

Decision Data Computer Corporation Annual Report 1974

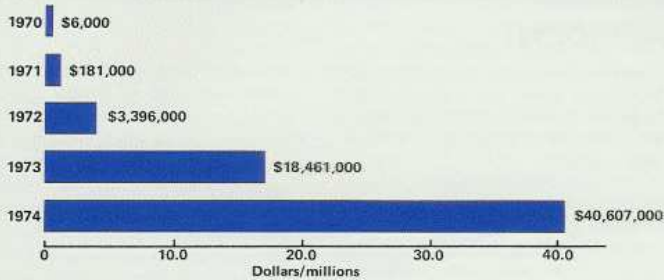
FINANCIAL HIGHLIGHTS

Decision Data Computer Corporation, established in late 1969, is a multi-national company engaged in the design, manufacture, sale and lease of data entry equipment, data communications systems, computer peripherals and peripheral sub-systems. These products are used by thousands of companies in diverse industries for a variety of purposes relating to data processing.

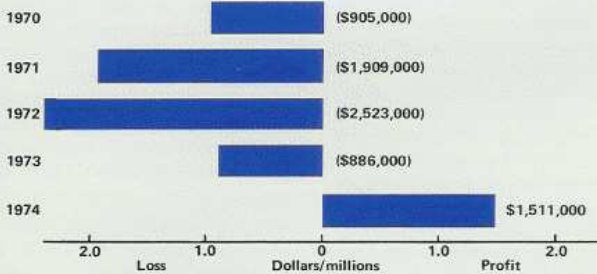
The results of the first five years of the Company's operations are graphically illustrated in the charts below and in the five-year summary which follows.

Losses in the early years reflect initial product development, manufacturing and marketing start-up costs, all of which were written off as incurred. After commencement of manufacturing, favorable revenue and income trends began, resulting in achievement of the Company's first full year of profitable operations in 1974.

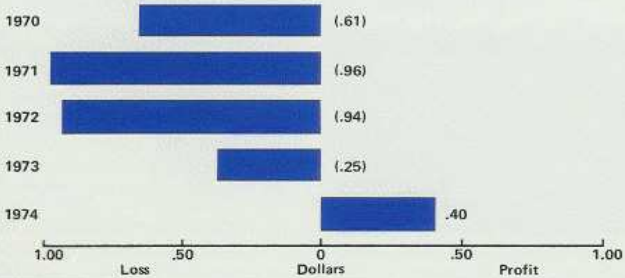
REVENUES



NET INCOME (LOSS)



EARNINGS (LOSS) PER SHARE





MESSAGE FROM THE PRESIDENT

Fiscal 1974 was a year of progress for Decision Data Computer Corporation, with growth and improvement exhibited in every area of operation. Revenues increased 220% to \$40,607,000 compared to \$18,461,000 in 1973. Net income for the year was \$1,511,000, representing primary earnings of \$.40 per share and \$.39 per share fully diluted (including \$722,000, or \$.19 per share from an extraordinary credit arising from a net operating loss carryforward). This profit contrasts with a loss of \$886,000 or \$.25 per share in fiscal 1973. Highlights of the Company's progress since its formation five years ago are illustrated in the financial highlights section of this report and graphically demonstrate the results of strategies planned and implemented since the start-up of operations.

We are especially pleased with these improvements when we consider our growing rental and third party lease/sale programs which are expected to provide significant future revenues and profit over the life of our products.

Shipments this year almost doubled those of last year. The number of units shipped becomes less significant since we are now marketing a broad family of products which range from low cost units to more costly systems. Our order rate, especially domestic, continues strong. The minimum quan-

ties required under our contract with Burroughs have been shipped and based on current forecasts, we expect this program to continue at a favorable rate.

During this year, the Company continued to expand its product base and entered the communication systems market. Three new products were announced: the CS 200, a remote batch communications system that permits transmission of punched card data over telephone lines in both attended and unattended modes; an interface to place our data recorders on line to System/3 Model 6 computers, which permits users to obtain as much as 10 times increased performance; and a family of Data Reporters which add a printer to our data recorder and communications systems equipment, permitting a variety of printer listing functions to be performed independent of the computer system.

We have developed a large and diverse customer base. This base adds stability to operations and provides qualified prospects for new products.

Our marketing and service organizations have continued to expand and we now offer sales and service in over 60 cities in the United States and Canada. This organization is an important asset, making possible continued sales growth and distribution of new products. Our original equip-

ment manufacturer (OEM) sales program continued to expand with an increasing number of computer and systems companies now using Decision Data equipment as part of their product lines. We continue to receive favorable customer reaction to our products as well as to our field service and support. Results of a user survey conducted during the year by Datapro Research Corporation, one of the industry's independent evaluation organizations, showed that Decision Data's 96 column key entry equipment outperformed IBM's equivalent in every area of comparison covered in the survey—overall performance, ease of operation, hardware reliability and promptness and quality of maintenance service.

Inflation in 1974 caused a delay in reaching some of our cost objectives. Our cost improvement efforts were accelerated and, to adjust for the increased cost of doing business, prices were increased for both end-user and OEM customers. Acute material shortages caused delayed shipments early in the year. Multiple purchase orders placed to meet that situation later resulted in inventories at a higher than planned level. Our manufacturing organization has been successful in managing this situation and in bringing inventories into line.

The state of the economy has not had a significant impact on our operations

to date. However, expansion and growth plans are being controlled so that appropriate action can be taken should circumstances require. In some respects the current economic situation helps Decision Data as customers and potential customers are looking for ways to improve operations through use of their computers. The ability of our data entry products to do more for less cost provides a compelling appeal.

While the Company's operations are generating a positive cash flow, we have not as yet achieved a desired balance between the leasing and sale elements of our business. The unfavorable economic climate and, more particularly, IBM's pricing policies which encourage leasing rather than purchase, have limited our ability to realize a more significant level of end-user sales.

Our leasing business, a foundation for future growth, requires financing. During 1974, our lines of credit with three banks were extended to \$16,000,000 and the Company continued to use third party lease sales to support its growing end-user lease business. In December 1974, our Canadian subsidiary entered into a loan agreement for \$2,000,000 with The Royal Bank of Canada to finance the leasing of Decision Data equipment to customers in that country. The Company is separating its leasing business to permit a clearer definition of its lease financing requirements. With the assistance of a major investment banking firm, negotiations are under way with several institutions to obtain substantial debt financing for this activity.

International operations moved ahead during the year. Sales and service subsidiaries were established with offices in selected major cities of France, Germany and the United Kingdom. However, marketing activities in Europe have not grown as rapidly as originally intended. The current economic situation on the continent has been a cause for some delay in start-up efforts. Plans to extend and intensify efforts in this market have been activated. While the start-up phase was more difficult than anticipated, shipments from our Euro-

pean manufacturing affiliate, International Engineering Limited, (IEL), are rising. Several actions have been taken to further improve results. On September 5th, the IEL Board of Directors was reorganized and increased from three to five members. Peter A. Simms and Lewis R. Merritt were elected to the board, with Mr. Simms elected chairman. He is President of Gamble Simms Steel Limited, Northern Ireland, and is a prominent businessman of proven abilities. Mr. Merritt, Decision Data's Corporate Vice President for Manufacturing Operations, was responsible for establishing our U.S. manufacturing operations. In addition, a member of Mr. Merritt's staff has been assigned to the IEL plant to help provide a continuing source of management support and to further stimulate improvements in operations.

We strengthened both our Board of Directors and management organizations in 1974. Dause L. Bibby, Chairman of Stromberg-Carlson Corporation, with his extensive experience in the computer and communications fields, is a most valuable addition to our Board. Key members have been added to the management team in the financial, manufacturing and operations areas. Each of these additions is aimed at building a stronger organization for the long term with special emphasis on the end-user marketplace.

We look forward with optimism in the marketing area. Industry studies conclude that U.S. data processing in-

dustry revenues will double in five years to \$40 billion and that the small system peripherals market will grow twenty-fold in ten years to annual sales of \$5 billion. We have every intention of participating in this growth and in capturing a larger share of the market. The opportunities facing us are many. With our growing customer base, the long-term revenue potentials of our products in the end-user marketplace, new products under development to meet present and emerging needs and the anticipated availability of a substantial source of lease financing, we are well positioned to take advantage of these opportunities.

The success we have achieved in 1974 is due to the skill, loyalty and dedication of the entire Decision Data team and the support of our stockholder family. On behalf of the Board of Directors, I extend to all of you our profound appreciation.

Loren A. Schultz
President and Chairman
of the Board
February 14, 1975

A new marketing brochure is enclosed with this annual report. We hope it will help you better understand the activities and products of Decision Data Computer Corporation.



Decision Data Computer Corporation's Board of Directors (l to r): Carl W. Sturberg, Jr., Howard Bernard, Loren A. Schultz, Thomas L. Richardson, Dause L. Bibby, Frank H. McPherson, John F. Manning.

Decision Data Computer Corporation
Five-Year Financial Summary

(\$000 except per share data)

Income and Stockholders' Investment	Revenues:
	Net Sales
	Rentals and Service
	Cost and Expenses:
	Cost of Revenue
	Operating Expenses
	Interest Expense
	Income (Loss) before income taxes and extraordinary item
	Provision for income taxes
	Extraordinary item—federal income tax benefit
	Net Income (Loss)
	Stockholders' Investment at beginning of year
	Capital Stock transactions during year
Stockholders Investment at end of year	

Statement of Changes in Financial Position	Working Capital provided from operations
	Proceeds from issue of Common Stock, increase in long-term liabilities and other sources
	Additions to rental equipment
	Reduction of long-term liabilities and other uses
	Increase (Decrease) in net working capital
	Working Capital at beginning of year
Working Capital at end of year	

Per Share Data	Primary—
	Before extraordinary item
	Net income (loss)
	Fully diluted—
	Before extraordinary item
	Net income (loss)
Weighted Average Shares outstanding	
Stockholders' Investment per Share	

Other Data	Shipments (units)
	Number of Employees (Approx.)

	1974	1973	1972	1971	1970
	\$33,879	\$15,399	\$ 2,672	\$ 173	\$ 6
	6,728	3,062	724	8	—
	<u>40,607</u>	<u>18,461</u>	<u>3,396</u>	<u>181</u>	<u>6</u>
	28,748	13,947	2,987	664	192
	8,184	4,910	2,793	1,377	767
	1,919	490	139	49	(48)
	<u>38,851</u>	<u>19,347</u>	<u>5,919</u>	<u>2,090</u>	<u>911</u>
	1,756	(886)	(2,523)	(1,909)	(905)
	(1,017)	—	—	—	—
	772	—	—	—	—
	1,511	(886)	(2,523)	(1,909)	(905)
	11,191	5,076	(900)	309	—
	23	7,001	8,499	700	1,214
	<u>\$12,725</u>	<u>\$11,191</u>	<u>\$ 5,076</u>	<u>\$ (900)</u>	<u>\$ 309</u>
	\$ 3,652	\$ 282	\$(2,110)	\$(1,825)	\$ (902)
	3,544	7,577	9,301	2,132	1,416
	7,196	7,859	7,191	307	514
	5,204	4,940	3,616	297	—
	5,861	2,491	587	660	132
	11,065	7,431	4,203	957	132
	(3,869)	428	2,988	(650)	382
	3,148	2,720	(268)	382	—
	<u>\$ (721)</u>	<u>\$ 3,148</u>	<u>\$ 2,720</u>	<u>\$ (268)</u>	<u>\$ 382</u>
	\$21	—	—	—	—
	.40	\$ (.25)	\$(.94)	\$(.96)	\$(.61)
	.20	—	—	—	—
	.39	—	—	(.93)	—
	3,732,991	3,498,063	2,678,211	1,983,088	1,492,054
	3.41	3.20	1.90	(.45)	.21
	9,942	5,858	1,897	101	1
	950	600	360	140	60

COMMON STOCK MARKET DATA

The quarterly high and low price range reported by Standard and Poor's Corporation for the Company's common stock, which is traded in the Over-the-Counter Market, is set forth in the table below. All prices shown are bid prices. The NASDAQ symbol for Decision Data Computer Corporation common stock is: DDCC.

	Year Ended November 30, 1974		Year Ended December 1, 1973	
	High	Low	High	Low
First Quarter	10 $\frac{1}{8}$	5 $\frac{1}{2}$	39 $\frac{1}{2}$	20 $\frac{1}{2}$
Second Quarter	13 $\frac{1}{2}$	7	22 $\frac{3}{4}$	9 $\frac{5}{8}$
Third Quarter	7 $\frac{5}{8}$	3 $\frac{3}{8}$	16 $\frac{1}{4}$	7 $\frac{1}{4}$
Fourth Quarter	5 $\frac{3}{8}$	2 $\frac{3}{4}$	16	6 $\frac{1}{8}$

**Decision Data Computer Corporation
and Subsidiaries
Consolidated Balance Sheets
November 30, 1974 and December 1, 1973**

ASSETS

	<u>1974</u>	<u>1973</u>
CURRENT ASSETS:		
Cash—including time deposits of \$337,000 in 1973 (Note 2)	\$ 1,531,000	\$ 1,383,000
Receivables		
Trade	10,221,000	5,031,000
Foreign affiliate (Note 4)	1,992,000	275,000
Current portion of long-term receivables (Note 3)	530,000	72,000
	<u>12,743,000</u>	<u>5,378,000</u>
Less reserves	310,000	150,000
	<u>12,433,000</u>	<u>5,228,000</u>
Inventories (Note 1)	11,979,000	8,213,000
Prepayments	437,000	303,000
Total current assets	<u>26,380,000</u>	<u>15,127,000</u>
LONG-TERM RECEIVABLES (Note 3)	<u>2,401,000</u>	<u>327,000</u>
RENTAL EQUIPMENT, at cost—less accumulated depreciation of \$2,038,000 and \$1,033,000 (Note 1)	<u>9,981,000</u>	<u>7,802,000</u>
PROPERTY, at cost: (Note 1)		
Tooling	1,975,000	1,106,000
Machinery and equipment	461,000	360,000
Furniture and fixtures, etc.	291,000	207,000
	<u>2,727,000</u>	<u>1,673,000</u>
Less—Accumulated depreciation and amortization	1,186,000	613,000
	<u>1,541,000</u>	<u>1,060,000</u>
INVESTMENTS, at cost, including foreign affiliate (Note 4), net of reserve of \$225,000 in 1974	<u>962,000</u>	<u>753,000</u>
DEFERRED MARKETING COMMISSIONS, ETC. (Note 1)	<u>365,000</u>	<u>257,000</u>
	<u>\$41,630,000</u>	<u>\$25,326,000</u>

LIABILITIES AND STOCKHOLDERS' INVESTMENT

CURRENT LIABILITIES:		
Notes payable to banks (Note 2)	\$16,000,000	\$ 6,600,000
Current portion of long-term debt (Note 2)	406,000	64,000
Accounts payable trade	6,716,000	3,985,000
Accounts payable foreign affiliate (Note 4)	1,172,000	—
Accrued expenses	2,556,000	1,190,000
Current portion of deferred revenue (Note 1)	251,000	140,000
Total current liabilities	<u>27,101,000</u>	<u>11,979,000</u>
LONG-TERM DEBT, net of current portion above (Note 2)	<u>1,620,000</u>	<u>2,006,000</u>
DEFERRED REVENUE (Note 1)	<u>184,000</u>	<u>150,000</u>
COMMITMENTS AND CONTINGENCIES (Note 5)		
STOCKHOLDERS' INVESTMENT: (Notes 2, 5, 6 and 8)		
Common Stock, \$.10 par value, authorized 8,000,000 shares, outstanding 3,736,284 shares in 1974 and 3,720,316 shares in 1973	374,000	372,000
Capital in excess of par value	17,063,000	17,042,000
Accumulated deficit	(4,712,000)	(6,223,000)
	<u>12,725,000</u>	<u>11,191,000</u>
	<u>\$41,630,000</u>	<u>\$25,326,000</u>

The accompanying notes are an integral part of these statements.

**Decision Data Computer Corporation
and Subsidiaries
Statements of Consolidated Operations**

For the Fiscal Years Ended November 30, 1974 and December 1, 1973

	<u>1974</u>	<u>1973</u>
REVENUES:		
Net sales (Note 9)	\$33,879,000	\$15,399,000
Rentals and service (Note 1)	6,728,000	3,062,000
	<u>40,607,000</u>	<u>18,461,000</u>
COST AND EXPENSES:		
Cost of revenues—including depreciation on rental equipment	28,748,000	13,947,000
Engineering, design and product development costs (Note 1)	1,405,000	1,237,000
Selling, general and administrative	6,779,000	3,673,000
Interest expense	1,919,000	490,000
	<u>38,851,000</u>	<u>19,347,000</u>
Net Income (loss) before income taxes and extraordinary item	1,756,000	(886,000)
PROVISION FOR INCOME TAXES (Note 7)	1,017,000	—
Net Income (loss) before extraordinary item	739,000	(886,000)
EXTRAORDINARY ITEM:		
Reduction of income taxes due to net operating loss carryforward	772,000	—
NET INCOME (LOSS)	<u>\$ 1,511,000</u>	<u>\$ (886,000)</u>
EARNINGS (LOSS) PER COMMON SHARE (Note 1)		
Primary—		
Before extraordinary item	<u>\$.21</u>	
Net Income (loss)	<u>\$.40</u>	<u>\$ (.25)</u>
Fully Diluted—		
Before extraordinary item	<u>\$.20</u>	
Net Income	<u>\$.39</u>	

**Statements of Consolidated
Stockholders' Investment**

For the Two Years Ended November 30, 1974

	Number Of Shares	Common Stock		Accumulated Deficit
		Amount	Capital in Excess of Par Value	
BALANCE, NOVEMBER 30, 1972	3,130,000	\$313,000	\$10,100,000	\$(5,337,000)
Proceeds from sale of common stock, net of related expenses	500,000	50,000	6,723,000	—
Proceeds from employee stock options exercised (Note 6)	82,000	8,000	123,000	—
Proceeds from employee stock purchase plan (Note 8)	8,000	1,000	96,000	—
Net loss	—	—	—	(886,000)
BALANCE, DECEMBER 1, 1973	3,720,000	372,000	17,042,000	(6,223,000)
Proceeds from employee stock options exercised (Note 6)	16,000	2,000	21,000	—
Net Income	—	—	—	1,511,000
BALANCE, NOVEMBER 30, 1974	<u>3,736,000</u>	<u>\$374,000</u>	<u>\$17,063,000</u>	<u>\$(4,712,000)</u>

The accompanying notes are an integral part of these statements.

**Decision Data Computer Corporation
and Subsidiaries
Statements of Consolidated Changes
in Financial Position**

For the Fiscal Years Ended November 30, 1974 and December 1, 1973

	<u>1974</u>	<u>1973</u>
WORKING CAPITAL WAS OBTAINED FROM:		
Operations—Net Income (Loss) before extraordinary item	\$ 739,000	\$ (886,000)
Expenses not requiring current cash outlays:		
Depreciation on rental equipment	1,267,000	748,000
Other depreciation, amortization and non-cash charges	874,000	420,000
	<u>2,880,000</u>	<u>282,000</u>
Extraordinary item—credit against federal income tax	772,000	—
Working capital provided from operations	3,652,000	282,000
Net book value of rental machines sold	1,758,000	—
Reduction of installment receivables resulting from repayments and transfers to current portion	1,357,000	286,000
Sale of common stock net of related expenses	—	6,773,000
Additions to deferred revenues	386,000	290,000
Exercise of employee stock options	23,000	131,000
Exercise of employee stock purchase plan	—	97,000
Additional long-term borrowings	20,000	—
	<u>7,196,000</u>	<u>7,859,000</u>
WORKING CAPITAL WAS USED FOR:		
Additions to rental equipment	5,204,000	4,940,000
Additions to property	1,054,000	762,000
Increases in other assets	114,000	160,000
Increase in investments	504,000	753,000
Reduction of long-term debt resulting from repayments and transfers to current portion	406,000	63,000
Increase in installment receivables	3,431,000	613,000
Amortization of deferred revenues including transfers to current portion ..	352,000	140,000
	<u>11,065,000</u>	<u>7,431,000</u>
INCREASE (DECREASE) IN WORKING CAPITAL	<u>\$ (3,869,000)</u>	<u>\$ 428,000</u>
WORKING CAPITAL CHANGES:		
Current assets—increase (decrease)		
Cash	\$ 148,000	\$1,187,000
Receivables	7,205,000	3,711,000
Inventories	3,766,000	4,857,000
Prepayments	134,000	(32,000)
	<u>11,253,000</u>	<u>9,723,000</u>
Current liabilities—increase (decrease)		
Notes payable	9,400,000	5,850,000
Current portion of long-term debt	342,000	(15,000)
Accounts payable trade	2,731,000	2,706,000
Accounts payable foreign affiliate	1,172,000	—
Accrued expenses	1,366,000	614,000
Current portion of deferred revenue	111,000	140,000
	<u>15,122,000</u>	<u>9,295,000</u>
INCREASE (DECREASE) IN WORKING CAPITAL	<u>\$ (3,869,000)</u>	<u>\$ 428,000</u>

The accompanying notes are an integral part of these statements.

Decision Data Computer Corporation and Subsidiaries

Notes to Consolidated Financial Statements

1. ACCOUNTING POLICIES:

Consolidation Policy

The accompanying consolidated financial statements of Decision Data Computer Corporation include the accounts of all subsidiaries. All material intercompany accounts and transactions have been eliminated in consolidation.

Inventories

Prior to 1974 inventories had been consistently priced at the lower of average cost or market. In 1974, the Company began pricing inventories at the lower of FIFO cost or market. The effect of this change on reported operating results is insignificant.

A substantial portion of the inventories will be transferred to rental equipment when production is completed. Recovery of a portion of such costs will extend beyond one year.

Beginning and ending inventories used in the computation of cost of goods sold for the years ended November 30, 1974 and December 1, 1973 are as follows:

	1974	1973	1972
Raw materials and purchased components	\$ 7,541,000	\$5,816,000	\$2,371,000
Work in process	3,693,000	2,397,000	936,000
Finished goods	745,000*	—	49,000
	<u>\$11,979,000</u>	<u>\$8,213,000</u>	<u>\$3,356,000</u>

*Principally international subsidiary

Depreciation

Rental equipment and property are stated at cost. The Company provides depreciation using the straight-line method. The estimated lives of the property for financial reporting purposes are as follows:

Rental equipment	5 to 7 years
Tooling	3 years
Machinery and equipment	5 to 8 years
Furniture and fixtures	5 to 8 years

For income tax purposes the Company has, for certain assets, elected longer lives than those used for financial accounting purposes.

At the time property is retired or otherwise disposed of, the applicable amounts are relieved from the assets and related accumulated depreciation accounts. Any gain or loss on disposition is recorded in the income accounts.

Investment Credit

It is the Company's policy to record investment credit as a reduction of the federal income tax provision in the year the benefit is realized. As of November 30, 1974 the Company had an investment credit carry-forward of approximately \$501,000 which expires as follows: \$24,000 in

1978, \$214,000 in 1979, \$167,000 in 1980 and \$96,000 in 1981.

Rentals of Equipment

The Company leases its products under 1, 3 and 5 year lease contracts. Rental revenue under 1 and 3 year leases is recorded using the operating method, whereby rental revenue is recognized over the life of the lease and the rental equipment is depreciated over its estimated useful life.

Rental payments due on the unexpired portion of leases on Company owned equipment (excluding 5 year leases) were \$7,780,000 as of November 30, 1974.

For financial accounting purposes rental revenue under 5 year leases is recorded using the financing method, whereby the discounted present value of the required lease payments is recognized as a sale and the cost of the product is charged to income at the time the lease commences. Revenue from financing leases recorded as sales was \$1,131,000 in 1974. For income tax purposes, revenue under 5 year leases is recorded using the operating method.

Engineering, Design and Product Development Costs

The Company has consistently followed the policy of expensing all engineering, design, and product development costs as incurred.

Earnings (Loss) Per Common Share

Primary earnings per share in 1974 are based on the weighted average number of common shares and common share equivalents (stock options) outstanding—3,776,900 shares.

Fully diluted earnings per share in 1974 are based on the weighted average number of common shares and common share equivalents and the equivalent shares that would result from the conversion of the subordinated convertible note. Interest expense on the convertible debenture has been added back to net income in computing fully diluted earnings per share.

Due to an operating loss, the computation of net loss per share in 1973 does not include the exercise of outstanding stock options or the conversion of outstanding debt since the effect would be anti-dilutive. Loss per share was computed using the weighted average number of shares outstanding during the year (3,498,063).

Deferred Revenue

One of the Company's third party leasing arrangements involving three-year term leases provides that the purchaser pay a fee for maintenance and administration services to be performed by the Company during the initial three-year lease term. This fee, which is paid at the time of the sale, is deferred and then amortized over the term of the leases.

Marketing Commissions

The Company defers commissions on rental contracts and amortizes them over the life of the related lease. Commissions on all sales are charged to income currently.

2. DEBT:

Long-term debt consisted of the following:

	November 30, 1974	December 1, 1973
Subordinated convertible note bearing interest at 2½% above prime rate due December 31, 1978 with interest payable quarterly	\$ 500,000	\$ 500,000
Subordinated notes payable bearing interest at 2½% above prime rate due in quarterly installments of \$200,000 starting June 30, 1975 to December 31, 1975 and in quarterly installments of \$75,000 thereafter	\$1,500,000	\$1,500,000
Other	26,000	70,000
	<u>\$2,026,000</u>	<u>\$2,070,000</u>
Less current portion	406,000	64,000
	<u>\$1,620,000</u>	<u>\$2,006,000</u>

The subordinated convertible note is convertible at any time, in whole or in part, into a maximum of 190,400 shares of the Company's common stock. Both subordinated notes (\$2,000,000) are subordinated to unsecured bank loans of \$1,500,000, and restrict the Company from paying cash dividends unless certain conditions relating to net income are satisfied.

The Company has entered into an agreement with several banks which enables the Company to borrow up to a maximum of \$16,000,000 under an unsecured line of credit with interest at 1% to 1½% above prime rate. The agreement requires that certain working capital and stockholders' investment levels, as defined, be maintained and limits future investment and borrowing activities. In addition, the Company has agreed to pay a commitment fee of ½ of 1% on any unused portion of the commitment and has informally agreed to attempt to maintain a compensating cash balance equal to 10% of the total line of credit plus 10% of any amount borrowed. To the extent that there are deficiencies in such compensating balances, the Company must pay interest on such deficiency at the then current rate.

The maximum amount of short-term borrowings outstanding during 1974 was \$16,000,000, and the approximate weighted average interest rate during the year was 14%, which rate is an annual average based on weighted month-end averages. The average interest rate for short-term notes payable to banks outstanding as of November 30, 1974, was approximately 12%.

As of November 30, 1974, a European subsidiary had an open, unused line of credit of \$187,500. In December, 1974, a \$2,000,000 line of credit was obtained to finance the leasing operations of the Canadian subsidiary.

3. LONG-TERM RECEIVABLES

Installment receivables arise from five year leases recorded under the financing method and the sale of equipment under the Company's deferred payment plan. Under the deferred payment plan, the purchaser pays the net sales price (list price reduced by the down payment and rental credits, if any) and the finance charge by making 60 equal monthly payments. At November 30, 1974 and December 1, 1973, installment receivables consist of:

	1974		1973	
	Current	Long-Term	Current	Long-Term
Deferred Payment Plan	\$506,000	\$1,847,000	\$106,000	\$393,000
Unearned Finance Charges	(167,000)	(291,000)	(34,000)	(66,000)
	<u>339,000</u>	<u>1,556,000</u>	<u>72,000</u>	<u>327,000</u>
5 year leases	302,000	1,041,000	—	—
Unearned Finance Charges	(111,000)	(196,000)	—	—
	<u>191,000</u>	<u>845,000</u>	<u>—</u>	<u>—</u>
	<u>\$530,000</u>	<u>\$2,401,000</u>	<u>\$ 72,000</u>	<u>\$327,000</u>

4. FOREIGN INVESTMENTS:

In June 1973 the Company's international subsidiary entered into an agreement with the Northern Ireland Ministry of Commerce (Ministry) whereby the Company will conduct manufacturing operations in the facilities of International Engineering, Ltd. (IEL) located in Northern Ireland.

Under the terms of the agreement the Company purchased from the Ministry 600,000 shares (15%) of IEL common stock for \$192,000 and a 4% convertible note due June 4, 1978 for \$449,000. The note is convertible by the Company into an additional 1,400,000 shares (35%) of IEL or callable by the Ministry.

The agreement also provides for the Ministry to make certain grants to IEL over a three-year period. For the year ended September 30, 1974 IEL's net loss (unaudited), net of grants of \$2,300,000 was approximately \$4,900,000 and at that date IEL had a net book value (unaudited) of approximately \$800,000.

During the year ended November 30, 1974, the Company's international subsidiary purchased from IEL \$1,524,000 of equipment and as of November 30, 1974, had a balance due IEL of \$1,172,000. Further, IEL purchased from the Company parts in the amount of \$5,427,000 and had a balance due the Company of \$1,992,000 at November 30, 1974.

5. COMMITMENTS AND CONTINGENCIES:

Rental expense under all long-term lease agreements amounted to \$332,000 in 1974 and \$151,000 in 1973.

The approximate rental commitments under all long-term leases are as follows:

Fiscal Period	TOTAL LEASES			
	Non-Capitalized Financing Leases			
	Manufacturing and Office Facilities	Machinery and Equipment	Sales Office Facilities	Total
1975	\$ 275,000	\$ 59,000	\$ 62,000	\$ 396,000
1976	275,000	59,000	50,000	384,000
1977	275,000	59,000	25,000	359,000
1978	275,000	59,000	7,000	341,000
1979	275,000	59,000	—	334,000
1980-1984	1,375,000	99,000	—	1,474,000
1985-1988	1,100,000	—	—	1,100,000
	<u>\$3,850,000</u>	<u>\$394,000</u>	<u>\$144,000</u>	<u>\$4,388,000</u>

The present value of non-capitalized financing leases, as defined, based on a weighted average interest rate of approximately 10%, amounted to \$2,370,000 and \$2,100,000 at November 30, 1974 and 1973, respectively.

The impact on net income (loss) if financing leases were capitalized would not be material in either 1974 or 1973.

The Company has two agreements with the chief executive officer of its international subsidiary; an employment agreement which expires in 1981, providing for a minimum annual compensation of \$25,000 plus certain other allowances, and a \$20,000 6% convertible loan agreement due January 1, 1990. After January 1, 1981 the loan may be converted into 10 percent of the then outstanding common stock of the Company's international subsidiary or is redeemable by either party in cash or in common stock of the parent Company. The redemption price is equal to a percentage of the accumulated pre-tax net income of the international subsidiary. In the event employment is terminated prior to January 1, 1981, the note redemption price will be a pro rata portion of the above computation.

In January, 1974, the Securities and Exchange Commission commenced a private investigation regarding possible violation by the Company and others of the Securities Act of 1933 and the Securities Exchange Act of 1934. No charges have been made against the Company and the management of the Company does not know of any violation of the federal securities laws by the Company. In the opinion of the Company's management and counsel for the Company, this investigation will not have a material adverse effect on the Company's financial position or results of operations for the periods presented.

6. STOCK OPTION PLAN:

As of November 30, 1974, 139,848 shares of the Company's common stock were reserved under a stock option incentive plan which provides for the granting of options to certain officers and key employees. Included in these shares were 127,882 shares reserved for stock options granted but unexercised at that date. Under the Qualified Stock Option Incentive Plan adopted in December, 1969, options may be granted at no less than 100% of the fair market value of the common stock at the date of grant. The options are not exercisable for a period of two years from the date of grant and then may be exercised in whole or in part within five years from date of grant.

During the two years ended November 30, 1974 no charge was made to income for stock options.

A summary of option activity follows:

	No. of Shares		Average Option Price	
	1974	1973	1974	1973
Options granted	54,414	47,394	\$ 5.32	\$10.59
Options exercised	15,968	82,369	1.42	1.59
Options cancelled	14,567	2,413	10.37	20.90
Options outstanding	127,882	104,003	7.87	8.36

7. INCOME TAXES:

The provision for income taxes, in 1974, is composed of the following:

U.S. Federal Income Taxes	\$ 772,000
State Income Taxes	105,000
Foreign	140,000
	<u>\$1,017,000</u>

The effective tax rate of 57.9% can be reconciled to the U.S. Federal income tax rate of 48% as follows:

(Percent of Profit before income taxes)

U.S. Federal statutory rate	48.0%
State taxes, net of federal tax benefit	3.1
Foreign taxes, in excess of U.S. statutory rate	4.6
Other	2.2
	<u>57.9%</u>

Where the Company has permanently reinvested the earnings of its foreign subsidiaries, no provision has been made for U.S. income taxes that may be due if dividends are declared out of such earnings. The amount of such reinvested earnings at November 30, 1974 was approximately \$259,000. Any tax on dividends which may be declared and received in the future may be substantially reduced by foreign tax credits.

The Company had losses available for carryforward of approximately \$5,700,000 as of November 30, 1974. Of this amount, for federal income tax purposes, approximately \$1,600,000 results from employee premature disposition of stock acquired under the Company's stock option incentive plan. To the extent any portion of the \$1,600,000 tax benefit is realized in future periods, the resultant credit would be to capital in excess of par value.

Within the limitations and requirements of the Internal Revenue Code, the Company may use these losses to reduce its future federal taxable income, if any. These losses expire as follows, \$380,000 in 1976, \$3,300,000 in 1977, \$1,900,000 in 1978 and \$120,000 in 1979.

For financial reporting purposes, the Company's carryforward is approximately \$6,600,000 as of November 30, 1974. Timing differences in claiming deductions (principally depreciation and accounting for lease revenue) account for the difference between the book and tax loss-carryforwards.

8. EMPLOYEE QUALIFIED STOCK PURCHASE PLAN:

In January, 1972 the Board of Directors adopted an Employee Qualified Stock Purchase Plan for substantially all employees. The Plan authorizes the issuance of up to 50,000 shares of common stock through options which are granted at a price equal to 85% of the fair market value of the stock at the date the option is granted. The Plan provides for payment through payroll deductions limited to a maximum of 10% of the employee's base pay as of the date of grant with options being exercisable 12 months after the date the options are granted, provided the optionee is then an employee. As of November 30, 1974, 7,735 shares of common stock have been issued under this Plan.

9. SALES TO SIGNIFICANT CUSTOMERS:

Pursuant to an agreement with Burroughs Corporation ("Burroughs") to purchase a minimum of 7,500 units of the Company's products, Burroughs has purchased approximately \$25,199,000 of products as of November 30, 1974, at which date the minimum purchase commitment has been met. Sales to Burroughs constituted approximately \$16,251,000 (48%) and \$6,776,000 (44%) of the Company's net sales in 1974 and 1973, respectively.

During 1974 the Company sold, without recourse \$7,164,000 (21% of net sales) of products to third party leasing companies. The Company has also entered into agreements with the leasing companies to remarket, for a fee, units coming off lease. This remarketing is on a best efforts, no priority basis. For an additional fee, the Company also has agreed to perform certain maintenance and administrative functions relating to the units sold to the leasing companies.

AUDITORS' REPORT

TO THE STOCKHOLDERS AND BOARD OF DIRECTORS
OF DECISION DATA COMPUTER CORPORATION

We have examined the consolidated balance sheets of DECISION DATA COMPUTER CORPORATION (a Pennsylvania corporation) AND SUBSIDIARIES as of November 30, 1974, and December 1, 1973 and the related statements of consolidated operations, stockholders' investment and changes in financial position for the years then ended. Our examinations were 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, the consolidated financial statements referred to above present fairly the financial position of Decision Data Computer Corporation and Subsidiaries as of November 30, 1974, and December 1, 1973 and the results of their operations and the changes in financial position for the years then ended, in conformity with generally accepted accounting principles consistently applied during the periods.

ARTHUR ANDERSEN & CO.

Philadelphia, Pa.
February 5, 1975

ANNUAL MEETING

The Annual Meeting of the Stockholders of the Decision Data Computer Corporation will be convened at 2 p.m. on Friday, March 14, 1975, at the Blair Mill Inn, 204½ Village Drive, Horsham, Pennsylvania.

Directors

Loren A. Schultz, *Chairman of the Board and President, Decision Data Computer Corporation*
Howard Bernard, *Vice President, Finance and Treasurer, Decision Data Computer Corporation*
Dause L. Bibby, *Chairman and Chief Executive Officer, Stromberg-Carlson Corporation*
John F. Manning, *Treasurer, I-T-E Imperial Corporation*
Frank H. McPherson, *Vice President, Marketing, Decision Data Computer Corporation*
Thomas L. Richardson, *Vice President, Engineering and Secretary, Decision Data Computer Corporation*
Carl W. Stursberg, Jr., *President, Econetics, Inc.*

Corporate Officers

Loren A. Schultz, *Chairman of the Board and President*
Orland F. Bergere, *Vice President, Customer Services*
Howard Bernard, *Vice President, Finance and Treasurer*
Georg M. Herzfeld, *Vice President, International Operations*
Frank H. McPherson, *Vice President, Marketing*
Lewis R. Merritt, *Vice President, Manufacturing*
Thomas L. Richardson, *Vice President, Engineering and Secretary*
David R. Oakley, *Assistant Secretary*
William J. Timmins, Jr., *Controller and Assistant Secretary*

Transfer Agents

Bankers Trust Company
485 Lexington Avenue
New York, New York 10017
Philadelphia National Bank
Broad and Chestnut Streets
Philadelphia, Pennsylvania 19101

General Counsel

Duane, Morris & Heckscher
100 South Broad Street
Philadelphia, Pennsylvania 19110

Independent Auditors

Arthur Andersen & Co.
5 Penn Center Plaza
Philadelphia, Pennsylvania 19103

DECISION DATA COMPUTER CORPORATION

100 Witmer Road
Horsham, Pennsylvania 19044

DECISION DATA COMPUTER INTERNATIONAL, S.A.

15 Rue de l'Hopital
1701 Fribourg, Switzerland

DECISION DATA COMPUTER (CANADA) LTD.**DECISION DATA COMPUTER (G.B.) LTD.****DECISION DATA COMPUTER, S.A.****DECISION DATA COMPUTER GmbH**

Copies of the Company's Annual Report on Form 10-K to the Securities and Exchange Commission and other information about the Company, its products and services, are available. Requests should be addressed to:

*David R. Oakley
Assistant Secretary
Decision Data Computer Corporation
100 Witmer Road
Horsham, Pennsylvania 19044
Telephone 215-674-3300
Telex 83-1471*