

Form **1120**

# U.S. Corporation Income Tax Return

**1972**

Department of the Treasury  
Internal Revenue Service

For calendar year 1972 or other taxable year beginning

1972, ending \_\_\_\_\_, 19\_\_\_\_\_

# TAX

Check if a—

A Consolidated return

B Personal Holding Co.

C Business Code No. (See page 7 of instructions.)

Name

Number and street

City or town, State, and ZIP code

D Employer Identification No.

E County in which located

F Enter total assets from line 14, column (D), Schedule L (See instruction R)

**IMPORTANT**—Fill in all applicable lines and include in the lines on this schedule all sufficient information.

GROSS INCOME	1	Gross receipts or gross sales	1
	2	Less: Cost of goods sold (Schedule A) and/or operations (attach schedule)	2
	3	Gross profit	3
	4	Dividends (Schedule C)	4
	5	Interest on obligations of the United States and U.S. instrumentalities	5
	6	Other interest	6
	7	Gross rents	7
	8	Gross royalties	8
	9(a)	(a) Net capital gains—(separate Schedule D)	9(a)
	9(b)	(b) Ordinary gain or (loss) from Part II, Form 4797 (attach Form 4797)	9(b)
	10	Other income (see instructions—attach schedule)	10
11	TOTAL income—Add lines 3 through 10	11	

DEDUCTIONS	12	Compensation of officers (Schedule L)	12
	13	Salaries and wages (not included elsewhere)	13
	14	Repairs (see instruction)	14
	15	Bad debts (Schedule F if reserve method is used)	15
	16	Rents	16
	17	Taxes (attach schedule)	17
	18	Interest	18
	19	Contributions (not over 5% of line 28 adjusted per instructions—attach schedule)	19
	20	Amortization (attach schedule)	20
	21	Depreciation (Schedule G)	21
	22	Depletion	22
	23	Advertising	23
	24	Pension, profit-sharing, etc. plans (see instructions)	24
	25	Employee benefit programs (see instructions)	25
	26	Other deductions (attach schedule)	26
	27	TOTAL deductions—Add lines 12 through 26	27
	28	Taxable income before net operating loss deduction and special deductions (line 11 less line 27)	28
29	Less: (a) Net operating loss deduction (Schedule E) (line 28(a))	29(a)	
	(b) Special deductions (Schedule K) (line 28(b))	29(b)	
30	Taxable income (line 28 less line 29)	30	

TAX	31	TOTAL TAX (Schedule J)	31
	32	Credits: (a) Overpayment from 1971 allowed as a credit	
		(b) 1972 estimated tax payments	
		(c) Less refund of 1972 estimated tax applied for on Form 4466	
		(d) Tax deposited with Form 7004 (attach copy)	
		(e) Tax deposited with Form 7005 (attach copy)	
		(f) Credit from regulated investment companies (attach Form 2439)	
	(g) U.S. tax on special fuels, nonhighway gas and lubricating oil (attach Form 4136)		
33	TAX DUE (line 31 less line 32). See instruction G for depository method of payment	33	
34	OVERPAYMENT (line 32 less line 33)	34	
35	Enter amount of line 34 you want refunded	35	



# schafer

Electronics Corporation

Prepared By

75 Castilian Drive  
Santa Barbara Research Park  
Goleta, California 93017  
(805) 968-0755

The Internal Revenue Service does not require a seal on this form, but if one is used, please place it here.

Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief it is true, correct, and complete. If prepared by a person other than the taxpayer, his declaration is based on all information of which he has any knowledge.

Date \_\_\_\_\_ Signature of individual or firm preparing the return \_\_\_\_\_ Preparer's address \_\_\_\_\_ Title \_\_\_\_\_  
Date \_\_\_\_\_ Signature of individual or firm preparing the return \_\_\_\_\_ Preparer's address \_\_\_\_\_ Title \_\_\_\_\_  
Date \_\_\_\_\_ Signature of individual or firm preparing the return \_\_\_\_\_ Preparer's address \_\_\_\_\_ Title \_\_\_\_\_



## FACTS ON FINANCING SCHAFER BROADCAST AUTOMATION

We at Schafer, like you, are vitally interested in GROWTH — growth of the broadcasting industry, and growth in your station's sales and profitability in particular.

As an owner or general manager, you are not always expected to know, in detail, the ever changing Federal Income Tax Rules and Regulations. As you rely on your engineer for technical advice on matters relating to your station you also rely on your accountant in areas on tax and financial statement analysis. Certain tax regulations are available to benefit you as a buyer of capital equipment. It occurred to me that putting down these "financial facts," in black and white, could aid you in your decision-making ability and save you what I call "opportunity" dollars, which are nothing more than a discount on the selling price, with the discount coming off the place we enjoy taking it the most — Federal and State Income Taxes.

The following analyses of the two most common ways of purchasing capital equipment — Cash and Lease — clearly show that proper use of the tax laws used to your maximum advantage can bring the cost of broadcast automation equipment down to less than the cost of the part-time employee or weekend man which means profitability to you and your station, and at the same time, let you enjoy all the benefits of automation as well as having equity in capital equipment.

In the financial analyses, I have used certain terms which may or may not be familiar to you. For your convenience, I have briefly defined these terms for you on the following pages.

In preparing the proposal, certain assumptions as to pre tax profit and state income tax rates for corporations have been made. Your set of circumstances may vary as to profit and as to state tax laws and rates, but as to concept, they are correct.

After examining the example of what broadcast automation really costs, you may still have some questions about your particular tax and profit situation. If you do, please contact me directly or through your Schafer Regional Manager. I will be more than happy to advise you and to further explain the proposal's content and, in general, answer any question you may have regarding taxes or financing.

Financial consultation is just one of the many services available to you as an owner of a Schafer Automation System. Remember — SCHAFER CARES!



Frank A. Roide  
Vice-President & Treasurer,  
Certified Public Accountant,  
State of California

## TAX AND ACCOUNTING TERMS AND CONCEPTS (Applicable to Sole Proprietorships, Partnerships and Corporations)

### I. DEPRECIATION

A. When you buy major tangible equipment for use in your business, you may not deduct its entire cost in the year of its purchase, but you can deduct a reasonable allowance for **depreciation** each year. This depreciation enables you to recover the cost of the equipment over its estimated useful life. One method of depreciation may be used for one particular asset and a different method may be used for another asset.

B. Following is a listing and explanation of the most widely used methods of depreciation:

1. **Straight-Line Depreciation** — The "Straight-line" method of computing depreciation, which is the most common in use, assumes that the depreciation is uniform during the useful life of the asset. Depreciable cost is defined as "cost less its estimated salvage value."

**Example:** Asset cost: \$10,000, with a useful life of 5 years (no salvage value). Annual depreciation is \$2,000 ( $\$10,000 \div 5$  years). The rate is 20% ( $100\% \div 5$  years).

a) **Disregarding Salvage Value Up to 10% (Straight-Line Method)** The tax law allows you to disregard up to 10% of cost in setting salvage value for depreciation purposes. For example, if a machine costs \$10,000 with a 5-year life and has a salvage value of \$1,500, you can disregard \$1,000 ( $10\% \times \$10,000$ ) of the salvage, and figure depreciation on \$9,500. This break applies only to tangible business property which has a useful life of at least 3 years.

2. There are also accelerated methods of depreciation, which give larger deductions in the earlier years than straight-line depreciation. The most common fast write-off method is the 200% (or double) declining-balance (DDB) method. This can be used for any tangible depreciable machinery and equipment if: a) it has a useful life of at least 3 years, and b) you acquire it new.

a) **200% (Double) Declining-Balance Depreciation (DDB)** — Under this method, the rate used is twice the straight-line rate, and is applied each year to your **undepreciated** cost. Unlike the straight-line method, salvage value is not subtracted at the outset.

**Example:** Cost: \$10,000, with a useful life of 5 years. The double-declining rate is 40% that is, twice the straight-line rate ( $100\% \div 5\text{-year life}$ ). So, for the first full year, depreciation is \$4,000 ( $\$10,000 \times 40\%$ ); for the second year, depreciation is \$2,400 ( $\$6,000 \text{ undepreciated cost} \times 40\%$ ), and so on.

b) **150% Declining-Balance Depreciation** — Property which was used when you purchased it does not qualify for the 200% declining-balance method. You do not need to use the straight-line method. You can write it off under this limited (150%) declining-balance method if you wish.

## II. ADDITIONAL FIRST-YEAR 20% DEPRECIATION BONUS

In addition to regular depreciation (straight-line or accelerated) you may elect to deduct an initial allowance in the year you acquire tangible business property, either new or used. It must have, when acquired, a useful life of at least 6 years. The "bonus" depreciation is computed on "cost" without reduction for salvage value. The remaining cost, after reduction for "bonus depreciation and salvage value, may be depreciated under the straight-line or declining-balance method of depreciation you choose as described above. The allowance is 20% of up to \$10,000 of total combined cost of equipment or a maximum of \$2,000 in any one year.

## III. FEDERAL INVESTMENT TAX CREDIT

Broadly speaking, the investment tax credit gives businessmen a tax reduction (a dollar-for-dollar reduction of tax dollars payable) equal to 7% of the "qualified investment" in new, and, to a limited extent, used depreciable property placed in service during the year.

The amount of your investment credit is based on a "qualified investment" and this in turn is based on its useful life. Here are the rules which apply to both new and used property. To get the 7% tax cut on your entire investment, the property must have an expected useful life of 7 years or more. If its useful life is 5 to 7 years, the 7% credit is allowed on only two-thirds of the investment. If its useful life is 3 to 5 years, only one-third of your investment qualifies. But, if the useful life is less than 3 years, there is no federal investment tax credit available.

How does the investment credit tie in with depreciation? First, you must use the same useful life for purposes of investment credit that you do for figuring your depreciation deductions. Much more important, however, you **do not** reduce the asset's depreciable base by the amount of the investment credit taken. This is truly an incentive to buy capital equipment at the present time.

The maximum amount of investment tax credit allowed is up to, but not more than your Federal Income Tax liability. Furthermore, if your tax bill exceeds \$25,000, then the credit limit is \$25,000 plus  $\frac{1}{2}$  of the excess credit. As to used equipment, there is a \$50,000 limit on the cost of used equipment you can take into account in figuring your investment credit for any one year. If the total cost is more than \$50,000 you may select the assets you want to use for credit purposes. But to maximize your credit, you will want to choose the longer-lived equipment.

An important point to remember, is that any investment tax credit which cannot be used currently, because of a loss year, is not wasted. It can be carried back to your 3 prior years' tax returns for immediate refund of taxes paid and/or carried forward over the next 7 years until it is all used.

The investment tax credit is for United States manufactured equipment only. There is no credit for foreign-made equipment; that is, if less than 50% of the basis is attributable to value added outside the United States.

# Schafer

ELECTRONICS CORPORATION

ASSETS	Beginning of taxable year		End of taxable year	
	(A) Amount	(B) Total	(C) Amount	(D) Total
1 Cash . . . . .				
2 Trade notes and accounts receivable . . . . .				
(a) Less allowance for bad debts . . . . .				
3 Inventories . . . . .				
4 Gov't obligations: (a) U.S. and instrumentalities . . . . .				
(b) State, subdivisions thereof, etc. . . . .				
5 Other current assets (attach schedule) . . . . .				
6 Loans to stockholders . . . . .				
7 Mortgage and real estate loans . . . . .				
8 Other investments (attach schedule) . . . . .				
9 Buildings and other fixed depreciable assets . . . . .				
(a) Less accumulated depreciation . . . . .				
10 Depletable assets . . . . .				
(a) Less accumulated depletion . . . . .				
11 Land (net of any amortization) . . . . .				
12 Intangible assets (amortizable only) . . . . .				
(a) Less accumulated amortization . . . . .				
13 Other assets (attach schedule) . . . . .				
14 Total assets . . . . .				
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>				
15 Accounts payable . . . . .				
16 Mtges., notes, bonds payable in less than 1 yr. . . . .				
17 Other current liabilities (attach schedule) . . . . .				
18 Loans from stockholders . . . . .				
19 Mtges., notes, bonds payable in 1 yr. or more . . . . .				
20 Other liabilities (attach schedule) . . . . .				
21 Capital stock: (a) Preferred stock . . . . .				
(b) Common stock . . . . .				
22 Paid-in or capital surplus (attach reconciliation) . . . . .				
23 Retained earnings—Appropriated (attach sch.) . . . . .				
24 Retained earnings—Unappropriated . . . . .				
25 Less cost of treasury stock . . . . .		( )		( )
26 Total liabilities and stockholders' equity . . . . .				

Schedule M-1—RECONCILIATION OF INCOME PER BOOKS WITH INCOME PER RETURN

1 Net income per books . . . . .		7 Income recorded on books this year not included in this return (itemize)	
2 Federal income tax . . . . .		(a) Tax-exempt interest \$ . . . . .	
3 Excess of capital losses over capital gains . . . . .			
4 Taxable income not recorded on books this year (itemize) . . . . .		8 Deductions in this tax return not charged against book income this year (itemize)	
5 Expenses recorded on books this year not deducted in this return (itemize)		(a) Depreciation . . . \$ . . . . .	
(a) Depreciation . . . \$ . . . . .		(b) Depletion . . . \$ . . . . .	
(b) Depletion . . . \$ . . . . .			
6 Total of lines 1 through 5 . . . . .		9 Total of lines 7 and 8 . . . . .	
		10 Income (line 28, page 1)—line 6 less 9 . . . . .	

Schedule M-2—ANALYSIS OF UNAPPROPRIATED RETAINED EARNINGS PER BOOKS (line 24 above)

1 Balance at beginning of year . . . . .		5 Distributions: (a) Cash . . . . .	
2 Net income per books . . . . .		(b) Stock . . . . .	
3 Other increases (itemize) . . . . .		(c) Property . . . . .	
		6 Other decreases (itemize) . . . . .	
		7 Total of lines 5 and 6 . . . . .	
4 Total of lines 1, 2, and 3 . . . . .		8 Balance at end of year (line 4 less 7) . . . . .	

# Schafer

## PROPOSAL

electronics corporation

CASTILIAN DRIVE • SANTA BARBARA RESEARCH PARK  
GOLETA, CALIFORNIA 93017 • PHONE (805) 968-0755

TO: MODEL 902  
Broadcast Automation System

NO. AXXX	DATE 6-73	SALESMAN
<b>SHIPPING INSTRUCTIONS</b>		
FOB: Goleta, California		
VIA:		
<b>TERMS</b> 2% discount cash with order/ Open Acct: 25% deposit, 1% discount, 10 days, net 30/5 Year Lease Plan.		
SHEET NO.	OF	SHEETS

ITEM NO.	QUANTITY	DESCRIPTION	UNIT PRICE	TOTAL
1	1	Model 902 Control System - consists of Model 901 control unit with 19 audio channels and Model 902 control panel with 1x24 and 2x12 switching format, cue/monitor amplifiers, VU meters, power supply and interface. #122-902-001		3,495 00
2	1	Remote Control. #099-900-157		150 00
3	4	Revox A77 Mark III Stereo Playback Decks. #122-900-017	1,095 00	4,360 00
4	2	Model 250-RS Random Access CAROUSELS* with M-52-C Memory, Mono. #122-902-082	2,660 00	5,320 00
5	2	ITC Model SP-0003-R Single Play Cartridge Units, Mono. #122-900-112	850 00	1,700 00
6	3	Rack Cabinets #129-100-001	275 00	825 00
<b>TOTAL:</b>				<b>\$15,850 00</b>
*Trademark registered U. S. Patent Office				

When this Proposal is signed by the Buyer, returned to Schafer Electronics and executed by its office in Goleta, California, it shall become a firm order and contract incorporating this sheet and all continuation sheets attached hereto, if any, all of which are subject to the terms and condition specified including those on the reverse side hereof. Cancellations are subject to 20% restocking charge.

**SCHAFFER ELECTRONICS**

**BUYER SIGN HERE** .....

BY: _____	BY: _____
DATE _____	TITLE _____
	DATE _____

**RADIO STATION AXXX**  
**FINANCING ALTERNATIVES FOR SCHAFFER AUTOMATION**

**CASH METHOD**

**SYSTEM PRICE:** \$15,850

**CASH PRICE:** \$15,533 (This price assumes 2% cash discount (\$317) for cash with order.)

Assume borrowing from local bank at 9% simple interest and paying the Principal loan over 60 months of \$258.88 each.

**TOTAL CASH OUTLAY:** (Including Interest)

1st Year -	Average Outstanding Loan Balance -	\$13,980 x 9% =	Interest of \$	1,258
2nd Year -	" " " "	10,873 x 9% =	"	979
3rd Year -	" " " "	7,766 x 9% =	"	699
4th Year -	" " " "	4,659 x 9% =	"	419
5th Year -	" " " "	1,552 x 9% =	"	140
		<b>Interest</b>		<b>3,495</b>
		<b>Principal</b>		<b><u>15,533</u></b>
		<b>Total Cash Outlay</b>		<b><u>\$19,028</u></b>

**DEPRECIATION:** Assume Double (200%) Declining Balance Method (DDB) with the equipment given a 7-year life (7-year life required if full Investment Tax Credit is taken).

		<u>Undepreciated Cost</u>
1st Year - Maximum 1st year Depreciation Bonus	\$2,000	\$13,533
1st Year - Depreciation (DDB at 28.57%)	<u>3,866</u>	9,367
Total 1st year Depreciation	5,866	
2nd Year - Depreciation (DDB at 28.57%)	2,762	6,905
3rd Year - " "	1,973	4,932
4th Year - " "	1,409	3,523
5th Year - " "	1,007	2,516
6th Year - " "	719	1,797
7th Year - " "	1,797	

FEDERAL & STATE INCOME TAXES PAYABLE: Assuming \$12,500 pre-tax profit.

	<u>FEDERAL</u>	<u>STATE</u>
<u>Prior to any equipment purchase consideration:</u>		
Pre-Tax Profit	<u>\$12,500</u>	<u>\$12,500</u>
Tax Payable	22%: <u>\$ 2,750</u>	Assume 5%: <u>\$ 625</u>
<u>Assume purchase of Schafer Automation - 1st year:</u>		
Pre-Tax Profit	\$12,500	\$12,500
Less: Interest Expenses (from preceeding page) ( 1,258)		( 1,258)
Less: Depreciation (from preceeding page) ( 5,866)	<u>( 5,866)</u>	<u>( 5,866)</u>
Adjusted Pre-Tax Profit	<u>\$ 5,376</u>	<u>\$ 5,376</u>
Tax Payable	22%: \$ 1,183	Assume 5%: \$ 269
Less: 7% Investment Tax Credit	<u>( 1,087)</u>	_____
Total Federal & State Taxes Payable	<u>\$ 96</u>	<u>\$ 269</u>
Total Tax Savings	<u>\$3,010</u>	<u>\$ 356</u>

CASH FLOW: First Year

Principal Payments to Bank - 12 x \$258.88	\$3,107
Interest on Loan (from preceeding page)	<u>1,258</u>
	4,365
Less: 1st Year Tax Savings	<u>(3,010)</u>
Total Net Cash Outlay for the 1st year for the Schafer Automation System	<u>\$1,355</u> - or \$112.92 per month or \$26.06 per week

LEASE METHOD

LEASE PRICE: \$15,850

LEASE CONDITIONS: Down Payment - 9% of Equipment Price.  
60 Monthly payments at \$23.00/\$1,000/Month - \$364.55  
No buyout at the end of 60 months.  
7% Investment Credit passed on to Radio Station.

TOTAL CASH OUTLAY:

1st Year	9% Down Payment	\$ 1,427
1st Year	12 Months Lease Payments	4,375
2nd Year	12 Months Lease Payments	4,375
3rd Year	12 Months Lease Payments	4,375
4th Year	12 Months Lease Payments	4,375
5th Year	12 Months Lease Payments	<u>4,375</u>
	Total Cash Outlay	<u>\$23,302</u>

DEPRECIATION: No Depreciation available as title to equipment remains with the Leasing Company for 5 years.

FEDERAL & STATE INCOME TAXES PAYABLE: Assuming \$12,500 pre-tax profit.

	<u>FEDERAL</u>	<u>STATE</u>
<u>Prior to any equipment purchase consideration:</u>		
Pre-Tax Profit	<u>\$12,500</u>	<u>\$12,500</u>
Tax Payable	22%: <u>\$ 2,750</u>	Assume 5%: <u>\$ 625</u>
<u>Assume purchase of Schafer Automation - 1st Year:</u>		
Pre-Tax Profit	\$12,500	\$12,500
Less: Lease Payments	( 4,375)	( 4,375)
Adjusted Pre-Tax Profit	<u>\$ 8,125</u>	<u>\$ 8,125</u>
Tax Payable	22%: \$ 1,788	Assume 5%: \$ 406
Less: 7% Investment Tax Credit	( 1,110)	_____
Total Federal & State Taxes Payable	<u>\$ 678</u>	<u>\$ 406</u>
Total Tax Savings	<u>\$2,291</u>	<u>\$ 219</u>



CASH FLOW: First Year

Lease Payments - 12 x \$364.55	)	from	\$4,375
9% Down Payment	)	preceeding	
		page	<u>1,427</u>
			5,802
Less: 1st Year Tax Savings			<u>(2,291)</u>
Total Cash Outlay for the 1st year for the Schafer Automation System			<u>\$3,511</u> - or \$292.58 per month or \$56.52 per week

\* \* \* \* \*

FINANCIAL SUMMARY

	<u>CASH</u>	vs	<u>LEASE</u>
Total Cash Outlay (including interest)	\$19,028		\$23,302
Depreciation Expense available	Yes		No
Investment Tax Credit available	Yes		Yes
1st Year Savings in Federal & State Income Taxes	\$ 3,010		\$ 2,291
1st Year Net Cash Outlay	\$ 1,355 - or \$112.92/month or \$26.06/week		\$ 3,511 - or \$292.58/month or \$67.52/week

# Schafer

# PROPOSAL

electronics corporation

75 CASTILIAN DRIVE • SANTA BARBARA RESEARCH PARK  
 GOLETA, CALIFORNIA 93017 • PHONE (805) 968-0755

NO. BXXX	DATE 6-73	SALESMAN
SHIPPING INSTRUCTIONS FOB: Goleta, California		
VIA:		
TERMS 2% discount cash with order/ Open Acct: 25% deposit, 1% discount, 10 days, net 30/5 Year Lease Plan.		
SHEET NO.	OF	SHEETS

TO: MODEL 903  
Broadcast Automation System

ITEM NO.	QUANTITY	DESCRIPTION	UNIT PRICE	TOTAL
1	1	Model 903 Control System - consists of Model 901 control unit with 19 audio channels and Model 903 memory keyboard display with crystal control clock, MOS memory with real time programming, continuous format file, power supplies, stereo cue speaker and meters. #122-903-002		9,950 00
2	4	Schafer Model PB720-2 Stereo Playback Decks with individual 25 Hz gate. #122-900-016	1,595 00	6,380 00
3	1	Audio Clock with (2) ITC Model WP-0003 Cartridge Units, Monaural. #122-900-032		1,945 00
4	3	Model 250-RS Random Access CAROUSELS*, Monaural. #122-903-082	1,915 00	5,745 00
5	3	Rack Cabinets #129-100-001	275 00	825 00
TOTAL:				\$24,845 00
*Trademark registered U. S. Patent Office				

When this Proposal is signed by the Buyer, returned to Schafer Electronics and executed by its office in Goleta, California, it shall become a firm order and contract incorporating this sheet and all continuation sheets attached hereto, if any, all of which are subject to the terms and condition specified including those on the reverse side hereof. Cancellations are subject to 20% restocking charge.

SCHAFER ELECTRONICS		BUYER SIGN HERE .....		
BY:	DATE	BY:	TITLE	DATE

RADIO STATION BXXX

FINANCING ALTERNATIVES FOR SCHAFFER AUTOMATION

CASH METHOD

SYSTEM PRICE: \$24,845

CASH PRICE: \$24,348 (This price assumes 2% cash discount (\$497) for cash with order.)

Assume borrowing from local bank at 9% simple interest and paying the Principal loan over 60 months of \$405.80 each.

TOTAL CASH OUTLAY: (Including Interest)

1st Year - Average Outstanding Loan Balance -	\$21,913 x 9% =	Interest of \$	1,972
2nd Year - " " " "	17,043 x 9% =	"	1,534
3rd Year - " " " "	12,173 x 9% =	"	1,096
4th Year - " " " "	7,303 x 9% =	"	657
5th Year - " " " "	2,433 x 9% =	"	<u>219</u>
		Interest	5,478
		Principal	<u>24,348</u>
		Total Cash Outlay	<u>\$29,826</u>

DEPRECIATION: Assume Double (200%) Declining Balance Method (DDB) with the equipment given a 7-year life (7-year life required if full Investment Tax Credit is taken).

		<u>Undepreciated Cost</u>
1st Year - Maximum 1st year Depreciation Bonus	\$ 2,000	\$22,348
1st Year - Depreciation (DDB at 28.57%)	<u>6,385</u>	15,963
Total 1st year Depreciation	8,385	
2nd Year - Depreciation (DDB at 28.57%)	4,561	11,402
3rd Year - " "	3,258	8,144
4th Year - " "	2,327	5,817
5th Year - " "	1,662	4,155
6th Year - " "	1,187	2,968
7th Year - " "	2,968	

FEDERAL & STATE INCOME TAXES PAYABLE: Assuming \$20,000 pre-tax profit.

	<u>FEDERAL</u>	<u>STATE</u>
<u>Prior to any equipment purchase consideration:</u>		
Pre-Tax Profit	<u>\$20,000</u>	<u>\$20,000</u>
Tax Payable	22%: <u>\$ 4,400</u>	Assume 5%: <u>\$ 1,000</u>
<u>Assume purchase of Schafer Automation - 1st year:</u>		
Pre-Tax Profit	\$20,000	\$20,000
Less: Interest Expense (from preceeding page)	( 1,972)	( 1,972)
Less: Depreciation (from preceeding page)	<u>( 8,385)</u>	<u>( 8,385)</u>
Adjusted Pre-Tax Profit	<u>\$ 9,643</u>	<u>\$ 9,643</u>
Tax Payable	22%: \$ 2,121	Assume 5%: \$ 482
Less: 7% Investment Tax Credit	<u>( 1,704)</u>	_____
Total Federal & State Taxes Payable	<u>\$ 417</u>	<u>\$ 482</u>
Total Tax Savings	<u>\$4,501</u>	<u>\$ 518</u>

CASH FLOW: First Year

Principal Payments to Bank - 12 x \$405.80	\$4,870
Interest on Loan (from preceeding page)	<u>1,972</u>
	6,842
Less: 1st Year Tax Savings	<u>(4,501)</u>
Total Net Cash Outlay for the 1st year for the Schafer Automation System	<u>\$2,341</u> - or \$195.08 per month or \$45.02 per week

LEASE METHOD

LEASE PRICE: \$24,845

LEASE CONDITIONS: Down Payment - 9% of the Equipment Price.  
60 Monthly payments at \$23.00/\$1,000/month - \$571.44.  
No buyout at the end of 60 months.  
7% Investment Credit passed on to Radio Station.

TOTAL CASH OUTLAY:

1st Year	9% Down Payment	\$ 2,236
1st Year	12 Months Lease Payments	6,857
2nd Year	12 Months Lease Payments	6,857
3rd Year	12 Months Lease Payments	6,857
4th Year	12 Months Lease Payments	6,857
5th Year	12 Months Lease Payments	<u>6,857</u>
Total Cash Outlay		<u>\$36,521</u>

DEPRECIATION: No Depreciation available as title to equipment remains with Leasing Company for 5 years.

FEDERAL & STATE INCOME TAXES PAYABLE: Assuming \$20,000 pre-tax profit.

	<u>FEDERAL</u>	<u>STATE</u>
<u>Prior to any equipment purchase consideration:</u>		
Pre-Tax Profit	<u>\$20,000</u>	<u>\$20,000</u>
Tax Payable	22%: <u>\$ 4,400</u>	Assume 5%: <u>\$ 1,000</u>
<u>Assume purchase of Schafer Automation - 1st year:</u>		
Pre-Tax Profit	\$20,000	\$20,000
Less: Lease Payments	( 6,857)	( 6,857)
Adjusted Pre-Tax Profit	<u>\$13,143</u>	<u>\$13,143</u>
Tax Payable	22%: \$ 2,891	Assume 5%: \$ 657
Less: 7% Investment Tax Credit	( 1,739)	_____
Total Federal & State Taxes Payable	<u>\$ 1,152</u>	<u>\$ 657</u>
Total Tax Savings	<u>\$3,591</u>	<u>\$ 343</u>

CASH FLOW: First Year

Lease Payments - 12 x \$571.44	)	from	\$6,857
9% Down Payment	)	preceeding page	<u>2,236</u>
			9,093
Less: 1st Year Tax Savings			<u>(3,591)</u>
Total Cash Outlay for the 1st year for the Schafer Automation System			<u>\$5,502</u> - or \$458.50 per month or \$105.81 per week

\* \* \* \* \*

FINANCIAL SUMMARY

	<u>CASH</u>	vs	<u>LEASE</u>
Total Cash Outlay (including interest)	\$29,826		\$36,521
Depreciation Expense Available	Yes		No
Investment Tax Credit Available	Yes		Yes
1st Year Savings in Federal & State Income Taxes	\$ 5,501		\$ 3,591
1st Year Net Cash Outlay	\$ 2,341 - or \$195.08/month or \$45.02/week		\$ 5,502 - or \$458.50/month or \$105.81/week

# PROPOSAL

# Schafer

electronics corporation

75 CASTILIAN DRIVE • SANTA BARBARA RESEARCH PARK  
GOLETA, CALIFORNIA 93017 • PHONE (805) 968-0755

NO. CXXX	DATE 6-73	SALESMAN
SHIPPING INSTRUCTIONS FOB: Goleta, California		
VIA:		
TERMS 2% discount cash with order/ Open Acct: 25% deposit, 1% discount, 10 days, net 30/5 Year Lease Plan.		
SHEET NO.	OF	SHEETS

TO: [ MODEL 903 with VEL ]  
[ Broadcast Automation System ]

ITEM NO.	QUANTITY	DESCRIPTION	UNIT PRICE	TOTAL
1	1	Model 903 Control System - consists of Model 901 control unit with 19 audio channels and Model 903 memory keyboard display with crystal control clock, MOS memory with real time programming, continuous format file, power supplies, stereo cue speaker and meters. #122-903-002		9,950 00
2	4	Schafer Model PB-720-2 Stereo Playback Decks. #122-900-016	1,595 00	6,380 00
3	1	Audio Clock with (2) ITC Model WP-0004 Stereo Cartridge Units. #122-900-033		2,145 00
4	3	Model 252RS Random Access CAROUSELS*, Stereo. #122-903-083	2,060 00	6,180 00
5	3	Rack Cabinets #129-100-001	275 00	825 00
6	1	Model 900 VEL, Verified Encoded Logging with encode record unit and controls, cartridge recorder encode drive assembly, decode electronics and power supply. #122-903-166		1,750 00
7	3	Cartridge Decode Drivers. #130-8000-46	75 00	225 00
8	2	Model ASR33M Teletypewriters, automatic send/receive for input/output/logging with motor control. #122-900-007	1,645 00	3,290 00
TOTAL:				\$30,745 00
*Trademark registered U. S. Patent Office.				

When this Proposal is signed by the Buyer, returned to Schafer Electronics and executed by its office in Goleta, California, it shall become a firm order and contract incorporating this sheet and all continuation sheets attached hereto, if any, all of which are subject to the terms and condition specified including those on the reverse side hereof. Cancellations are subject to 20% restocking charge.

SCHAFFER ELECTRONICS		BUYER SIGN HERE .....		
BY:	DATE	BY:	TITLE	DATE

RADIO STATION CXXX

FINANCING ALTERNATIVES FOR SCHAFFER AUTOMATION

CASH METHOD

SYSTEM PRICE: \$30,745

CASH PRICE: \$30,130 (This price assumes 2% cash discount (\$615) for cash with order.)

Assume borrowing from local bank at 9% simple interest and paying the Principal loan over 60 months of \$502.17 each.

TOTAL CASH OUTLAY: (Including Interest)

1st Year -	Average Outstanding Loan Balance -	\$27,117 x 9% =	Interest of	\$ 2,441
2nd Year -	" " " "	21,091 x 9% =	"	1,898
3rd Year -	" " " "	15,065 x 9% =	"	1,356
4th Year -	" " " "	9,039 x 9% =	"	814
5th Year -	" " " "	3,013 x 9% =	"	<u>271</u>
			Interest	\$ 6,780
			Principal	<u>30,130</u>
			Total Cash Outlay	<u>\$36,910</u>

DEPRECIATION: Assume Double (200%) Declining Balance Method (DDB) with the equipment given a 7-year life (7-year life required if full Investment Tax Credit is taken).

		<u>Undepreciated Cost</u>
1st Year - Maximum 1st year Depreciation Bonus	\$ 2,000	\$28,130
1st Year - Depreciation (DDB at 28.57%)	<u>8,037</u>	20,093
Total 1st year Depreciation	10,037	
2nd Year - Depreciation (DDB at 28.57%)	5,741	14,352
3rd Year - " "	4,100	10,252
4th Year - " "	2,929	7,323
5th Year - " "	2,092	5,231
6th Year - " "	1,494	3,737
7th Year - " "	3,737	



FEDERAL & STATE INCOME TAXES PAYABLE: Assuming \$25,000 pre-tax profit.

	<u>FEDERAL</u>	<u>STATE</u>
<u>Prior to any equipment purchase consideration:</u>		
Pre-Tax Profit	<u>\$25,000</u>	<u>\$25,000</u>
Tax Payable	22%: <u>\$ 5,500</u>	Assume 5%: <u>\$ 1,250</u>
<u>Assume purchase of Schafer Automation - 1st year:</u>		
Pre-Tax Profit	\$25,000	\$25,000
Less: Interest Expense (from preceeding page)	( 2,441)	( 2,441)
Less: Depreciation (from preceeding page)	<u>(10,037)</u>	<u>(10,037)</u>
Adjusted Pre-Tax Profit	<u>\$12,522</u>	<u>\$12,522</u>
Tax Payable	22%: \$ 2,755	Assume 5%: \$ 626
Less: 7% Investment Tax Credit	<u>( 2,109)</u>	_____
Total Federal & State Taxes Payable	<u>\$ 646</u>	<u>\$ 626</u>
Total Tax Savings	<u>\$5,478</u>	<u>\$ 624</u>

CASH FLOW: First Year

Principal Payments to Bank - 12 x \$502.17	\$6,026
Interest on Loan (from preceeding page)	<u>2,441</u>
	8,467
Less: 1st Year Tax Savings	<u>(5,478)</u>
Total Net Cash Outlay for the 1st year for the Schafer Automation System	<u>\$2,989</u> - or \$249.08 per month or \$57.48 per week

LEASE METHOD

LEASE PRICE: \$30,745

LEASE CONDITIONS: Down Payment - 9% of Equipment Price.  
60 Monthly payments at \$23.00/\$1,000/month - \$707.14.  
No buyout at the end of 60 months.  
7% Investment Credit passed on to Radio Station.

TOTAL CASH OUTLAY:

1st Year	9% Down Payment	\$ 2,767
1st Year	12 Months Lease Payments	8,486
2nd Year	12 Months Lease Payments	8,486
3rd Year	12 Months Lease Payments	8,486
4th Year	12 Months Lease Payments	8,486
5th Year	12 Months Lease Payments	<u>8,486</u>
	Total Cash Outlay	<u>\$45,197</u>

DEPRECIATION: No Depreciation available as title to equipment remains with Leasing Company for 5 years.

FEDERAL & STATE INCOME TAXES PAYABLE: Assuming \$25,000 pre-tax profit.

	<u>FEDERAL</u>	<u>STATE</u>
<u>Prior to any equipment purchase consideration:</u>		
Pre-Tax Profit	<u>\$25,000</u>	<u>\$25,000</u>
Tax Payable	22%: <u>\$ 5,500</u>	Assume 5%: <u>\$ 1,250</u>
<u>Assume purchase of Schafer Automation - 1st year:</u>		
Pre-Tax Profit	\$25,000	\$25,000
Less: Lease Payments	( 8,486)	( 8,486)
Adjusted Pre-Tax Profit	<u>\$16,514</u>	<u>\$16,514</u>
Tax Payable	22%: \$ 3,633	Assume 5%: \$ 826
Less: 7% Investment Tax Credit	( 2,152)	_____
Total Federal & State Taxes Payable	<u>\$ 1,481</u>	<u>\$ 826</u>
Total Tax Savings	<u>\$4,443</u>	<u>\$ 424</u>

CASH FLOW: First Year

Lease Payments - 12 x \$707.14	)	from	\$ 8,486
		preceeding	
9% Down Payment	)	page	<u>2,767</u>
			11,253
Less: 1st Year Tax Savings			<u>( 4,443)</u>
Total Cash Outlay for the 1st year for the Schafer Automation System			<u>\$ 6,810</u> - or \$567.50 per month or \$130.96 per week

\* \* \* \* \*

FINANCIAL SUMMARY

	<u>CASH</u>	vs	<u>LEASE</u>
Total Cash Outlay (including interest)	\$36,910		\$45,197
Depreciation Expense Available	Yes		No
Investment Tax Credit Available	Yes		Yes
1st Year Savings in Federal & State Income Taxes	\$ 5,478		\$ 4,443
1st Year Net Cash Outlay	\$ 2,989 - or \$249.08/month or \$57.48/week		\$ 6,810 - or \$567.50/month or \$130.96/week