 600,000 | – |
| Receivables: | | |
| Trade: | | |
| Accounts (note 10) | 1,026,335 | 592,053 |
| Notes (note 8) | – | 455,324 |
| Employee advances, interest and other receivables | 42,030 | 30,749 |
| | 1,068,365 | 1,078,126 |
| Less provision for doubtful receivables | 48,641 | 16,938 |
| Net receivables | 1,019,724 | 1,061,188 |
| Inventories, at lower of cost (first-in, first-out) or market: | | |
| Finished products | 566,176 | 733,013 |
| Work in process | 807,593 | 618,338 |
| Raw materials and supplies | 544,295 | 514,726 |
| Total inventories | 1,918,064 | 1,866,077 |
| Prepaid expenses, partially pledged | 105,126 | 55,256 |
| Total current assets | 3,691,315 | 3,293,977 |
| Noncurrent notes receivable, net of provision for doubtful notes ($290,000) (note 8) | 165,324 | – |
| Property, plant and equipment, at cost (notes 2 and 4): | | |
| Buildings and land improvements, pledged | 1,395,268 | 515,353 |
| Machinery and equipment, partially pledged | 1,131,481 | 709,824 |
| Furniture and fixtures | 186,324 | 144,007 |
| Equipment leased to others | 1,067,814 | 179,030 |
| | 3,780,887 | 1,548,214 |
| Less accumulated depreciation | 360,413 | 60,944 |
| | 3,420,474 | 1,487,270 |
| Land, pledged | 201,906 | 190,424 |
| Construction in progress | – | 218,855 |
| Net property, plant and equipment | 3,622,380 | 1,896,549 |
| Deferred charges and other assets, at cost, net of amortization (note 3) | 301,797 | 88,400 |
| Total Assets | $ 7,780,816 | $ 5,278,926 |

See accompanying notes to financial statements.

## Liabilities, Deferred Income and Stockholders' Equity

| | 1971 | 1970 |
|---|---|---|
| Current Liabilities: | | |
| Current installments of long-term debt | $ 82,764 | $ 61,519 |
| Notes payable to bank | – | 600,000 |
| Accounts payable - trade | 807,487 | 858,913 |
| Accrued expenses: | | |
| Payroll | 103,640 | 64,306 |
| Interest | 58,158 | 9,199 |
| Payroll and property taxes and other | 22,667 | 15,819 |
| Total current liabilities | 1,074,716 | 1,609,756 |
| Reserve for future lease remarketing commissions | 18,000 | 18,000 |
| Long-term debt, exclusive of current installments (note 4): | | |
| 7-1/2% convertible (at $5 per share) subordinated notes due October 23, 1980 | 2,472,000 | – |
| 10% real estate lien note, secured | 1,167,320 | 354,221 |
| Other loans, secured | 105,822 | 162,700 |
| Total long-term debt | 3,745,142 | 516,921 |
| Deferred income: | | |
| Income relating to sales to leasing company (note 1) | 399,809 | – |
| Prepaid equipment rentals | 73,291 | 13,757 |
| Total deferred income | 473,100 | 13,757 |
| Stockholders' equity (notes 4 and 5): | | |
| Common stock $0.10 par value per share. Authorized 6,000,000 shares; issued 3,339,952 shares (2,309,152 in 1970) | 333,995 | 230,915 |
| Additional paid-in capital | 7,802,857 | 4,806,602 |
| Accumulated deficit | (5,654,494) | (1,904,525) |
| | 2,482,358 | 3,132,992 |
| Less cost of 50,000 common shares in treasury | 12,500 | 12,500 |
| Total stockholders' equity | 2,469,858 | 3,120,492 |
| Contingencies and commitments (notes 8 and 9) | | |
| Total liabilities, deferred income and stockholders'equity | $ 7,780,816 | $ 5,278,926 |

See accompanying notes to financial statements.

**Computer Terminal Corporation**

## STATEMENT OF OPERATIONS

**Year ended July 25, 1971**
**with comparative figures for 1970**

| | 1971 | 1970 |
|---|---|---|
| Revenues: | | |
| Equipment and parts sales (note 1) | $ 2,255,690 | $ 3,712,137 |
| Deferred revenues realized (note 1) | 139,779 | – |
| Equipment rentals and maintenance services | 568,292 | 63,165 |
| Interest | 104,699 | 69,623 |
| Other, net | 28,336 | 2,537 |
| | 3,096,796 | 3,847,462 |
| Costs and expenses: | | |
| Costs of sales and rentals (note 1) | 2,287,185 | 2,222,352 |
| Costs relating to deferred revenues realized (note 1) | 71,696 | – |
| Research and development (note 1): | | |
| New products | 854,644 | 564,846 |
| Production line products | 83,559 | 330,995 |
| Marketing | 2,219,378 | 1,268,866 |
| General and administrative | 1,075,271 | 641,779 |
| Interest | 255,032 | 35,181 |
| | 6,846,765 | 5,064,019 |
| Net loss | $ 3,749,969 | $ 1,216,557 |
| Net loss per common share (note 7) | $ 1.25 | $ .57 |
| Depreciation and amortization expense included in costs and expenses (note 2) | $ 336,825 | $ 59,300 |

See accompanying notes to financial statements.

**Computer Terminal Corporation**

## STATEMENT OF CHANGES IN FINANCIAL POSITION

**Year ended July 25, 1971**
**with comparative figures for 1970**

| | 1971 | 1970 |
|---|---|---|
| **Application of funds** | | |
| Net loss | $ 3,749,969 | $ 1,216,557 |
| Less charges included in loss not requiring funds: | | |
| Depreciation and amortization | 336,825 | 59,300 |
| Provision for doubtful noncurrent notes receivable (note 8) | 290,000 | – |
| Provision for lease remarketing commissions | – | 18,000 |
| Funds applied to operations | 3,123,144 | 1,139,257 |
| Increase in property, plant and equipment | 2,025,300 | 1,832,581 |
| Reduction in long-term debt | 89,558 | 898,473 |
| Increase in noncurrent notes receivable (note 8) | 455,324 | – |
| Issuance of stock purchase warrants (note 5) | 141,000 | – |
| Increase in other assets | – | 77,773 |
| Increase in working capital | 932,378 | 675,648 |
| | $ 6,766,704 | $ 4,623,732 |
| **Sources of funds** | | |
| Proceeds from private placement of 1,030,000 shares of common stock and convertible subordinated notes (note 4) | 5,292,624 | – |
| Proceeds from sale of 550,000 shares of common stock | – | 3,961,167 |
| Proceeds from long-term debt, exclusive of convertible subordinated notes | 845,779 | 615,394 |
| Increase in deferred income relating to sales to leasing company (note 1) | 399,809 | – |
| Increase in prepaid equipment rentals | 59,534 | 13,757 |
| Proceeds from issuance of common stock upon exercise of stock options (1971 - 800 shares; 1970 - 50,400 shares) | 500 | 31,500 |
| Proceeds from sale of 10,000 warrants (note 5) | 17,500 | – |
| Value assigned to stock purchase warrants (note 5) | 141,000 | – |
| Other | 9,958 | 1,914 |
| | $ 6,766,704 | $ 4,623,732 |
| **Changes in working capital** | | |
| Increase (decrease) in current assets: | | |
| Cash and certificates of deposit | 336,945 | (705,813) |
| Receivables | (41,464) | 1,044,275 |
| Inventories | 51,987 | 1,740,108 |
| Prepaid expenses | 49,870 | 41,527 |
| | 397,338 | 2,120,097 |
| Increase (decrease) in current liabilities: | | |
| Current Installments of long-term debt | 21,245 | 61,519 |
| Notes payable to bank | (600,000) | 600,000 |
| Accounts payable - trade | (51,426) | 739,260 |
| Accrued expenses | 95,141 | 43,670 |
| | (535,040) | 1,444,449 |
| Increase in working capital | $ 932,378 | $ 675,648 |

See accompanying notes to financial statements.

Computer Terminal Corporation

## STATEMENT OF STOCKHOLDERS' EQUITY

Year ended July 25, 1971
with comparative figures for 1970

| | Common stock Shares | Common stock Amount | Additional paid-in capital | Accumulated (deficit) | Less treasury stock Shares | Less treasury stock Amount | Total Stockholders' equity |
|---|---|---|---|---|---|---|---|
| Balances (deficit) at July 27, 1969 | 1,708,752 | $ 170,875 | $ 873,975 | $ (687,968) | 50,000 | $ 12,500 | $ 344,382 |
| Sale of common stock in public offering | 550,000 | 55,000 | 3,993,000 | – | – | – | 4,048,000 |
| Expenses of common stock sales | – | – | (86,833) | – | – | – | (86,833) |
| Issuance of common stock upon exercise of stock options | 50,400 | 5,040 | 26,460 | – | – | – | 31,500 |
| Net loss | – | – | – | (1,216,557) | – | – | (1,216,557) |
| Balances (deficit) at July 26, 1970 | 2,309,152 | 230,915 | 4,806,602 | (1,904,525) | 50,000 | 12,500 | 3,120,492 |
| Sale of common stock in private placement (note 4) | 1,030,000 | 103,000 | 2,987,000 | – | – | – | 3,090,000 |
| Underwriting costs and other expenses attributable to common stock sale (note 4) | – | – | (149,665) | – | – | – | (149,665) |
| Issuance of common stock upon exercise of stock options | 800 | 80 | 420 | – | – | – | 500 |
| Proceeds from sale of 10,000 warrants (note 5) | – | – | 17,500 | – | – | – | 17,500 |
| Value assigned to stock purchase warrants (note 5) | – | – | 141,000 | – | – | – | 141,000 |
| Net loss (note 1) | – | – | – | (3,749,969) | – | – | (3,749,969) |
| Balances (deficit) at July 25, 1971 | 3,339,952 | $ 333,995 | $7,802,857 | $(5,654,494) | 50,000 | $ 12,500 | $ 2,469,858 |

See accompanying notes to financial statements.

**Computer Terminal Corporation**

## NOTES TO FINANCIAL STATEMENTS

**July 25, 1971**

### (1) Method of Accounting and Other

On May 18, 1970, the Company entered into an agreement with a leasing company for the sale during the period ending December 31, 1971, of up to $10,000,000 of equipment manufactured by the Company and leased to third parties but limited to 70% of the total of all the Company's equipment on lease to third parties. The agreement further provides, among other things, that in each case in which a lease is terminated prior to the leasing company receiving the required monthly rental payments, the Company will use its best efforts to sell or re-lease such equipment. After 90 days if the equipment has not been sold or re-leased, the Company will substitute similar equipment of comparable age and value on lease at that time for the terminated lease, if available. In order to meet the preceding requirement, the Company currently maintains and will continue on a best efforts basis to maintain on-lease equipment similar to that acquired by the leasing company, but in no event will the Company be required to repurchase off-lease equipment. After the leasing company has received the required monthly rental payments, the Company is entitled to 40% of all rentals received thereafter, or 40% of the sale price if the equipment is sold. The Company and the leasing Company do not intend to continue the present agreement for any significant period of time beyond December 31, 1971. The Company is currently negotiating for alternative sources of funds for financing its operating and leasing activities.

During Fiscal 1971 the Company, as the result of changes in interpretation of Accounting Principles Board Opinion No. 7, accounted for the proceeds ($1,035,831 in 1971) from the leasing company as deferred income, net of the cost ($567,939 in 1971) of the equipment, with the deferred income recognized ratably as rentals are received by the leasing company. During the year ended July 26, 1970, the Company accounted for such transactions as sales ($388,292) and cost of sales ($135,644). Under the deferral method the 1970 sales and cost of sales would have been recognized ratably over approximately a four year period.

In September 1971, the American Institute of Certified Public Accountants announced an Accounting Interpretation for the purpose of clarifying the accounting of leasing transactions such as those described above. The Interpretation provides that where the manufacturer retains substantial risks and rewards of equipment ownership, the proceeds from the leasing company should not be recorded as sales, but rather the proceeds received should be reflected as a loan and lease revenues should be recognized under the operating method over the contingency period. If the Company should continue to sell equipment to leasing companies under agreements similar to the agreement described above, such sales will be required to be accounted for in accordance with the Accounting Interpretation.

Based on the Company's policy of reporting on a 52 - 53 week accounting year, the fiscal year ends were July 25, 1971 and July 26, 1970.

The Company follows the practice of expensing all costs associated with product research and development as incurred.

### (2) Property, Plant and Equipment

The Company provides for depreciation on the straight-line method at rates based on the economic or service life of the assets which are as follows:

| | |
|---|---|
| Buildings and land improvements | 20 - 30 years |
| Machinery and equipment | 4 - 20 years |
| Furniture and fixtures | 3 - 10 years |
| Equipment leased to others | 4 years |

Rental revenue on equipment leased to customers is recorded under the operating method ratably over the lease term.

**(3) Deferred Charges and Other Assets**

The following is a summary of deferred charges and other assets, net of amortization:

| | July 25, 1971 | July 26, 1970 |
|---|---|---|
| Underwriting costs and other expenses attributable to convertible subordinated notes payable, which are being amortized over the 10 year term of the notes (note 4) | $ 110,400 | $ – |
| Assigned value of stock purchase warrants which is being amortized over periods ranging from 5 to 15 years (note 5) | 116,000 | – |
| Long-term portion of prepaid interest in connection with capitalized lease obligations | 26,435 | 40,291 |
| Mortgage loan commitment fee which is being amortized over the 15 year repayment period | 23,124 | 24,000 |
| Organization expenses which are being amortized over a 60 month period | 8,676 | 10,845 |
| Deposits - airline, utility and other | 17,162 | 13,264 |
| | $ 301,797 | $ 88,400 |

**(4) Long-term Debt**

On October 23, 1970, the Company entered into a Purchase Agreement in which it sold 1,030,000 shares of common stock and $2,472,000 of 7-1/2% convertible (at $5 per share) subordinated notes due October 23, 1980, for $5,562,000. Under terms of the Purchase Agreement the Company may at its option redeem the notes but must on October 23 of each year commencing with October 23, 1973, to the extent conversions of the notes into common stock do not exceed $309,000 annually, redeem, as a sinking fund redemption, notes in the aggregate principal amount of $309,000 plus accrued interest thereon to the date of redemption. In addition, the Purchase Agreement, among other matters, places restrictions on dividends and other payments to stockholders and requires that the Company maintain:

(i) A ratio of current assets to current liabilities of not less than 1.25 to 1.00,

(ii) Until October 20, 1973, current assets at all times must include cash and marketable securities having a market value of not less than $250,000,

(iii) An excess of total assets over total liabilities including deferred income and prepaid equipment rentals as liabilities, exclusive of the 7-1/2% convertible subordinated notes, of not less than $5,000,000, and

(iv) At all times a ratio of stockholders' equity, as defined, to total liabilities, (including deferred income and prepaid rentals as liabilities), of not less than 1.00 to 2.00.

At July 25, 1971, as the result of the accounting method change described in note 1 the Company had an excess of $4,941,858 of total assets over total liabilities, (including deferred income and prepaid equipment rentals as liabilities), exclusive of the 7-1/2% convertible subordinated notes and the

Company's ratio of stockholders' equity, as defined, to total liabilities, (including deferred income and prepaid rentals as liabilities), was 1.00 to 2.40. The Company, pursuant to terms of the Purchase Agreement has requested waivers of compliance with the covenants described in items (iii) and (iv) above until the earlier of (a) July 31, 1972 or (b) the date on which the Company incurs additional funded indebtedness for a term longer than one year which by its terms would be senior in right of payment to the 7-1/2% convertible subordinated notes, provided that during such period of Waiver of Compliance, the Company shall maintain an excess of total assets over total liabilities of the Company of not less than $3-1/2 million. Waivers on these requirements have been obtained from the required percentage of the Noteholders [the Purchase Agreement requires 50% as to the aforementioned item (iii) and 66-2/3% as to the aforementioned item (iv)].

A 10% real estate lien note is secured by land with a cost of $201,906 and buildings with a depreciated cost of $1,350,302 and is payable in monthly installments of $11,595, including interest, over a 15 year period with a final installment of $468,813 due in November 1985.

Other loans consist of capitalized lease obligations payable in monthly installments of $4,386 and secured by machinery and equipment having an aggregate depreciated cost of $152,032 and a 2% insurance premium note payable in annual installments of $8,888 and secured by an insurance policy with an unamortized premium of $11,930.

Underwriting commissions and other expenses incurred in connection with the issuance of the convertible subordinated notes have been deferred and are being amortized on a straight-line basis over the term of the notes. The portion of these expenses applicable to the common stock issued was charged to additional paid-in capital.

**(5) Stock Options and Warrants**

The Company has a Qualified Stock Option Plan for granting of options for the purchase of up to 600,000 shares of common stock by key employees. Each option granted pursuant to the Plan must be at share prices not less than fair market value at the date of the grant and are exercisable in four equal annual installments beginning one year after the date of grant. The options expire five years after the date of the grant.

On July 25, 1971, options under the plan had been granted for 207,950 shares, exclusive of options cancelled, of which options for 180,550 shares were outstanding at the following share prices:

| Period granted | Shares | Per share price |
|---|---|---|
| October 1968 through May 1969 | 59,450 | $0.625 |
| June 1969 through September 1969 | 20,700 | 3.375 |
| October 1969 through January 1970 | 48,000 | 22.75 to 39.25 |
| February 1970 through June 1970 | 4,200 | 14.50 to 36.50 |
| July 1970 through July 1971 | 48,200 | 7.25 to 8.50 |
| | 180,550 | |

Of the 180,550 shares as to which options were outstanding, options for 42,250 were exercisable at July 25, 1971. During the year ended July 25, 1971 options for 800 shares at $0.625 per share were exercised.

On March 2, 1971, the Board of Directors adopted, subject to stockholders' approval, the Revised Qualified Stock Option Plan (Revised Plan) which reserved 70,200 shares of common stock for the granting of options to key employees who have previously received options under the Qualified Stock Option Plan (Old Plan) at share prices of $6.00 or more per share. The Revised Plan has substantially the same provisions as the Old Plan, except that an employee may not exercise an option under the Revised Plan while he has outstanding Old Plan options at share prices exceeding Revised Plan option prices or to the extent he has exercised Old Plan options. At July 25, 1971, options have been granted under the Revised Plan for 52,200 shares, exclusive of options cancelled, at a price of $7.25 per share. None of these options were exercisable at July 25, 1971.

The Company has reserved 147,500 shares of its common stock in connection with warrants granted and sold. Based upon a determination of the fair value of these warrants, $158,500 has been credited to additional paid-in capital of which $141,000 has been deferred and is being amortized against revenues over the periods expected to be benefited (5 to 15 years). The warrants are exercisable in whole or in part at any time (not later than March 1, 1976) during a five year period from the dates issued at prices ranging from $10 to $15 per share ($20 per share during the fourth and fifth years as to warrants to purchase 125,000 shares).

**(6) Federal Income Taxes**

At July 25, 1971, net operating losses of approximately $4,787,000 are available to offset future taxable income. To the extent not utilized, the net operating losses expire as follows:

| | |
|---|---|
| 1974 | $ 689,000 |
| 1975 | 1,213,000 |
| 1976 | 2,885,000 |
| | $ 4,787,000 |

Significant variations in the relationship between the 1971 net operating loss carryforward (which expires in 1976) and the financial statement loss arise because (a) the proceeds received from the leasing company (note 1) are reported as income in the year received for Federal income tax purposes and (b) the provision for uncollectible notes receivable (note 8) is not currently deductible for Federal income tax purposes.

**(7) Loss Per Common Share**

Loss per common share is based on the weighted average number of common shares outstanding during the year. The stock options, warrants and shares issuable upon conversion of the convertible subordinated notes were not included in the weighted average as this would have the effect of decreasing the loss per common share.

**(8) Notes Receivable and Litigation**

The Company filed suit on February 19, 1971 against Data Automation Communications, Inc., and its former parent, Data Automation Company, Inc. to collect two trade notes receivable aggregating $455,324 plus accrued interest. On April 19, 1971, a counter claim was filed against the Company claiming damages of approximately $1,525,000 based upon allegations of breach of warranty and other contractural obligations regarding the service and marketing of the Company's terminals sold to the companies. The Company's legal counsel, based upon their investigation of this matter through September 22, 1971, ("discovery proceedings" not having been completed at such date) is of the opinion that " . . . the counter claims are without merit and will not result in substantial liability to Computer Terminal Corporation nor diminish the corporation's ultimate recovery of a judgment pursuant to the suit filed by it . . . "

The notes are secured by 91 Datapoint 3300 terminals which were sold to the companies during the year ended July 26, 1970. The notes are included in the accompanying financial statements at $165,324, which represents the net realizable value of the 91 pledged terminals (present sales value less estimated refurbishing and remarketing costs).

**(9) Commitments and Contingent Liability**

At July 25, 1971, the Company is contingently liable under repurchase agreements covering products sold (approximately $63,000) to a leasing company and leased by others from that company. The Company has not sold any equipment to this company since January 1970.

At July 25, 1971, the Company had six contracts covering automobiles and office space extending beyond one year in length. The aggregate annual rental payable on these contracts is approximately $57,000.

**(10) Subsequent Event**

On August 26, 1971, the Company established a secured line of credit with a bank in the amount of $1,000,000. The Company's trade accounts receivable and inventories have been pledged as security for loans under this line of credit. Through September 29, 1971, the Company had borrowed $350,000 ( $775,000 at November 24, 1971, unaudited) under the line of credit.

## COMPUTER TERMINAL CORPORATION

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G. F. Dinneen, New Court Securities, Vice President
J. H. Frost, Investor
B. B. Paul, Cambridge Associates, Partner
J. P. Ray, Computer Terminal Corporation, President-Treasurer
A. O. Roche, Computer Terminal Corporation, Vice President

**Officers**

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J. D. Everett, Vice President, Manufacturing
M. E. Faherty, Vice President, Finance
V. D. Poor, Vice President, Marketing
J. G. Rhine, Controller
A. O. Roche, Vice President

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