

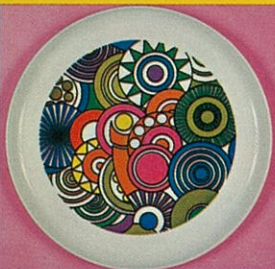
Over 50 Years of Quality, Design and Innovation

Pictorial Productions, Inc.

Annual Report 1969



VARI-VUE



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To Our Shareholders

The preceding year showed a significant increase in sales and income from operations. It should be noted, moreover, that the progress made by our company during 1969 is only partially reflected by the financial figures for the year. This was the first full year of combined operations with the Sanborn Map Company, acquired by Pictorial Productions in November, 1968. A great deal of effort was made to integrate our facilities to the fullest extent possible, and this has already resulted in marked improvements.

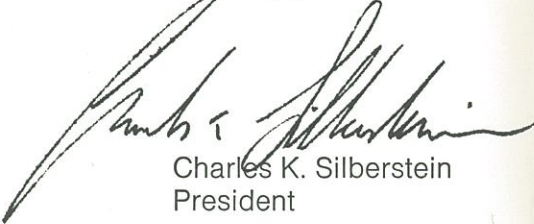
All of the printing and related activities of the Sanborn Map Company were transferred to the main Pictorial plant, as well as the accounting functions of Sanborn and its subsidiaries. This has enabled us to achieve a far greater level of efficiency. We received delivery in August, 1969, of an I.B.M. 360, Model 20 System, which now provides our plants in Mount Vernon and Pelham, New York, Pittsburgh,

Pennsylvania, and East Liverpool, Ohio, with rapid cost information and related management controls.

Considerable emphasis was placed on eliminating all unprofitable or marginally profitable product lines over the past year. I believe that it can be stated with cautious optimism that 1970 will be a year when our volume and profitability should increase at a sharper rate than in previous years.

At this time I should like to express my appreciation to all my associates who have enabled us to lay the groundwork towards accelerated growth and earnings in the future.

Sincerely yours,


Charles K. Silberstein
President



Commercial Decal Division

New technological development, expanding domestic and foreign markets, and increased operational efficiencies characterize activities in our Commercial Decal Division.

Marketing and product development activities have been reorganized and consolidated into one department. A separate, modern research laboratory has been established to serve this division. These changes illustrate emphasis on our program to create new and better ceramic decal products. Our laboratory has made considerable progress in developing a new method of decal application which, when successfully completed, will keep Commercial Decal well ahead of anticipated changes in the ceramic, glass, and enamelware industries during the next decade. To meet the demands of increased automation rapidly being introduced into our customers' factories, new printing concepts will be required, and these are currently being tested by our production department.

As sales of ceramic decals rise, Commercial Decal is concentrating its marketing efforts on high volume users, such as the glass container industry. Among our most successful activities in this area, are our glassware decals for Schenley Distilleries, currently being featured on that company's products through a nationwide advertising campaign.

The Unique Kiln Co. recently acquired by Commercial Decal is the latest addition to the corporate family. The present facilities of this 20-year-old small but highly regarded builder of specialized electric furnaces will be expanded to meet the growing demand of a wide range of customers from ceramic decorators to manufacturers of rocket engine components. Among its customers are such well known names as The American Lava Co. and The Howmet Corporation.



International Division

Sales of our ceramic decals to customers abroad have continued to expand at a substantial rate over the past year and show promise of greater growth for the future. With improved foreign representation in Latin America, Western Europe and elsewhere, our International Division has added a number of prominent foreign ceramic manufacturers to our list of customers. Negotiations with manufacturers of fine china, glassware and enamelware are facilitated by the company's large and varied open-stock collection of quality patterns designed to meet contemporary fashion trends.

Technological advances have also contributed to the expansion of sales abroad. Our new, one-fire underglaze decal, "Uniflame," which is protected by United States and foreign patents, has been enthusiastically received by a large number of manufacturers throughout the world. This new process permits a large increase in productivity, resulting in considerable savings in labor, fuel, and other costs. Manufacturers are able to meet the increasing demand for their products in many instances without additional capital outlay for new equipment.

The number of licensees who produce the company's patented products, both in the United States and overseas, is rapidly increasing and includes some of the world's most prestigious names in the ceramic, glass, and enamelware industries. License agreements for the manufacture and sale of our "Uniflame" and "Permacal" processes in the United Kingdom and Ireland were concluded with the Johnson Matthey Company in England. Negotiations with several other companies, both in the United States and overseas, are currently in various stages of completion.



Plastics Division

Our Plastics Division has perfected several significant technological advancements for the production and decoration of thermoplastics and has gained considerable recognition for its products within the injection moulding industry. With many of its new techniques for thermoplastics production and decoration, unique concepts are involved on which the company has applied for patent protection.

These technological advances, along with our established reputation for quality, service, and a large selection of contemporary designs, have resulted in significantly increased interest in our products throughout the plastics industry. In addition, an increased number of national firms, which design and market consumer products, have been attracted by our capabilities. Many injection molded products not previously decorated are being restyled to carry the exciting new decorative features of today's design trends. Designers have long sought improvement in techniques for making this possible.

Modifications of existing equipment and the planned introduction and installation of modern new equipment should further improve manufacturing efficiency, speed, and quality control in this division during the forthcoming year.

In the world market, the number of our customers has been substantially increased, partially as a result of the International Plastics Exposition in Brussels where many of our products and processes were demonstrated.



Vari-Vue Division

Our Vari-Vue Division has established itself as a growing supplier of 3-D products for packaging and sales promotion campaigns of major corporations. We recently made our first entry into the area of nationwide promotional games with our unique "International Flags" game for the Mobil Oil Company. Animated and 3-D illustrations and designs have appeared throughout the year, both in the advertising campaigns and on the products of such nationally known corporations as Miles Laboratories, Helena Rubenstein, the Kellogg Company, Colgate-Palmolive Peet, RCA, Calvert Distributors, Seagrams, Carlsberg Breweries, Pepsi-Cola, and General Motors.

Sales of Vari-Vue products have continued to expand in the retail field, and our "op art" and psychedelic pictures have gained wide acceptance in the youth market. We take pride in the fact that we had the first 3-D set of lunar astronaut postcards and pictures for retail sales across the nation. With both an expanded network of agents and distributors and a selective increase in the company's own sales force, we expect Vari-Vue sales to increase sharply in 1970.

During the course of this year, the Vari-Vue Division concluded its first licensing agreement with a highly regarded printing firm in Mexico. As a prototype for future licenses, the agreement calls for leasing the specialized Pictorial 3-D camera and lenticular optical system and receiving a royalty on all sales. This firm will eventually be able to produce the entire line of Vari-Vue products for the rapidly growing interior market of Mexico.



During the year all Chicago production facilities of the Placard-Chicago Division were discontinued and removed to Pictorial's Mount Vernon plant. Operations have been restructured to enable this division to operate at a greater profit level. The company was acquired because of its close relationship to sales areas in which Pictorial Productions is active. Placard-Chicago produces a wide-range of specialized plastic products, from credit cards to illuminated advertising signs. A sales office is maintained in Chicago to service the Greater Chicago area and the extensive market in the Middle Western States.

Placard-Chicago has developed a successful process by which a computer printout can be laminated in plastic and made into an identification card. We have obtained a United States patent on this process, and patent applications are pending in many foreign countries. One of the largest finance companies in this country, the Household Finance Corporation, is using this system to identify desirable accounts. With the ever-increasing use of credit and identification cards throughout the nation, the potential for sales in this area remains high.

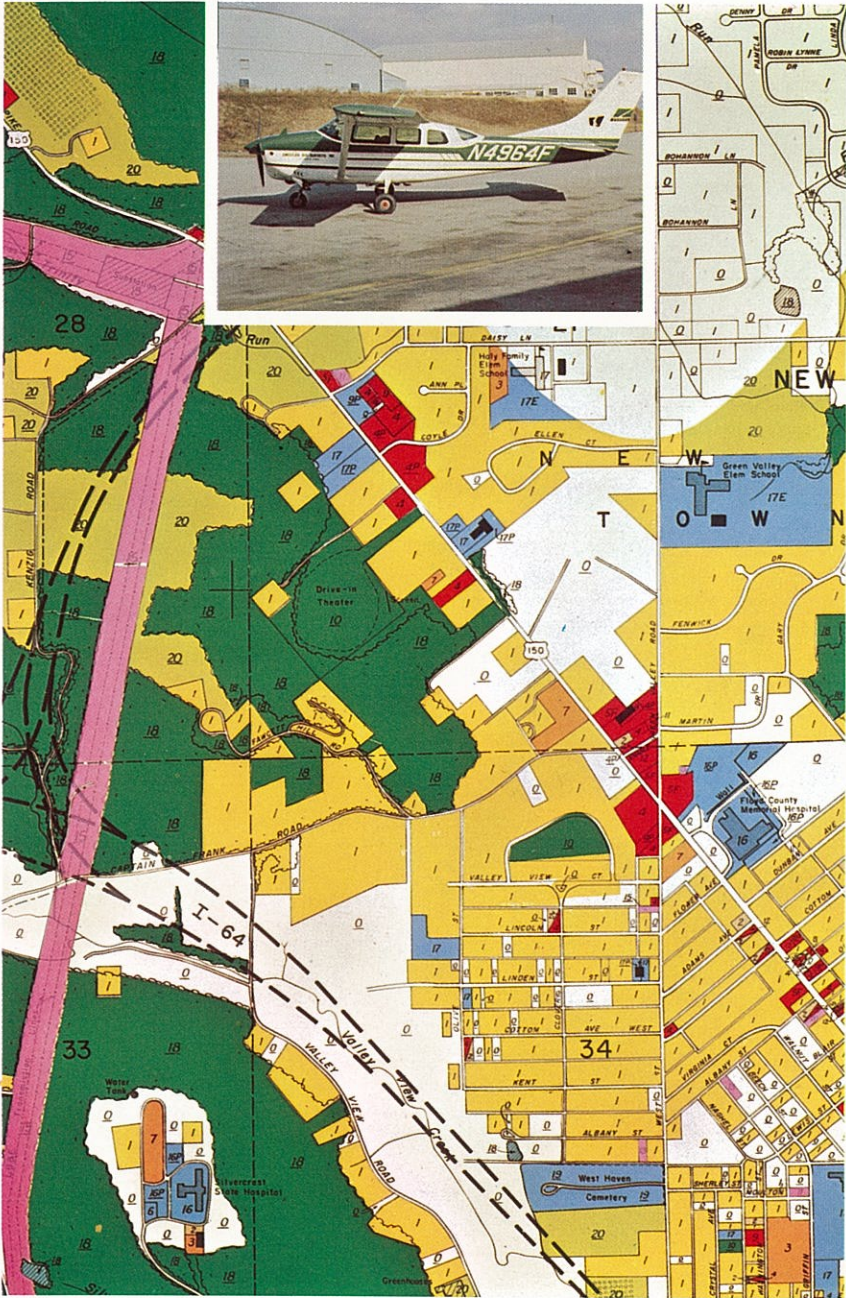


Sanborn Map Company Inc.
American Air Surveys, Inc., and
Advanced Industrial Design, Inc.

Sanborn's urban maps have long been recognized as important reference tools by municipal county and state authorities, and the demand for them has been increasing as American cities attempt to solve their problems. A new marketing approach derived from the urban maps, was conceived and developed during the year which will soon make available in computer digitized form, detailed information about the characteristics of America's inner-cities. Sanborn is currently completing detailed revisions of its Buying Power Maps which serve as marketing aids and have had considerable success since their introduction in 1961. The maps are being statistically revised to reflect recent changes in the status of households and income in the fifty most important population areas of the United States as revealed by the last census. These updated maps will become available early in 1970.

Sanborn's American Air Surveys subsidiary is a recognized leader in highly technical aerial photo map-making and surveying. It has recently developed a systems approach to county-wide tax collections that will be sold in conjunction with tax mapping services. Technical improvements will enable this subsidiary to negotiate for projects previously beyond its scope.

Advanced Industrial Design, Inc., another subsidiary, is a supplier of skilled engineers and technicians to corporations involved in large scientific research and development projects. With increased sales efforts, particularly in the New England area, we are optimistic that this company will increase in profitability during 1970.



Statement of Consolidated Income
and Retained Earnings

Year ended September 30, 1969 with comparative figures for 1968

	1969	1968
Net sales	\$8,281,507	\$7,789,337
Costs and expenses:		
Cost of sales	5,407,700	5,502,829
Selling, general and administrative	2,451,876	2,080,694
Research and development	206,288	104,388
	<u>8,065,864</u>	<u>7,687,911</u>
Income from operations	215,643	101,426
Other deductions (income), net:		
Interest	82,164	85,851
Miscellaneous	(58,969)	(26,496)
	<u>23,195</u>	<u>59,355</u>
	192,448	42,071
Provision for income taxes:		
Federal (note 4)	73,000	29,146
Other	34,000	7,042
	<u>107,000</u>	<u>36,188</u>
Income before extraordinary items	85,448	5,883
Extraordinary items, less related income taxes (note 7)	(23,155)	106,711
Net income	<u>62,293</u>	<u>112,594</u>
Retained earnings at beginning of year	1,109,554	1,463,949
	<u>1,171,847</u>	<u>1,576,543</u>
Dividends:		
Cash:		
6% preferred stock	28,413	—
Pooled subsidiary	—	33,997
Stock	—	432,992
Retained earnings at end of year	<u>\$1,143,434</u>	<u>\$1,109,554</u>
Net income (loss) per common share and common equivalent share, after preferred stock dividend requirement (note 9):		
Income (loss) before extraordinary items	\$.04	\$ (.02)
Extraordinary items	(.02)	.08
Net income	<u>\$.02</u>	<u>\$.06</u>

See accompanying notes to financial statements.

Consolidated Balance Sheet

September 30, 1969 with comparative figures for 1968

Assets	1969	1968
Current assets:		
Cash	\$ 418,284	\$ 617,523
Receivables:		
Trade, less allowance for doubtful accounts (1969, \$65,500; 1968, \$51,500)	1,890,306	1,682,465
Sundry, including recoverable income taxes (1969, \$27,008; 1968, \$149,412)	83,950	175,680
	<u>1,974,256</u>	<u>1,858,145</u>
Inventories (note 2):		
Finished goods	566,977	833,573
Work in process	335,795	226,385
Raw materials	414,256	490,457
	<u>1,317,028</u>	<u>1,550,415</u>
Prepaid expenses	83,923	83,363
Total current assets	<u>3,793,491</u>	<u>4,109,446</u>
Property, plant and equipment, at cost (note 3)	3,625,345	3,972,755
Less accumulated depreciation	<u>1,409,485</u>	<u>1,655,804</u>
	<u>2,215,860</u>	<u>2,316,951</u>
Other assets:		
Deferred map conversion costs, less accumulated amortization (1969, \$345,545; 1968, \$289,673)	213,175	269,047
Excess of cost over equity in net assets of subsidiaries at dates of acquisition (note 1)	56,839	65,789
Miscellaneous	196,423	157,047
	<u>466,437</u>	<u>491,883</u>
	<u>\$6,475,788</u>	<u>\$6,918,280</u>

See accompanying notes to financial statements.

Liabilities and Shareholders' Equity

	1969	1968
Current liabilities:		
Notes payable to banks	\$ 253,000	\$ 420,000
Current portion of long-term debt	138,104	132,590
Accounts payable	504,816	635,745
Accrued expenses	409,053	486,568
Federal income taxes (note 4)	25,504	26,601
Total current liabilities	<u>1,330,477</u>	<u>1,701,504</u>
Deferred compensation	17,947	20,981
Deferred income taxes	38,191	36,391
Long-term debt, less current portion (note 5)	1,206,006	1,310,117
Shareholders' equity (notes 1 and 6):		
6% cumulative convertible preferred stock, par value \$10 a share (liquidation value) — authorized 200,000 shares; issued 56,025 shares	560,250	560,250
Common stock, par value \$.20 a share. Authorized 2,000,000 shares; issued 1,318,221 shares	263,644	263,644
Additional paid-in capital	2,003,752	2,003,752
Retained earnings	1,143,434	1,109,554
	<u>3,971,080</u>	<u>3,937,200</u>
Less cost of 28,837 shares of common stock held in treasury	87,913	87,913
Total shareholders' equity	<u>3,883,167</u>	<u>3,849,287</u>
	<u>\$6,475,788</u>	<u>\$6,918,280</u>

Notes to Financial Statements

September 30, 1969

1. Basis of Presentation and Consolidation:

The 1968 financial statements previously published reflected, on a pooling of interests basis, the acquisition of 89.1% of the outstanding shares of Sanborn Map Company, Inc. pursuant to an exchange offer. Subsequent to the publication of the Company's 1968 financial statements, it acquired an additional 27,728 shares of Sanborn in exchange for 27,728 shares of its common stock and 5,545 shares of its 6% convertible preferred stock, bringing the ownership in Sanborn to 98.9%. To reflect the acquisition of the additional shares of the subsidiary, the following 1968 amounts previously reported have been increased (decreased) as follows:

6% cumulative preferred stock	\$ 55,450
Common stock	5,545
Additional paid-in capital	96,084
Retained earnings (including 1968 net income \$1,485)	17,983
Minority interest	(175,062)

The consolidated financial statements include the accounts of the Company and all of its subsidiaries after elimination of significant inter-company balances and transactions. The excess of the purchase price over the recorded value of two purchased subsidiaries at the dates of acquisition is shown separately in the accompanying balance sheet. Such excess is being amortized against income principally over ten years. The agreements relating to these subsidiaries provide for contingent payments based on the achievement of future specified earnings levels. The maximum amount of cash and stock payable under these agreements is \$85,000 and 5,000 shares, respectively.

2. Inventories:

With the exception of one subsidiary, inventories are valued at the lower of cost (principally first-in-first-out) or market. The inventories (\$610,129) of the subsidiary are stated at costs determined by the last-in-first-out method.

3. Property, Plant and Equipment:

Property, plant and equipment consists of the following:

	1969	1968
Land	\$ 425,831	\$ 426,586
Buildings	1,671,947	1,663,486
Machinery, equipment, etc.	1,527,567	1,882,683
	3,625,345	3,972,755
Less accumulated depreciation	1,409,485	1,655,804
	<u>\$2,215,860</u>	<u>\$2,316,951</u>

Depreciation charged to income of approximately \$195,000 (\$188,000 in 1968) has been computed principally on the straight-line method for financial statement purposes, whereas certain machinery and equipment of a subsidiary is being depreciated using accelerated methods for Federal income tax purposes. Provision has been made for the temporary tax savings relating to such excess tax reductions.

Certain items of property, plant and equipment are pledged as collateral for various indebtedness described in note 5.

4. Federal Income Taxes:

Prior to 1969, the Company and each of its subsidiaries filed separate Federal income tax returns. For 1969, the Company will elect to file a consolidated tax return which results in substantial tax savings. At September 30, 1969, there was a net operating tax loss carry-forward (attributable to prior years) available amounting to approximately \$100,000.

In 1959, a subsidiary made a lump sum payment for the past service costs of employees of a predecessor company, most of whom retired in 1960. In the absence of retained earnings at the time, the payment was charged to additional paid-in capital. However, for tax purposes such payment is being amortized over a ten year period. The tax savings relating to this deduction are included in the accompanying consolidated statement of income as an extraordinary item.

5. Long-term Debt:

Long-term debt consists of the following:

	1969	1968
Secured:		
6% notes—secured by machinery and equipment due in monthly instalments of \$3,636	\$ 107,441	\$ 107,050
6% mortgages:		
Due in monthly instalments (principal and interest) of \$23,306	966,458	1,000,411
Due in monthly instalments (principal and interest) of \$750	57,522	62,895
Unsecured:		
Balance due on purchase price of a subsidiary—payable in 4 annual instalments with interest at 5%	96,689	120,351
5½ % notes due in quarterly instalments of \$1,000	—	7,000
Miscellaneous—payable in annual instalments of \$29,000	116,000	145,000
	1,344,110	1,442,707
Less current portion	138,104	132,590
	<u>\$1,206,006</u>	<u>\$1,310,117</u>

6. Shareholders' Equity:

- a) Each share of 6% cumulative convertible preferred stock is convertible into one share of common stock during the ten-year period beginning January 1, 1974 and is redeemable at par value plus accrued dividends any time after such date.
- b) The Company has a qualified stock option plan, adopted in 1965, under which 41,400 shares of its common stock are reserved at September 30, 1969 for issuance to officers and key employees of the Company and its subsidiaries. Under the plan, the option price per share may not be less than 100% of the fair market value

at the date of grant. Options granted expire five years after the date of grant and become exercisable as to 25% of the shares one year after the date of grant and 25% cumulatively each year thereafter.

At September 30, 1969 options covering 41,025 shares at prices ranging from \$1.85 to \$7.25 a share were outstanding. During 1969, options covering 14,500 shares at \$5.20 and \$7.25 a share were granted and options granted in previous years covering 5,000 shares were cancelled and made available to the plan for regranteeing. Of the options outstanding at September 30, 1969, options covering 24,900 were then exercisable.

In addition, options covering 3,000 shares of the Company's common stock and 600 shares of its preferred stock at an aggregate purchase price of \$15,000 were outstanding at September 30, 1969. An identical option arrangement was cancelled during 1969.

7. Extraordinary Items:

Such amounts consist of the following:

	1969	1968
Loss on sale of discontinued business less related taxes of \$19,000	\$(16,409)	—
Costs incurred in settlement of employment agreements with former officers less related taxes of \$15,664	(13,868)	(10,260)
Income tax benefits arising from:		
Application of net operating loss carry forward	—	98,382
Amortization of lump sum pension payment (note 4)	7,122	18,589
	<u>\$(23,155)</u>	<u>\$106,711</u>

8. Pension Plans:

The Company and its subsidiaries have similar pension plans covering all eligible non-union employees. The plans, which are contributory, are funded by a combination of individual insurance policies and an investment fund primarily using the level premium method. At June 1, 1969 (the date of the most recent actuarial evaluation) the fund balance exceeded the actuarially computed value of vested benefits.

9. Net Income per Common Share and Common Equivalent Share:

Such amounts have been calculated on the basis of 1,305,406 and 1,289,349 common shares in 1969 and 1968, respectively, which represent the aggregate of the average common shares outstanding during each year (1969, 1,289,384; 1968, 1,272,562) plus average common equivalent shares outstanding during such years. Common equivalent shares represent the number of common shares which would be issuable assuming exercise of certain common stock options less the number of shares that could have been purchased as treasury stock with the proceeds from such exercise.

There is no dilutive effect on net income per share amounts assuming conversion of preferred stock, exercise of the remaining stock options or contingent issuance of shares in connection with an acquisition.

Accountants' Report

The Board of Directors and Shareholders
Pictorial Productions, Inc.:

We have examined the consolidated balance sheet of Pictorial Productions, Inc. and subsidiaries as of September 30, 1969 and the related statement of income and retained earnings 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, the aforementioned consolidated financial statements present fairly the financial position of Pictorial Productions, Inc. and subsidiaries at September 30, 1969 and the results of their operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

PEAT, MARWICK, MITCHELL & CO.

White Plains, N.Y.
December 2, 1969

Pictorial Productions, Inc.

Board of Directors

Charles K. Silberstein
Kay Anderson
Stephen A. Carb
Richard D. Windatt
James F. Kane, Jr.
Sydney A. Luria
Nathan Shapiro

Officers

Charles K. Silberstein, *President*
Kay Anderson, *Vice President—Vari-Vue Division*
John A. Pollicino, *Vice President—Manufacturing*
George K. Bleuher, *Vice President—Plastics Division*
Patrick C. Lombardi, *Treasurer*
Stephen A. Carb, *Secretary*
Hubert G. Neumann, *Assistant Secretary*

Transfer Agent and Registrar

Morgan Guaranty Trust Co. of New York
23 Wall Street, New York, N.Y. 10005

General Counsel

Carb, Luria, Glassner & Cook
529 Fifth Ave., New York, N.Y. 10017

Executive Offices and Plants

Mount Vernon, New York 10551
Pelham, New York 10803
Chicago, Illinois 60607
Pittsburgh, Pennsylvania 15219
East Liverpool, Ohio 43920
San Francisco, Calif. 94101

Auditors

Peat, Marwick, Mitchell & Co.
White Plains, N.Y. 10601

Subsidiaries and Divisions

Commercial Decal, Inc.

Ceramics Division
Plastics Division
International Division
Unique Kiln Division

Vari-Vue Division

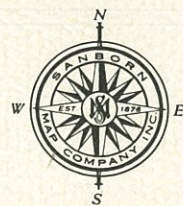
Vari-Vue International
Placard-Chicago Division

Sanborn Map Co., Inc.

American Air Surveys, Inc.
Advanced Industrial Design, Inc.



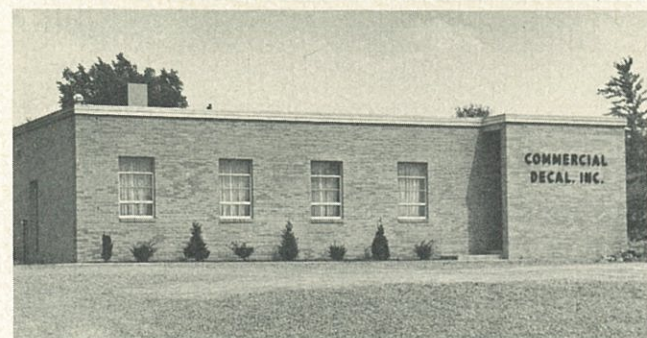
VARI-VUE



Pictorial Productions, Inc.

Annual Report 1970

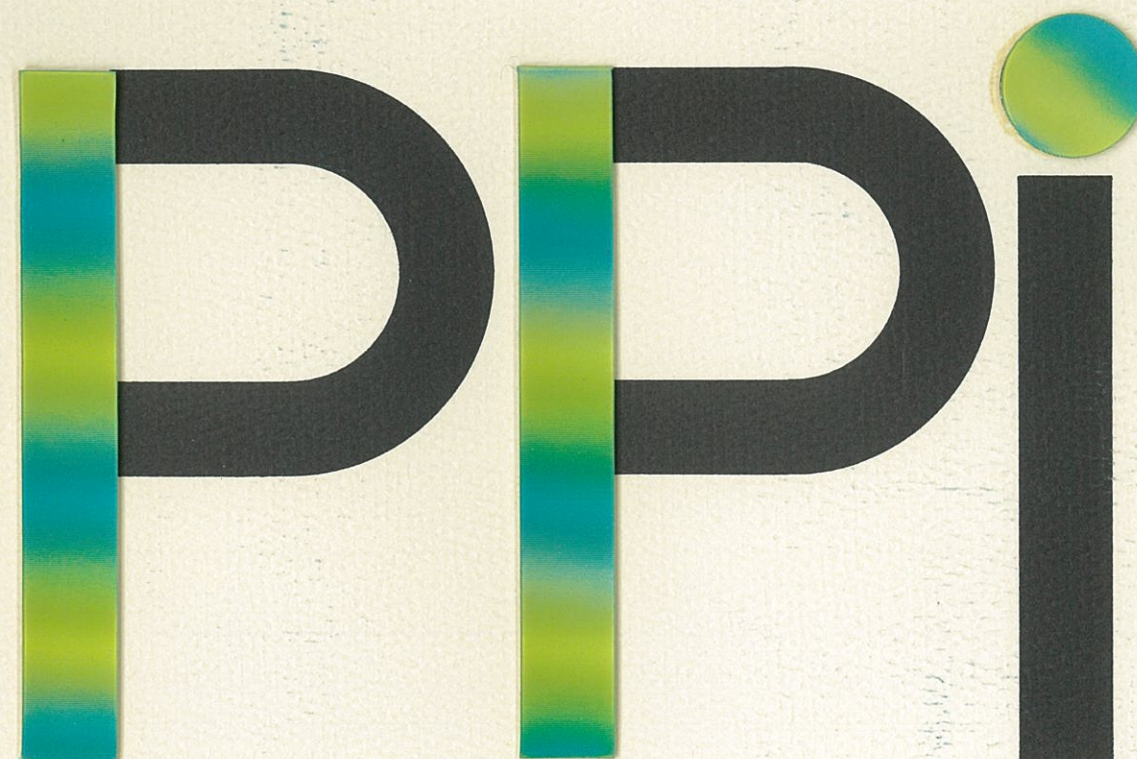
Executive Offices and Plants Mount Vernon, New York



East Liverpool, Ohio

Pelham, New York

Over 50 Years of Quality, Design and Innovation



Pictorial Productions, Inc.

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To Our Shareholders

Dear Stockholder,

Our 1970 fiscal year has undoubtedly been the most unfavorable in the history of this company and its subsidiaries.

There were many contributing factors that caused the heavy loss which we sustained this year, and while I could write at great length on this subject, I shall attempt to give you a brief analysis.

- 1) A sudden and unusually sharp drop in sales volume which commenced in the late summer of 1969 and resulted in the cancellation or deferral of many major projects for which development expenses had already been incurred by the company.
- 2) As everyone knows, the economic climate throughout 1970 was one of fear and uncertainty. This affects a company such as ours more than the average manufacturing company. The Pictorial group has traditionally been directly or indirectly, involved with advertising and sales promotional programs. The Sanborn group relies heavily on federal, state, and municipal appropriations. Consequently, the unprecedented budget cuts which took place in 1970 had a very adverse influence in all areas of our company.
- 3) In the year 1970, numerous unusual and bizarre situations faced our company, such as wildcat trucking strikes in the midwest where many of our customers are located.

Early this year, rigid economies were instituted and only the most necessary expenditures were

authorized. This was coupled with a substantial reduction in personnel, through retirements and layoffs.

The results of these economies did not begin to show on any substantial scale until June 30 of this year. I can now tell you that while our facility is intact, and the company is in a sound financial condition, we have managed to reduce our payroll by at least 20%.

At this time of writing, there is one further major step in process to create greater efficiency and reduce costs. I refer to the transfer of the American Air Surveys operation from Pittsburgh to the Sanborn Map Company plant in Pelham, New York. It is conservatively estimated that this consolidation will result in direct savings of at least \$100,000 and many other intangible benefits. We shall then have an integrated and highly sophisticated mapping company, far more effective for accelerated growth in the future.

Our company has traditionally employed the most conservative accounting methods applicable to our industry. At the year end a policy decision was made to write-down or write-off certain inventories and other items on a more accelerated basis than in previous years.

We feel that 1971 will be a year of resurgence for us, and my associates and I are working extremely hard to make this come about. We are introducing many new concepts and products, both in the Pictorial and Sanborn group. This is the result of research conducted in the prior year, and should create greater profitability.

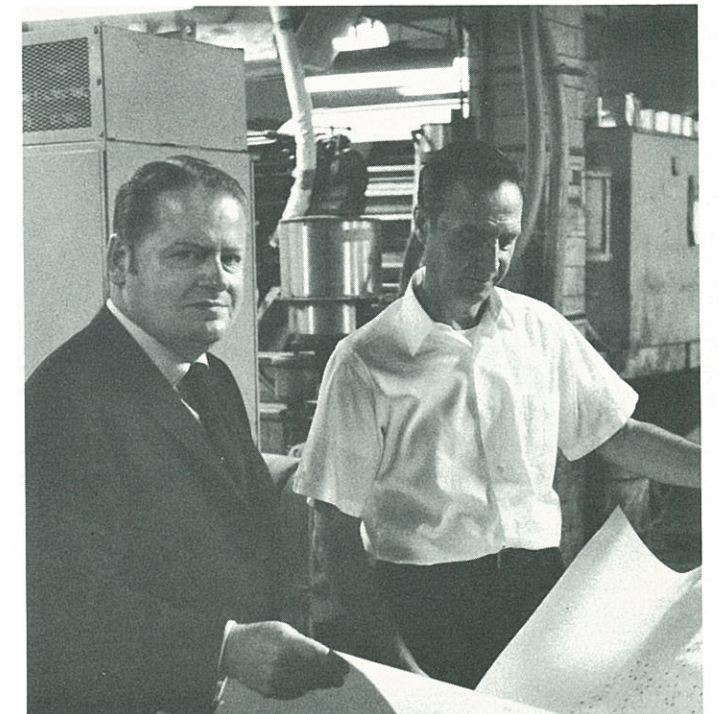
In spite of this very unsatisfactory year, we are entering our 1971 fiscal year with confidence and

cautious optimism. It is my sincere hope that when the time comes for me to write my next stockholder letter, I will be able to give you far more cheerful facts and figures.

Sincerely yours,



Charles K. Silberstein
President



Commercial Decal Division

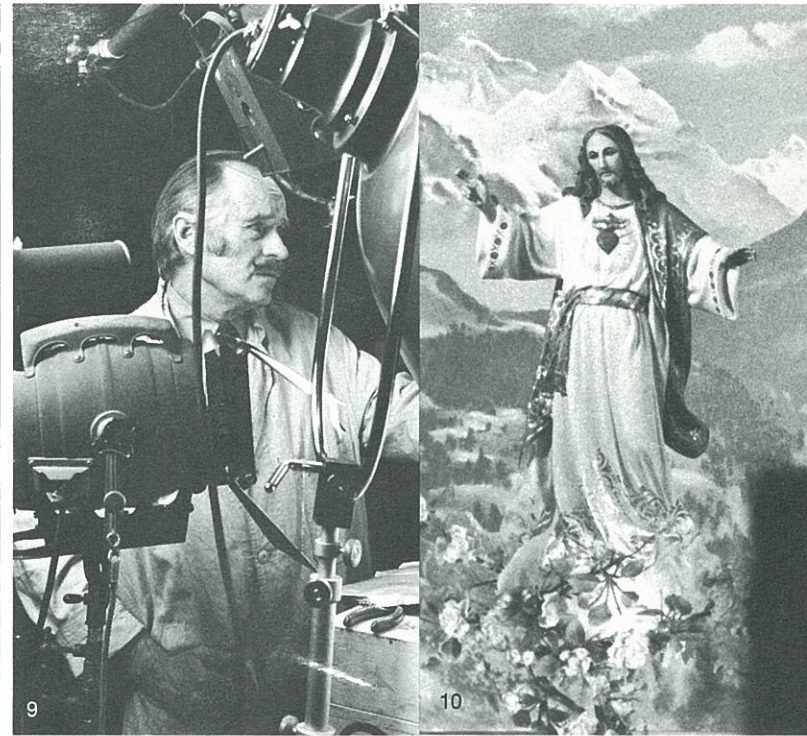
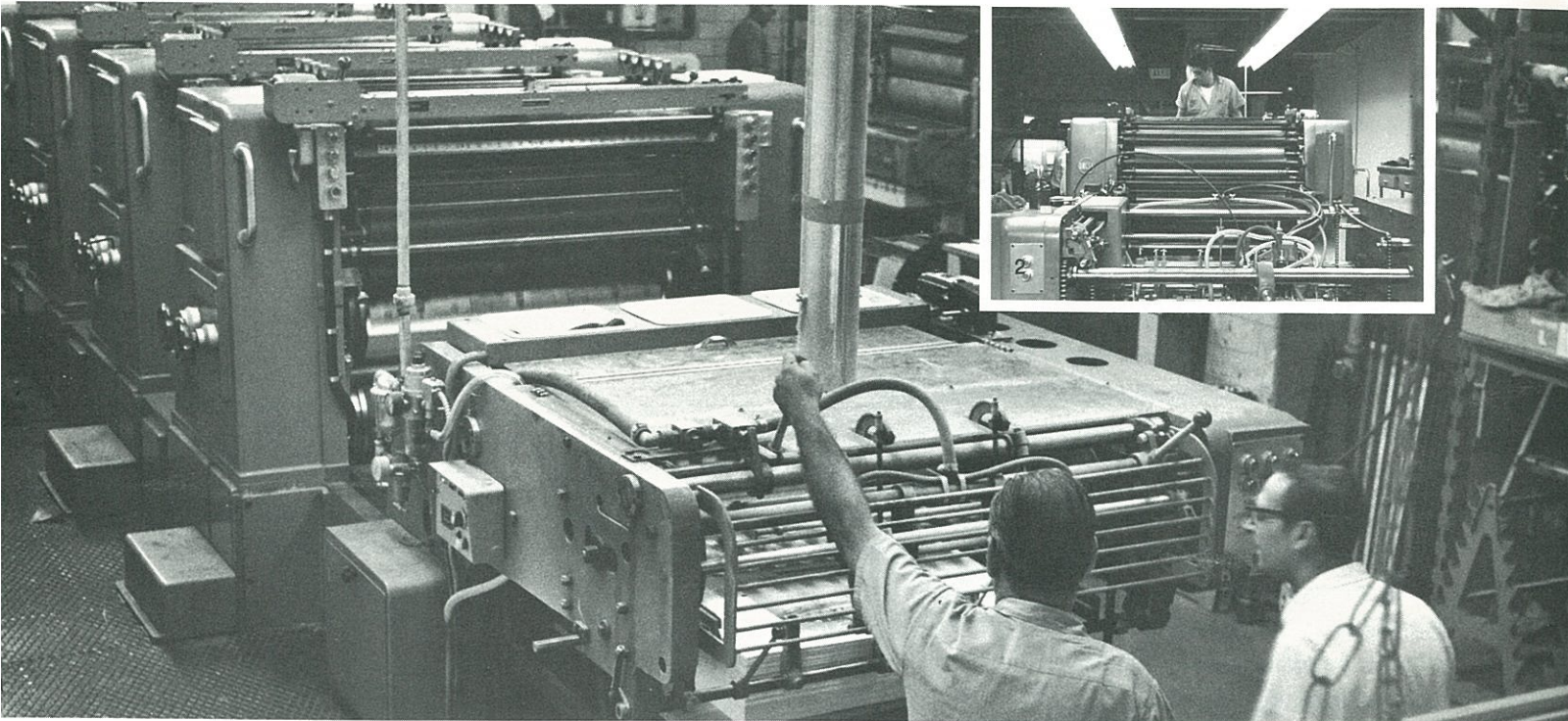
1-2 Expert lithographers operate latest Harris Aurelia four color press. **3** Commercial multi-color transfers decorate products for major ceramic and porcelain enamel manufacturers in the United States and abroad. **4** Some of the large variety of plastic products

utilizing Commercial Decal compression molding and injection molding foils. **5** Experienced and highly skilled craftsmen engaged in pre-production work in the color separation department. **6** Highly automated ceramic printing equipment is used to make the world's finest lithographic transfers. **7** Talented artists and designers create exciting new decorations for ceramics and plastics.

Vari-Vue Division

8 Blister packaging department to protect Vari-Vue 3-D pictures before shipping to customers. **9-10** Specially designed camera equipment being used to photograph religious figure in 3-D

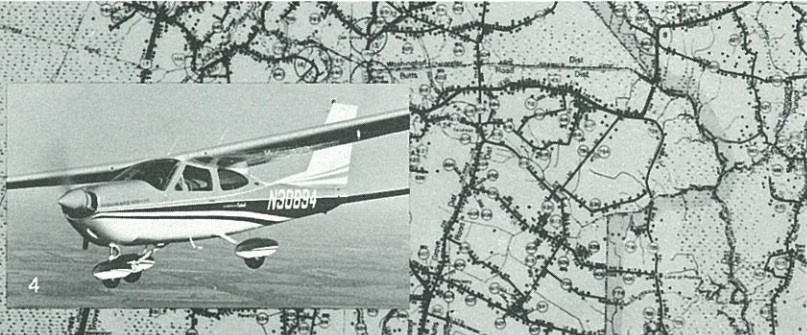
Vari-Vue. **11** Inspection Department of Plastics Division to maintain high standards of quality. **12** Vari-Vue products used for advertising and sales promotion programs. **13** Quality control inspection at the Silk Screen press. **14** Technical group for vari-optic printing, Vari-Vue Division.



Sanborn Map Company Inc.
American Air Surveys, Inc.

1 Urban renewal maps being prepared by the Sanborn Map Company. 2 A group of technicians producing fire risk insurance maps. 3•4 Urban property location maps plotted and produced

utilizing aerial over flights. 5 Compiling information for map preparation. 6 Coordinatograph digitizer—a major technological advance for grid coordinate plotting. 7 Close-up of point selector—one of our technical instruments to create accurate maps. 8 Skilled technician operating a Ballplex stereo plotter to convert stereo photographs into accurate diagrammatic information.



Statement of Consolidated Income (Loss)
and Retained Earnings

Year ended September 30, 1970 with comparative figures for 1969

	1970	1969
Net sales	\$6,243,747	\$8,281,507
Costs and expenses:		
Cost of sales (note 2)	4,870,987	5,407,700
Selling, general and administrative	2,242,296	2,451,876
Research and development	185,639	206,288
	<u>7,298,922</u>	<u>8,065,864</u>
Income (loss) from operations	(1,055,175)	215,643
Other income (deductions), net:		
Interest	(128,800)	(82,164)
Miscellaneous	64,620	58,969
	<u>(64,180)</u>	<u>(23,195)</u>
	(1,119,355)	192,448
Write-off of deferred map conversion costs (note 9)	213,175	—
	<u>(1,332,530)</u>	<u>192,448</u>
Credit (provision) for income taxes:		
Federal (note 4):	50,380	(73,000)
Other	7,000	(34,000)
	<u>57,380</u>	<u>(107,000)</u>
Income (loss) before extraordinary items	(1,275,150)	85,448
Extraordinary items (note 2)	351,908	(23,155)
Net income (loss)	<u>\$ (923,242)</u>	<u>\$ 62,293</u>
Retained earnings at beginning of year	1,143,434	1,109,554
	220,192	1,171,847
Cash dividend on 6% preferred stock	33,615	28,413
Retained earnings at end of year	<u>\$ 186,577</u>	<u>\$1,143,434</u>
Net income (loss) per common share after preferred stock dividend requirement (note 7):		
Income (loss) before extraordinary items	\$ (1.01)	\$.04
Extraordinary items	.27	(.02)
Net income (loss)	<u>\$ (.74)</u>	<u>\$.02</u>

See accompanying notes to financial statements.

Consolidated Balance Sheet

September 30, 1970 with comparative figures for 1969

Assets	1970	1969
Current assets:		
Cash	\$ 411,737	\$ 418,284
Receivables:		
Trade, less allowance for doubtful accounts (1970, \$118,000; 1969, \$65,500)	1,135,374	1,890,306
Sundry, including recoverable income taxes (1970, \$24,903; 1969, \$27,008)	158,194	83,950
	<u>1,293,568</u>	<u>1,974,256</u>
Inventories (note 2):		
Finished goods	603,467	566,977
Work in process	347,865	335,795
Raw materials	333,148	414,256
	<u>1,284,480</u>	<u>1,317,028</u>
Prepaid expenses	175,250	83,923
Total current assets	<u>3,165,035</u>	<u>3,793,491</u>
Property, plant and equipment, at cost (note 3)	4,032,727	3,625,345
Less accumulated depreciation	<u>1,587,036</u>	<u>1,409,485</u>
	<u>2,445,691</u>	<u>2,215,860</u>
Other assets:		
Deferred map conversion costs, less accumulated amortization (note 9)	—	213,175
Excess of cost over equity in net assets of subsidiaries at dates of acquisition (note 1)	46,668	56,839
Miscellaneous	154,744	196,423
	<u>201,412</u>	<u>466,437</u>
	<u>\$5,812,138</u>	<u>\$6,475,788</u>

See accompanying notes to financial statements.

Liabilities and Shareholders' Equity	1970	1969
Current liabilities:		
Notes payable to banks	\$ 600,000	\$ 253,000
Current portion of long-term debt	142,515	138,104
Accounts payable	451,632	504,816
Accrued expenses	285,792	409,053
Federal income taxes (note 4)	—	25,504
Total current liabilities	<u>1,479,939</u>	<u>1,330,477</u>
Deferred compensation	14,914	17,947
Deferred income taxes (note 4)	14,616	38,191
Long-term debt, less current portion (note 5)	1,346,650	1,206,006
Shareholders' equity (note 6):		
6% cumulative convertible preferred stock, par value \$10 a share (liquidation value) — authorized 200,000 shares; issued 56,025 shares	560,250	560,250
Common stock, par value \$.20 a share. Authorized 2,000,000 shares; issued (1970, 1,318,721; 1969, 1,318,221)	263,744	263,644
Additional paid-in capital	2,033,361	2,003,752
Retained earnings	186,577	1,143,434
	<u>3,043,932</u>	<u>3,971,080</u>
Less cost of 28,837 shares of common stock held in treasury	87,913	87,913
Total shareholders' equity	<u>2,956,019</u>	<u>3,883,167</u>
	<u>\$5,812,138</u>	<u>\$6,475,788</u>

Notes to Financial Statements

September 30, 1970

1. Principles of Consolidation

The consolidated financial statements include the accounts of the Company and all of its subsidiaries after elimination of significant inter-company balances and transactions. The excess of the purchase price over the recorded value of two purchased subsidiaries at the dates of acquisition is shown separately in the accompanying balance sheet. Such excess is being amortized against income principally over ten years. Agreements relating to such prior years' acquisitions provide for contingent payments not to exceed 5,000 (expiring December 31, 1970) shares of the Company's common stock and \$72,500 based on the achievement of future specified earnings levels.

2. Inventories

At September 30, 1969 one subsidiary's inventories totalling \$610,129 were stated at costs as determined by the last-in-first-out (LIFO) method. The values of the remaining inventories were determined at the lower of cost (principally first-in-first-out (FIFO) or market.

Effective October 1, 1969 (the beginning of the fiscal year) the Company changed its method of accounting for those inventories previously valued on the LIFO method, and at September 30, 1970, all inventories are valued at the lower of cost (principally FIFO) or market. The difference between such methods at the beginning of the year (\$351,908), has been shown as an extraordinary credit in the accompanying statement of consolidated income (loss).

3. Property, Plant and Equipment

Property, plant and equipment consists of the following:

	1970	1969
Land	\$ 426,586	\$ 425,831
Buildings	1,696,738	1,671,947
Machinery, equipment, etc.	1,909,403	1,527,567
	<u>\$4,032,727</u>	<u>\$3,625,345</u>

Depreciation charged to income of approximately \$190,000 (\$195,000 in 1969) has been computed principally on the straight-line method. Certain items of property, plant and equipment are pledged as collateral for various indebtedness described in note 5.

4. Federal Income Taxes

Substantially all of the 1970 consolidated loss is available through 1975 as a carry-forward against future taxable income.

Certain machinery and equipment of a subsidiary is being depreciated using accelerated methods for Federal income tax purposes. As such subsidiary incurred a loss in fiscal 1970, the provision established in prior years for the then temporary tax savings relating to such excess tax deductions has been reduced to the extent that additional tax liability therefrom will be offset by the current year's net operating loss allowable as a carry forward.

5. Long-term Debt

Long-term debt consists of the following:

	1970	1969
Secured:		
6% mortgages:		
Due in monthly installments (principal and interest) of \$23,306	\$ 930,420	\$ 996,458
Due in monthly installments (principal and interest) of \$750	51,819	57,522
Installment purchase obligations and notes (4½ -6%), secured by machinery and equipment, due in monthly installments (principal and interest) of \$4,638 to April 1, 1971 and \$9,993 thereafter	375,965	107,441
Unsecured:		
Balance due on purchase price of a subsidiary—payable in 4 annual installments with interest at 5%	72,961	96,689
Miscellaneous—payable in annual installments of \$29,000	58,000	116,000
	<u>1,489,165</u>	<u>1,344,110</u>
	<u>142,515</u>	<u>138,104</u>
Less current portion	<u>\$1,346,650</u>	<u>\$1,206,006</u>

6. Shareholders' Equity

- a) Each share of 6% cumulative convertible preferred stock is convertible into one share of common stock during the ten-year period commencing January 1, 1974 and is redeemable at par value plus accrued dividends any time after such date,
- b) The Company had two qualified stock option plans one of which was adopted in 1965 and the other in 1970, under which 40,900 shares and 100,000 shares respectively of its common stock are reserved at September 30, 1970 for issuance to officers and key employees of the Company and its subsidiaries. Under the plans, the option prices per share may not be less than 100% of the fair market value at the date of grant. Options granted under the plans expire five years after the date of grant and become exercisable as to 25% of the shares one year after the date of grant and 25% cumulatively each year thereafter.
- With respect to the 1965 plan, options covering 9,250 shares at prices ranging from \$1.85 to \$7.00 a share were outstanding at September 30, 1970. During the year

Accountants' Report

The Board of Directors and Shareholders
Pictorial Productions, Inc:

We have examined the consolidated balance sheet of Pictorial Productions, Inc. and subsidiaries as of September 30, 1970 and the related statement of income (loss) and retained earnings 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, the aforementioned consolidated financial statements present fairly the financial position of Pictorial Productions, Inc. and subsidiaries at September 30, 1970 and the results of their operations for the year then ended, in conformity with generally accepted accounting principles which, except for the change (which we approve) in the method of valuing inventories of a subsidiary described in note 2 to the financial statements, have been applied on a basis consistent with that of the preceding year.

PEAT, MARWICK, MITCHELL & CO.

White Plains, N.Y.
December 15, 1970

options covering 31,275 shares were either cancelled or have expired and are available to the plan for regranteeing, and options for 500 shares were exercised at \$2.10 per share (the proceeds in excess of par value, \$950, being credited to additional paid-in capital). Of the options outstanding at September 30, 1970, options covering 3,812 shares were exercisable.

With respect to the 1970 plan, options covering 22,000 shares were outstanding at September 30, 1970. All such options, net of cancellations, were granted during the year at \$2.00 a share, none of which are exercisable.

In addition, an option covering 3,000 shares of the Company's common stock and 600 shares of its preferred stock at an aggregate purchase price of \$15,000 was outstanding at September 30, 1970. Such option expires October 31, 1972.

Costs totaling \$28,659 which were accrued in a prior year in connection with a pooling of interests acquisition, have been restored to additional paid-in-capital in 1970 since such amount was in excess of actual amounts paid.

7. Net Income (Loss) per Common Share

Such amounts have been calculated on the basis of 1,289,634 and 1,305,406 common shares in 1970 and 1969, respectively. With respect to 1970, such shares represent the average common shares outstanding during the year since the assumed conversion and exercise of preferred stock and stock options and issuance of contingent shares would be anti-dilutive. The 1969 calculation includes certain stock options as common stock equivalents.

8. Pension Plans

The Company and its subsidiaries have similar pension plans covering all eligible non-union employees. The plans, which are contributory, are funded by a combination of individual insurance policies and an investment fund primarily using the level premium method. At June 1, 1970 (the date of the most recent actuarial evaluation) the fund balances exceeded the actuarially computed value of vested benefits. Pension costs totaled \$21,096 in 1970 and \$28,940 in 1969.

9. Map Conversion Costs

Such costs were incurred by Sanborn Map Company, a subsidiary, during the years 1962-1965 to permit reproduction of large colored maps in black and white on a smaller scale. At that time, based on then-existing conditions, it was determined that a ten-year amortization period from date of expenditure was reasonable. During fiscal 1970, management reassessed the aforementioned policy in light of current conditions and decided that recovery of such remaining costs could not be reasonably assured. Accordingly, the unamortized balance at October 1, 1969 (\$213,175) has been charged against income.

Pictorial Productions, Inc.

Board of Directors

Charles K. Silberstein
Kay Anderson
Stephen A. Carb
Richard D. Windatt
James F. Kane, Jr.
Sydney A. Luria
Nathan Shapiro

Officers

Charles K. Silberstein, *President*
Kay Anderson, *Vice President—Vari-Vue Division*
John A. Pollicino, *Vice President—Manufacturing*
George K. Bleuher, *Vice President—Plastics Division*
John M. Quinn, *Treasurer*
Stephen A. Carb, *Secretary*
Hubert G. Neumann, *Assistant Secretary*

Transfer Agent and Registrar

Morgan Guaranty Trust Co. of New York
Stock Transfer Dept.
30 West Broadway, New York, N.Y. 10015

General Counsel

Carb, Luria, Glassner, Cook & Kufeld
529 Fifth Ave., New York, N.Y. 10017

Executive Offices and Plants

Mount Vernon, New York 10551
Pelham, New York 10803
Chicago, Illinois 60607
Pittsburgh, Pennsylvania 15219
East Liverpool, Ohio 43920
San Francisco, Calif. 94101

Auditors

Peat, Marwick, Mitchell & Co.
White Plains, N.Y. 10601

Subsidiaries and Divisions

Commercial Decal, Inc.

Ceramics Division
Plastics Division
International Division
Unique Kiln Division

Vari-Vue Division

Vari-Vue International
Placard-Chicago Division

Sanborn Map Co., Inc.

American Air Surveys, Inc.
Advanced Industrial Design, Inc.



PICTORIAL PRODUCTIONS, INC.
ANNUAL REPORT
1971

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8	Accountants' Report
Inside Cover	Directors and Officers / Subsidiaries and Divisions

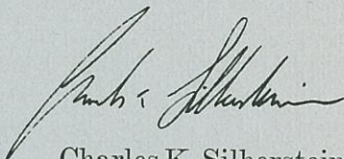
TO OUR
SHAREHOLDERS

December 24, 1971	<i>Commercial Decal, Inc./ Pictorial Productions, Inc. group:</i> Due to the state of uncertainty which existed in the business community, customer inventories were held very low and there appeared to be no material upswing in advertising and sales promotion budgets throughout the year. In spite of this, Commercial Decal experienced a substantial recovery in the domestic market, which was further aided by an improved export picture. The Vari-Vue Division experienced a further decline in sales for reasons as stated previously.	<i>The Sanborn Map Company, Inc. group:</i> As stated in our 1970 Annual Report, the operations of American Air Surveys, Inc. in Pittsburgh were discontinued, and the plant and certain key employees were moved to the Sanborn main plant at Pelham, New York. This was a costly move, not only in direct expenses, but also in the interruption in billings on completion of contracts. However, it was a most necessary step, as we now have a centrally directed and integrated mapping company which can operate far more efficiently. During this fiscal year, Sanborn and American Air Surveys successfully bid on several major tax-mapping contracts in New York, South Carolina, and Alabama, but difficulties were experienced with certain of the older contracts previously taken in Pittsburgh, which had to be fulfilled at a loss.
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Management plans to attain profitability in 1972:
Your management has made a firm decision to eliminate or sell any operating division showing a loss, and negotiations are now underway to sell a segment of our business. These plans should be concluded before March 31, 1972.

At the same time, all product lines have been carefully examined and will either be brought to a profitable basis or eliminated.
Working closely with our two financial institutions, we are arranging for additional financing, which will enable this company to complete all its plans with adequate working capital.
We foresee a gradual recovery in fiscal 1972, and it is our intention to see that sales efforts and product development continue at the highest possible level.
While we have held our stockholders report to a very simple form, we are enclosing a sales brochure reflecting the capabilities of our main Mount Vernon plant. This has long been needed by our sales organization, and I am certain you will find it very interesting.

In conclusion, I should like to extend my appreciation to all my associates in this company. In very trying times, they left no stone unturned in their efforts to speed the recovery of our company.
I remain cautiously optimistic, but will employ any and all means to see that this company achieves maximum profitability in 1972.

Sincerely yours,

Charles K. Silberstein
President

Pictorial Productions, Inc. and Subsidiaries
**CONSOLIDATED STATEMENTS OF
OPERATIONS AND DEFICIT OR
RETAINED EARNINGS**
Year ended September 30

	<u>1971</u>	<u>1970</u>
Net sales	<u>\$5,734,591</u>	<u>\$6,243,747</u>
Costs and expenses:		
Cost of sales	4,291,797	4,870,987
Selling, general and administrative	2,076,856	2,242,296
Research and development	191,248	185,639
	<u>6,559,901</u>	<u>7,298,922</u>
	(825,310)	(1,055,175)
Other income/ (deductions)—net:		
Interest	(130,313)	(128,800)
Miscellaneous—net	46,392	64,620
	<u>(83,921)</u>	<u>(64,180)</u>
	(909,231)	(1,119,355)
Write-off of deferred map conversion costs—Note H ..		213,175
(Loss) before items shown below	<u>(909,231)</u>	<u>(1,332,530)</u>
Provision/ (credit) for income taxes:		
Federal		(50,380)
Other	4,023	(7,000)
	<u>4,023</u>	<u>(57,380)</u>
(Loss) before extraordinary credit	(913,254)	(1,275,150)
Extraordinary credit—Note H		351,908
Net (loss)	<u>(913,254)</u>	<u>(923,242)</u>
Retained earnings at beginning of year	186,577	1,143,434
	<u>(726,677)</u>	<u>220,192</u>
Cash dividend on 6% preferred stock—Note D		33,615
(Deficit)/Retained earnings at end of year	<u>(\$ 726,677)</u>	<u>\$ 186,577</u>
Per common share after preferred stock dividend requirement—Note F:		
(Loss) before extraordinary credit	(\$.73)	(\$ 1.01)
Extraordinary credit		.27
Net (loss)	<u>(\$.73)</u>	<u>(\$.74)</u>

Pictorial Productions, Inc. and Subsidiaries
CONSOLIDATED
BALANCE SHEETS
As at September 30

<i>Assets</i>	<i>1971</i>	<i>1970</i>
Current Assets:		
Cash	\$ 205,709	\$ 411,737
Receivables:		
Trade—Note A	1,315,568	1,253,374
Sundry, including recoverable income taxes of \$44,518 and \$24,903	67,350	158,194
	1,382,918	1,411,568
Less: Allowance for doubtful accounts	237,000	118,000
	1,145,918	1,293,568
Inventories, at lower of cost (principally first-in, first-out) or market:		
Finished goods	478,770	603,467
Work in process	269,365	347,865
Raw materials	201,954	333,148
	950,089	1,284,480
Prepaid expenses	187,352	175,250
Total current assets	2,489,068	3,165,035
Property, Plant and Equipment, at cost—Note B:		
Land	425,086	426,586
Buildings and improvements	1,738,223	1,696,738
Machinery and equipment, etc.	1,915,863	1,909,403
	4,079,172	4,032,727
Less: Accumulated depreciation	1,778,133	1,587,036
	2,301,039	2,445,691
Deferred Charges and Other Assets, including cash surrender value of officers life insurance policies of \$68,863 and \$53,056	205,200	201,412
	\$4,995,307	\$5,812,138

<i>Liabilities and Shareholders' Equity</i>	<i>1971</i>	<i>1970</i>
Current Liabilities:		
Notes payable to banks—Note A	\$ 864,514	\$ 600,000
Current portion of long-term debt—Notes B and C .	190,917	142,515
Accounts payable	425,025	451,632
Accrued expenses and sundry liabilities	324,404	285,792
Total current liabilities	1,804,860	1,479,939
Long-term Debt, less current portion—Notes B and C .	1,144,206	1,346,650
Deferred Liabilities	11,880	29,530
Total liabilities	2,960,946	2,856,119
Shareholders' Equity—Notes D and I:		
6% Cumulative Convertible Preferred Stock, par value \$10 a share (liquidation value)— authorized 200,000 shares; issued and outstanding 56,025 shares	560,250	560,250
Common Stock, par value \$.20 a share—authorized 2,000,000 shares; issued 1,318,721 shares	263,744	263,744
Additional paid-in capital	2,024,957	2,033,361
(Deficit)/Retained earnings	(726,677)	186,577
	2,122,274	3,043,932
Less: Cost of 28,837 shares of Common Stock held in treasury	87,913	87,913
	2,034,361	2,956,019
Events Subsequent to September 30, 1971, Contingencies and Other Matters— Notes E, G, I, and J		
	\$4,995,307	\$5,812,138

Pictorial Productions, Inc. and Subsidiaries,
CONSOLIDATED STATEMENTS OF
CHANGES IN
FINANCIAL POSITION
Year ended September 30

	<u>1971</u>	<u>1970</u>
Working Capital used:		
Loss before extraordinary credit	\$ 913,254	\$1,275,150
Items not requiring current outlay of working capital:		
Depreciation of property, plant and equipment ..	(216,335)	(190,846)
Write-off of deferred map conversion costs—Note H		(213,175)
Decrease in deferred income taxes	14,616	23,575
Other, principally amortization, and in 1971, write-off of excess of cost over equity in net assets of subsidiaries at dates of acquisition ...	(46,044)	(9,534)
Working capital used in operations, exclusive of extraordinary credit	665,491	885,170
Extraordinary credit—Note H		(351,908)
	<u>665,491</u>	<u>533,262</u>
Dividends paid—Note D	8,404	33,615
Net additions to plant and equipment, less, in 1970, \$268,524 of additions to long-term debt for financing equipment purchases	71,683	152,153
Current maturities of long-term debt	190,917	142,515
Other—net, including, in 1970, proceeds of \$1,050 from the exercise of stock options	64,393	(83,627)
Decrease in Working Capital	<u>\$1,000,888</u>	<u>\$ 777,918</u>
Decrease/(Increase) in working capital, by element:		
Cash	\$ 206,028	\$ 6,547
Receivables—net	147,650	680,688
Inventories	334,391	32,548
Notes payable to banks	264,514	347,000
Current portion of long-term debt	48,402	4,411
Accounts payable and accrued expenses	12,005	(176,445)
Other—net	(12,102)	(116,831)
Decrease in Working Capital	<u>\$1,000,888</u>	<u>\$ 777,918</u>

The accompanying notes are an integral part of these statements.

Pictorial Productions, Inc. and Subsidiaries
NOTES TO
FINANCIAL STATEMENTS

<i>General</i>	<i>Note D</i>																									
The consolidated financial statements as at September 30, 1970 and for the year then ended, which are shown for comparative purposes only, were examined by accountants other than S. D. Leidesdorf & Co.	1) Each share of the 6% Cumulative Convertible Preferred Stock is convertible into one share of Common Stock during the ten year period commencing January 1, 1974 and is redeemable at par, plus accrued dividends, any time after such date. During 1971, the first quarterly dividend paid on the preferred stock (\$8,404) was charged against additional paid-in capital ; as at September 30, 1971, cumulative dividends in arrears totaled \$25,211 (\$.45 per share).																									
The accompanying consolidated financial statements include the accounts of the Company and all its subsidiaries after elimination of all significant intercompany balances and transactions.	2) The Company has two qualified stock option plans in effect (adopted in 1965 and 1970), under which, as at September 30, 1971 and 1970, an aggregate of 140,900 shares of its Common Stock are reserved for issuance to officers and key employees of the Company and its subsidiaries. The plans expire ten years from their respective dates of adoption. Under the plans, the option prices per share may not be less than 100% of the fair market value at the date of grant. Options granted under the plans become exercisable cumulatively at the rate of 25% per year commencing one year from the date of grant ; all options granted expire five years after the date of grant.																									
<i>Note A</i>	Additional information regarding stock options follows :																									
Trade receivables as at September 30, 1971, include foreign trade acceptances aggregating approximately \$128,000 which are pledged as collateral for notes payable to a bank amounting to \$64,514.	<table><tr><th></th><th><u>1971</u></th><th><u>1970</u></th></tr><tr><td>Options outstanding at beginning of year</td><td>31,250</td><td>41,025</td></tr><tr><td>Options granted (at prices ranging from \$1.45 to \$2.50)</td><td>66,000</td><td>24,000</td></tr><tr><td></td><td><u>97,250</u></td><td><u>65,025</u></td></tr><tr><td>Options exercised</td><td></td><td>(500)</td></tr><tr><td>Options expired or cancelled</td><td>(6,750)</td><td>(33,275)</td></tr><tr><td>Options outstanding at end of year (at prices ranging from \$1.45 to \$7.00)</td><td><u>90,500</u></td><td><u>31,250</u></td></tr><tr><td>Total options exercisable at end of year</td><td><u>10,875</u></td><td><u>3,812</u></td></tr></table>			<u>1971</u>	<u>1970</u>	Options outstanding at beginning of year	31,250	41,025	Options granted (at prices ranging from \$1.45 to \$2.50)	66,000	24,000		<u>97,250</u>	<u>65,025</u>	Options exercised		(500)	Options expired or cancelled	(6,750)	(33,275)	Options outstanding at end of year (at prices ranging from \$1.45 to \$7.00)	<u>90,500</u>	<u>31,250</u>	Total options exercisable at end of year	<u>10,875</u>	<u>3,812</u>
	<u>1971</u>	<u>1970</u>																								
Options outstanding at beginning of year	31,250	41,025																								
Options granted (at prices ranging from \$1.45 to \$2.50)	66,000	24,000																								
	<u>97,250</u>	<u>65,025</u>																								
Options exercised		(500)																								
Options expired or cancelled	(6,750)	(33,275)																								
Options outstanding at end of year (at prices ranging from \$1.45 to \$7.00)	<u>90,500</u>	<u>31,250</u>																								
Total options exercisable at end of year	<u>10,875</u>	<u>3,812</u>																								
<i>Note B</i>	In addition, an option covering 3,000 shares of Common Stock and 600 shares of Preferred Stock at an aggregate purchase price of \$15,000, which was outstanding as at September 30, 1970, was cancelled during 1971 in connection with the termination of employment of an officer—see Note I.																									
Depreciation of property, plant and equipment aggregating \$216,335 (1971) and \$190,846 (1970), is computed principally on the straight-line method.	3) Changes in additional paid-in capital are as follows:																									
Property, plant and equipment with a net book amount of approximately \$1,600,000 as at September 30, 1971, is pledged as collateral for long-term indebtedness (see Note C).	<table><tr><th></th><th><u>1971</u></th><th><u>1970</u></th></tr><tr><td>Balance at beginning of year ...</td><td>\$2,033,361</td><td>\$2,003,752</td></tr><tr><td>Excess of amounts accrued in a prior year in connection with a pooling of interests acquisition over actual amounts paid</td><td></td><td>28,659</td></tr><tr><td>Excess of proceeds over par value of 500 shares of common stock issued on exercise of options</td><td></td><td>950</td></tr><tr><td>Dividend paid on preferred stock</td><td>(8,404)</td><td></td></tr><tr><td>Balance at end of year</td><td><u>\$2,024,957</u></td><td><u>\$2,033,361</u></td></tr></table>			<u>1971</u>	<u>1970</u>	Balance at beginning of year ...	\$2,033,361	\$2,003,752	Excess of amounts accrued in a prior year in connection with a pooling of interests acquisition over actual amounts paid		28,659	Excess of proceeds over par value of 500 shares of common stock issued on exercise of options		950	Dividend paid on preferred stock	(8,404)		Balance at end of year	<u>\$2,024,957</u>	<u>\$2,033,361</u>						
	<u>1971</u>	<u>1970</u>																								
Balance at beginning of year ...	\$2,033,361	\$2,003,752																								
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Dividend paid on preferred stock	(8,404)																									
Balance at end of year	<u>\$2,024,957</u>	<u>\$2,033,361</u>																								
<i>Note C</i>																										
Long-term debt consists of the following :																										
	<u>1971</u>	<u>1970</u>																								
Collateralized:																										
6% mortgages:																										
Due in quarterly installments of \$23,306, including interest, to 1985	\$ 892,172	\$ 930,420																								
Due in monthly installments of \$750, including interest, to 1977	45,763	51,819																								
Installment purchase obligations and notes (4-6%), due in varying monthly installments (approximately \$8,000, including interest) to 1975 ..	<u>291,732</u>	<u>375,965</u>																								
	<u>1,229,667</u>	<u>1,358,204</u>																								
Not collateralized:																										
Balance due on purchase price of a subsidiary, payable in annual installments to 1973 with interest at 5%	47,456	72,961																								
Miscellaneous—payable in annual installments of \$29,000	<u>58,000</u>	<u>58,000</u>																								
	<u>1,335,123</u>	<u>1,489,165</u>																								
Less: Current portion	<u>190,917</u>	<u>142,515</u>																								
	<u>\$1,144,206</u>	<u>\$1,346,650</u>																								

<i>Note E</i>	
As at September 30, 1971, available net operating loss carry forwards for Federal income tax purposes aggregate approximately \$1,700,000, expiring principally in 1975 and 1976.	
<i>Note F</i>	
Per common share data are based on the weighted average number of shares outstanding during the years, 1,289,884 (1971) and 1,289,634 (1970), since the effect of conversion of the preferred stock and exercise of stock options would be to reduce the net loss per common share.	2) An agreement relating to the acquisition of a subsidiary prior to 1970, provides for contingent payments not to exceed \$60,000 in the aggregate, based on the achievement of specified earnings of the subsidiary through 1973. Through September 30, 1971, no amounts are due therefor. 3) An agreement, which expired during 1971, included a provision for the issuance of up to 5,000 shares of Common Stock based on the achievement of specified earnings of a company acquired prior to 1970. Management believes that no additional shares are required to be issued ; however, final settlement of this matter has not as yet been reached.
<i>Note G</i>	<i>Note J</i>
The Company and its subsidiaries have similar contributory pension plans covering all eligible non-union employees. The plans are funded by a combination of individual insurance policies and an investment fund primarily using the level premium method. During 1971, the Company changed its actuaries and is contemplating changing certain aspects of its existing plans. As a result, certain actuarial determinations were not made. However, as of the date of the last actuarial evaluation (June 1, 1970), the fund balances exceeded the actuarially computed value of vested benefits ; based upon information received from the new actuaries, an excess exists as at September 30, 1971. Pension expense amounted to \$34,716 (1971) and \$21,096 (1970).	Events subsequent to September 30, 1971 : 1) In December 1971, the Company began negotiations for the sale of a segment of its business ; such segment had significant losses for the years ended September 30, 1971 and 1970. 2) As at December 24, 1971, the Company was arranging with its bank for additional temporary short-term financing and refinancing of principally all of its outstanding bank loans as at September 30, 1971 to a long-term note to be collateralized by real property.
<i>Note H</i>	
1) Map conversion costs were incurred by a subsidiary in prior years. During 1970, management reassessed its policy of amortizing such costs over a ten year period and, in light of current conditions, decided to write off the remaining unamortized balance at October 1, 1969 (\$213,175) since the recovery of such remaining costs could not be reasonably assured. 2) Effective October 1, 1969, the Company changed its method of accounting for a subsidiary's inventories which were previously valued on the last-in, first-out (LIFO) method ; the difference between such methods at the beginning of 1970 (\$351,908) has been shown as an extraordinary credit in the accompanying consolidated statement of operations and retained earnings for the year ended September 30, 1970. As at September 30, 1971 and 1970, all inventories are valued at the lower of cost, principally first-in, first-out (FIFO), or market.	
<i>Note I</i>	
1) In October 1971, a former officer (whose employment was terminated by the Company during 1971) brought an action to recover approximately \$52,000, principally basic compensation. While the litigation is in a preliminary stage, management and counsel believe that the Company has valid defenses to the action.	S. D. Leidesdorf & Co. New York, N. Y. December 6, 1971, except as to Note J which is as of December 24, 1971

PICTORIAL PRODUCTIONS, INC.

Board of Directors
Charles K. Silberstein
Kay Anderson
Stephen A. Carb
Richard D. Windatt
James F. Kane, Jr.
Sydney A. Luria
Nathan Shapiro

Officers
Charles K. Silberstein, *President*
Kay Anderson, *Vice President—Vari-Vue Division*
Saul Weingrad, *Vice President—Ceramics Division*
George K. Bleuher, *Vice President—Plastics Division*
Daniel Ferman, *Treasurer*
Stephen A. Carb, *Secretary*
Hubert G. Neumann, *Assistant Secretary*

Transfer Agent and Registrar
Morgan Guaranty Trust Co. of New York
Stock Transfer Dept.
30 West Broadway, New York, N.Y. 10015

General Counsel
Carb, Luria, Glassner, Cook & Kufeld
529 Fifth Ave., New York, N.Y. 10017

Executive Offices and Plants
Mount Vernon, New York 10551
Pelham, New York 10803
Chicago, Illinois 60607
East Liverpool, Ohio 43920
San Francisco, Calif. 94101

Auditors
S. D. Leidesdorf & Co.
Certified Public Accountants
125 Park Avenue
New York, N.Y. 10017

SUBSIDIARIES AND DIVISIONS

<i>Commercial Decal, Inc.</i>	<i>Vari-Vue Division</i>
Ceramics Division	Vari-Vue International
Plastics Division	Graphic Products Division
International Division	<i>Sanborn Map Co., Inc.</i>
Unique Kiln Division	American Air Survey, Inc.
	Advanced Industrial Design, Inc.



PICTORIAL PRODUCTIONS, INC.
ANNUAL REPORT
1972

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1	Letter to Our Shareholders
3	Consolidated Statement of Operations and Deficit
4	Consolidated Balance Sheets
6	Consolidated Statement of Changes in Financial Position
7	Notes to Financial Statements
8	Accountants' Report
Inside Cover	Directors and Officers/Subsidiaries and Divisions

Dear Stockholder,

It has been some time since I was able to write to you to tell you that the business of our company has seen a substantial improvement. Sales from continuing operations increased from \$5,159,462 to \$5,740,471 or 11.3%. However, more important, we managed to end the year with a profit, as I indicated might be the case in my letter of August 15, 1972.

This operating profit reflects a considerable upturn compared with the operating losses sustained in previous years. It is my opinion that we are now back on the road to an improving sales and earnings picture.

As mentioned in our last annual report, it is the avowed intention of your management to review all operating areas of the company, and to eliminate any part of our business which cannot be made profitable within the framework of our company.

In light of this, on September 22, 1972 we sold the Vari-Vue Division of Pictorial Productions, which had sustained heavy losses in the past two years. It is our analysis that with the rising demand for the products of Commercial Decal, it would be more prudent to concentrate our efforts on this, the largest and most successful area of our business.

With the sale of Vari-Vue, as described above, we now have two operating companies within the structure of Pictorial Productions, Inc. I shall now give you a progress report on both of these companies:

Commercial Decal, Inc.

With a steady improvement in the general economy, and the introduction of new machinery for the automatic application of ceramic decals in more sophisticated methods than have hitherto been employed, Commercial Decal has been able to enter new high volume markets such as the cosmetic container industry and mass produced cookware. Considerable emphasis is being placed on research and development as well as the traditional design and quality standards. Consequently, we have been able to maintain

our position in the foreign markets, and have increased our business substantially with domestic customers.

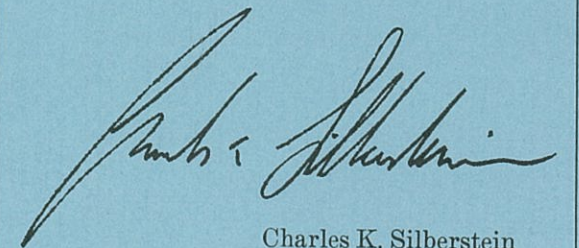
Sanborn Map Company, Inc.

Throughout fiscal 1972 we were still burdened by the fulfillment of unprofitable contracts committed for in previous years. These have now substantially been fulfilled, enabling us to bid on new contracts, which can be performed at the correct levels of profitability.

Based on a conservative estimate of probability on new business, which could be obtained in the utility industry and tax mapping fields, there is every indication that Sanborn can increase its business by a sizable amount in 1973. The company has been restructured, and should have a good potential in the future.

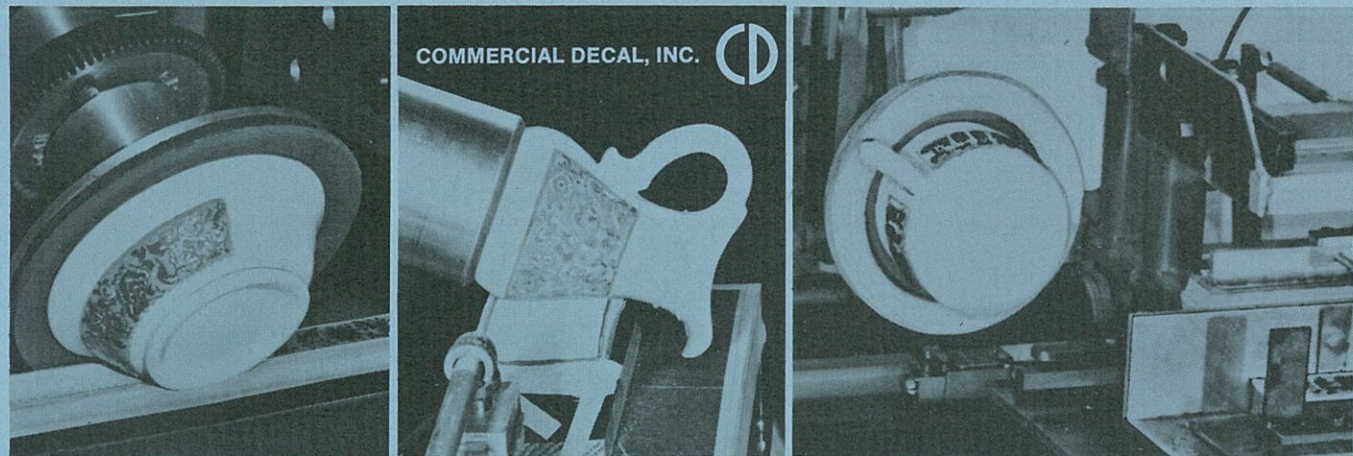
As this year is coming to an end, I should like to extend my appreciation to all my associates who have worked very hard to turn this company around. Let me assure you that we feel a solemn obligation to our stockholders, and it is my sincere hope that you will have every reason to take pride in the future achievements of this company.

Sincerely yours,



Charles K. Silberstein
President

December 26, 1972



COMMERCIAL DECAL, INC. 

Introducing a revolutionary concept in automatic decorating...

A new mechanical system which provides the maximum decoration of any cylindrical shape. This technique utilizes the design potentials of Heat Release Decals with machine application permitting a combination of good design and high productivity. Thus, you obtain quality decorations at economical costs.

The IMC Machine which comes in several Models can be used for the decoration of any ceramic product, be it China, Earthenware, Glass, Porcelain Enamel, Aluminum or Stainless Steel Cookware, with top to bottom, and side to side designs. The machine can be installed in a space of 4 X 8 feet.

Heat Release Decal Systems have been developed for on-surface or overglaze decorating as well as for underglaze application.

The IMC Ware Holder has a wide range of adjustability which permits the decoration of straight-sided cylinders, and a range of tapered items with both conical and reverse tapered contours.

The decal chuck holds the die-cut decal in perfect register during the application cycle. The flexibility of the chuck allows for absorption of dimensional variation in run of the kiln production. The surface contour of the chuck can also be shaped to concave or convex configurations which faithfully assume the shape of the ware.

The tangential contact afforded by the decal chuck makes possible full wrap around patterns on unhandled items. With handled items full coverage within 3/16" of each side of the handle can be obtained from one side of the handle to the other.

Two Types of Decal dealing systems are offered. Model I offers a bottom-pickup arrangement which removes the bottom-most piece of decal out of the die-cut stack in the magazine. The decal is pulled out of the magazine by the right to left motion of the decal chuck.

In Model II, the transfer of the decal from the top of the stack is carried out by a separate mechanism, simultaneously with the return of the carriage to

its starting position. The decal is then positioned in register on the decal chuck.

The Operation of the Machine is initiated by the positioning of a piece of ware on the Ware Holder. The Ware Holder is dropped into position and the carriage starts its right to left stroke. The Ware Holder is free to be driven by the slight pressure applied by the decal chuck. The carriage reaches the end of its stroke completely decorating the ware with a multi-color pattern. The blank backing paper is removed by a vacuum pickup as the carriage returns to its start position, and is then discarded into the waste hopper.

The IMC Machine can be obtained with/or without, an integral heating system which is synchronized to the decorating cycle. A chain on end conveyor located directly under the decorating unit, delivers a preheated piece of ware to the operator each time a piece is decorated. The flame from the burner is adjustable and can be accurately controlled. Should the decorating cycle be interrupted for any reason, the burners of the unit automatically raise up above the ware, thereby preventing over heating. The workable temperature range of the Heat Release Decal spans better than 50 Degrees Fahrenheit, between 250 and 310 Degrees F.

The Decal Chuck is uniquely designed to fit a range of decal lengths. A decal strike length of up to 36" can be attained by the use of three sizes of telescoping, adjustable chucks. The ranges covered by each of the chucks are:—

- 1) 8 1/4" to 14 3/4" long.
- 2) 14" to 24 3/4" long.
- 3) 24" to 36" long.

The largest size which would fit the machine is 13" in diameter. Special chucks can be fabricated for decal shorter than 8 1/4".

Change Over from one item to another is simple, requiring only the substitution of the proper size ware holder and adjustment to the proper angle, and adjustment of the magazine for the width and length of the die-cut

decal to fit the new item. The telescoping decal chuck is adjusted to the proper length and the flexible platform assembly for the new decal is quickly installed and a final adjustment of the travel of the carriage enables resumption of production with minimum delay. Accurate adjustment of height, endwise and taper positions is afforded by vernier controls.

A Conveniently located control panel is within easy reach of the operator. Individual controls are provided for automatic, continuous operation and also for hand operation, for setup and change over.

Flow Control Valves are provided on the carriage cylinder to permit slow entry and exit during beginning and ending of the decorating cycle. The speed of the travel of the carriage can be increased to reduce decorating time on larger items. Production rates range from 20 pieces/minute and are dependent on the size of the ware and length of the decal.

The IMC Machines are reasonably priced beginning at \$8,000 for the decorating unit and up. Inclusion of the Integral Heating chamber results in a price of \$16,500, and up.

Special Attention will be given to enquiries for information and proofing of decal patterns for use on the IMC MACHINES.

The decals exhibit an ability to both stretch and compress so that the shape of the article does not preclude the use of a straight decal, for decorating tapers and concave and convex shapes.

Commercial Decal, Inc., maintains a large staff of highly skilled artists who can be utilized to your advantage in preparing designs.

Enquiries are invited—Contact:—

 **COMMERCIAL DECAL, INC.**

650 South Columbus Avenue
Mount Vernon, New York 10551
Telephone: (914) 664-1610

Over 50 years of quality design and innovation.

Pictorial Productions, Inc. and Subsidiaries

CONSOLIDATED STATEMENT OF OPERATIONS AND DEFICIT

Year ended September 30

	1972	1971
Net sales—Note A	\$5,740,471	\$5,159,462
Costs and expenses:		
Cost of sales	3,980,469	3,813,048
Selling, general and administrative	1,519,278	1,702,380
Research and development	194,621	185,749
	<u>5,694,368</u>	<u>5,701,177</u>
	46,103	(541,715)
Other income (deductions)—net:		
Interest	(111,518)	(95,390)
Miscellaneous—net	120,458	107,198
	<u>8,940</u>	<u>11,808</u>
Income (loss) from continuing operations before provision for state income taxes	55,043	(529,907)
Provision for state income taxes	25,000	3,023
Income (loss) from continuing operations	30,043	(532,930)
(Loss) from discontinued operations, net of Federal income tax credit of \$125,000 in 1972—Note A	(134,166)	(380,324)
(Loss) before extraordinary items	<u>(104,123)</u>	<u>(913,254)</u>
Extraordinary items:		
Refund on termination of pension plan of a subsidiary, net of applicable expenses including Federal income taxes of \$180,000—Note G	187,944	
(Loss) on sale of business, net of Federal income tax credit of \$20,000—Note A	(27,428)	
Reduction of Federal income taxes resulting from use of net operating loss carry forward—Note E ..	35,000	
	<u>195,516</u>	
Net income (loss)	91,393	(913,254)
Retained earnings (deficit) at beginning of year	(726,677)	186,577
(Deficit) at end of year	<u>(\$ 635,284)</u>	<u>(\$ 726,677)</u>
Income (loss) per common share, after preferred stock dividend requirements of \$33,615—Note F:		
From continuing operations	(\$.01)	(\$.44)
From discontinued operations	(.10)	(.29)
Before extraordinary items	(.11)	(.73)
Extraordinary items	.15	
Net income (loss)	<u>\$.04</u>	<u>(\$.73)</u>

The accompanying notes are an integral part of this statement.

Pictorial Productions, Inc. and Subsidiaries
**CONSOLIDATED STATEMENT OF
 CHANGES IN
 FINANCIAL POSITION**

Year ended September 30

	<u>1972</u>	<u>1971</u>
Working Capital provided:		
Income from continuing operations	\$ 30,043	
Items not requiring current outlay of working capital:		
Depreciation of property, plant and equipment..	188,415	
Other, principally amortization	<u>25,096</u>	
Working capital provided from continuing operations, exclusive of extraordinary items	243,554	
(Loss) from discontinued operations, net of depreciation of \$40,520	<u>(218,646)</u>	
Working capital provided from operations, exclusive of extraordinary items	24,908	
Working capital provided from extraordinary items:		
Refund on termination of pension plan of a subsidiary, net of applicable expenses—Note G.	367,944	
Proceeds from sale of machinery and equipment of business sold, less noncurrent portion (\$50,000) thereof—Note A	40,000	
Other—net	<u>38,008</u>	
Total working capital provided	<u>470,860</u>	
Working Capital used:		
Loss from continuing operations		\$ 532,930
Items not requiring current outlay of working capital:		
Depreciation of property, plant and equipment..		(178,780)
Decrease in deferred income taxes		14,616
Other, principally amortization and write-off of excess of cost over equity in net assets of subsidiaries at dates of acquisition		<u>(46,044)</u>
Working capital used in continuing operations ...		322,722
Loss from discontinued operations, net of depreciation of \$37,555		<u>342,769</u>
Working capital used in operations		665,491
Dividends paid—Note D		8,404
Net additions to plant and equipment less, in 1972, \$19,512 of additions to long-term debt for financing equipment purchases	75,620	71,683
Current maturities of long-term debt	202,008	190,917
Other—net		<u>64,393</u>
Total working capital used	<u>277,628</u>	<u>1,000,888</u>
Increase (Decrease) in working capital	\$ <u>193,232</u>	<u>(\$1,000,888)</u>
Increase (Decrease) in working capital, by element:		
Cash	(\$ 36,821)	(\$ 206,028)
Receivables—net	748,820	(147,650)
Inventories	92,164	(334,391)
Prepaid expenses	(81,428)	12,102
Notes payable to banks	(235,627)	(264,514)
Current portion of long-term debt	(11,091)	(48,402)
Accounts payable and accrued expenses	<u>(282,785)</u>	<u>(12,005)</u>
Increase (Decrease) in working capital	<u>\$193,232</u>	<u>(\$1,000,888)</u>

The accompanying notes are an integral part of this statement.

Pictorial Productions, Inc. and Subsidiaries

**NOTES TO
 FINANCIAL STATEMENTS**

Accounting Policies

1. The accompanying consolidated financial statements include the accounts of the Company and its subsidiaries after elimination of all significant intercompany balances and transactions.
2. Inventories are stated at the lower of cost (principally first-in, first-out) or replacement market and/or estimated net realizable amount.
3. Depreciation of property, plant and equipment aggregating \$228,935 (1972) and \$216,335 (1971) is computed principally on the straight line method. Expenditures for renewals and betterments are capitalized and expenditures for maintenance and repairs are charged to operations as incurred.
4. Research and development costs are expensed as incurred.

Note A:

In September 1972, the Company sold a segment of its business, including inventories and machinery and equipment with a net book amount of \$197,428, to a director/officer of the Company for \$150,000 (\$50,000 cash payment and \$100,000 in 7% promissory notes due \$25,000 in March 1973, \$25,000 in September 1973 and \$50,000 in June 1974). The aforementioned purchase price may be increased under certain conditions; however, such possible increase would not be significant. Simultaneous with the execution of the sales agreement, the officer's employment was terminated. The operations of this business are shown separately in the accompanying consolidated statement of operations and deficit as discontinued operations; net sales included therein amount to \$671,226 (1972, through date of sale) and \$575,129 (1971).

Note B:

As at September 30, 1972, the Company has pledged as collateral for notes payable to banks substantially all the operating assets of the Company and its subsidiaries (subject to first mortgages—see Note C) and the capital stock of such subsidiaries. The related loan agreement prohibits the Company from paying any dividends.

Note C:

Long-term debt consists of the following:

	<u>1972</u>	<u>1971</u>
Collateralized:		
6% mortgages:		
Due in quarterly installments of \$23,306, including interest, to 1985	\$ 851,576	\$ 892,172
Due in monthly installments of \$750, including interest, to 1977	39,334	45,763
Installment purchase obligations and notes (4-11%), due in varying monthly installments (approximately \$8,000, including interest) to 1975 ..	<u>220,080</u>	<u>291,732</u>
	1,110,990 ⁽¹⁾	1,229,667
Not collateralized:		
Balance due on purchase price of a subsidiary, payable in annual installments to 1973 with interest at 5%	23,728	47,456
Miscellaneous—payable in annual installments of \$29,000	<u>29,000</u>	<u>58,000</u>
	1,163,718	1,335,123
Less: Current portion	<u>202,008</u>	<u>190,917</u>
	<u>\$ 961,710</u>	<u>\$1,144,206</u>

(1) Property, plant and equipment with a net book amount of approximately \$1,550,000 as at September 30, 1972, is pledged as collateral.

Maturities of long-term debt during each of the five years subsequent to September 30, 1972 are \$202,008 (1973), \$139,900 (1974), \$90,020 (1975), \$59,684 (1976) and \$63,349 (1977).

Note D:

1. Each share of the 6% Cumulative Convertible Preferred Stock is convertible into one share of Common Stock during the ten year period commencing January 1, 1974 and is redeemable at par, plus accrued dividends, any time after such date at the option of the Company. During 1971, the first quarterly dividend paid on the preferred stock (\$8,404) was charged against additional paid-in capital; as at September 30, 1972, cumulative dividends in arrears totaled \$58,826 (\$1.05 per share).

2. The Company has two qualified stock option plans in effect (adopted in 1965 and 1970), under which an aggregate of 140,900 shares of its Common Stock are reserved for

issuance to officers and key employees of the Company and its subsidiaries. The plans expire ten years from their respective dates of adoption. Under the plans, the option prices per share may not be less than 100% of the fair market value at the date of grant. Options granted under the plans become exercisable cumulatively at the rate of 25% per year commencing one year from the date of grant; all options granted expire five years after the date of grant. Additional information regarding stock options follows:

	<i>Shares</i>	
	<u>1972</u>	<u>1971</u>
Options outstanding at beginning of year	90,500	31,250
Options granted (at prices ranging from \$1.25 to \$2.50)	<u>7,500</u>	<u>66,000</u>
	98,000	97,250
Options expired or cancelled	<u>(21,000)</u>	<u>(6,750)</u>
Options outstanding at end of year (at prices ranging from \$1.25 to \$7.00)	<u>77,000</u>	<u>90,500</u>
Total options exercisable at end of year	<u>27,250</u>	<u>10,875</u>

Note E:

As at September 30, 1972, available consolidated net operating loss carryforwards for Federal income tax purposes aggregate approximately \$1,600,000 expiring principally in 1975 and 1976.

Note F:

Per common share data are based on the weighted average number of shares outstanding during each year (1,289,884); the effect of conversion of the preferred stock and exercise of stock options would not be dilutive.

Note G:

The Company and a subsidiary have contributory pension plans covering all eligible non-union employees. The plans are funded by a combination of individual insurance policies and an investment fund. Although the Company is in the process of changing certain aspects of the plans, the Company's actuaries have indicated that, as at September 30, 1972, the fund balance exceeds the actuarially computed value of vested benefits. Pension expense amounted to \$35,117 (1972) and \$34,716 (1971).

During the year, a subsidiary's pension plan was terminated. Such termination resulted in a refund of approximately \$390,000 from the insurance company administering the plan, representing funds in excess of amounts required to provide for vested benefits of present

and former employees; such refund, less applicable expenses and Federal income taxes, is included as an extraordinary item in the accompanying consolidated statement of operations and deficit.

Note H:

1. Certain subsidiaries of the Company are defendants in actions brought by a former officer (whose employment was terminated in 1971) who seeks to recover approximately \$75,000, principally basic compensation. Management and counsel believe that the Company has meritorious claims and counterclaims in connection with such actions.

2. An agreement relating to the acquisition of a subsidiary prior to 1971, provides for contingent payments, not to exceed \$60,000 in the aggregate, based on the achievement of specified earnings of the subsidiary through 1973. Through September 30, 1972, no amounts are due therefor.

ACCOUNTANTS' REPORT

To the Board of Directors
Pictorial Productions, Inc.
Mount Vernon, N.Y.

We have examined the consolidated balance sheets of Pictorial Productions, Inc. and subsidiaries as at September 30, 1972 and 1971 and the related consolidated statements of operations and deficit and of changes in financial position for the years 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, the aforementioned financial statements present fairly the consolidated financial position of Pictorial Productions, Inc. and subsidiaries at September 30, 1972 and 1971 and the consolidated results of their operations and consolidated changes in their financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

S. D. Leidesdorf & Co.

New York, N.Y.
December 8, 1972

PICTORIAL PRODUCTIONS, INC.

Board of Directors

Charles K. Silberstein
Kay Anderson
Richard D. Windatt
James F. Kane, Jr.
Saul Weingrad

Officers

Charles K. Silberstein, *President*
Saul Weingrad, *Executive Vice President—Ceramics Division*
George K. Bleuher, *Vice President—Plastics Division*
Charles Seliger, *Vice President—Design*
Martin Shulman, *Treasurer*
Harry Schneider, *Secretary*
Hubert G. Neumann, *Assistant Secretary*

Transfer Agent and Registrar

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30 West Broadway, New York, N.Y. 10015

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245 Park Ave., New York, N.Y. 10017

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S. D. Leidesdorf & Co.
Certified Public Accountants
100 East 42nd Street
New York, N.Y. 10017

SUBSIDIARIES AND DIVISIONS

<i>Commercial Decal, Inc.</i>	<i>Sanborn Map Co., Inc.</i>
Ceramics Division	American Air Survey, Inc.
Plastics Division	Advanced Industrial Design, Inc.
International Division	
Unique Kiln Division	

Pictorial Productions, Inc., 650 South Columbus Avenue, Mount Vernon, N.Y. 10551

Pictorial Productions, Inc. Annual Report 1973



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	Directors and Officers/ Subsidiaries and Divisions

Cover: Franciscan Masterpiece China
The Scout: Friends or Enemies?
Frederic Remington
American (1861-1909)

To Our Stockholders

December 18, 1973

Dear Stockholder,

In this letter I will discuss the important events that took place during the fiscal year ended September 30, 1973 and their effect on the operations for the year.

As previously stated, your management had made a firm commitment to eliminate all operations that could not be made profitable. The first quarter of this fiscal year clearly indicated that while Commercial Decal, Inc. was progressing satisfactorily, the Sanborn Map Company, Inc. continued to lose money on a large scale. Strenuous efforts were made to sell the assets of Sanborn and we accomplished this in May of 1973.

With the sale of the mapping operation, the company retains the valuable real estate of Sanborn consisting of 75,000 square feet of manufacturing space on approximately five acres of land in Pelham, New York. The name of Sanborn has been changed to S M C Realty Company, Inc., and the property at this time is 80% rented. Based on existing leases, this will show a profit in the coming year, and further improvement when the remaining space is rented.

We can now concentrate all our efforts on the operations of Commercial Decal.

This company has for many years been foremost on a world-wide basis in the design and manufacture of high quality ceramic decals for the decoration of china and glass as well as laminates for the plastics industry.

Sales increased to \$4,392,369 compared to \$4,130,928 in the previous year. However, the

Consolidated Statement of Operations and Deficit

Year ended September 30

	1973	1972
Revenues:		
Net sales—Note A	\$4,392,369	\$4,130,928
Other, principally rents and royalties	189,418	192,842
	<u>4,581,787</u>	<u>4,323,770</u>
Costs and expenses:		
Cost of sales	2,760,086	2,501,449
Selling, general and administrative	1,248,250	1,086,476
Research and development	157,823	194,621
Expenses of property held for rental	101,833	76,148
Interest—net	139,094	106,056
	<u>4,407,086</u>	<u>3,964,750</u>
Income from continuing operations before provision for income taxes	174,701	359,020
Provision for income taxes:		
Federal	72,000	160,000
State	9,000	25,000
	<u>81,000</u>	<u>185,000</u>
Income from continuing operations	<u>93,701</u>	<u>174,020</u>
Discontinued operations—Note A:		
(Loss) from discontinued operations—net of Federal income tax credits of \$72,000 (1973) and \$285,000 (1972)	(692,527)	(278,143)
(Loss) on sales of businesses, net of Federal income tax credit of \$20,000 (1972)	(40,545)	(27,428)
	<u>(733,072)</u>	<u>(305,571)</u>
(Loss) before extraordinary items	<u>(639,371)</u>	<u>(131,551)</u>
Extraordinary items:		
Refund on termination of pension plan of a subsidiary, net of applicable expenses including Federal income taxes of \$180,000—Note F		187,944
Reduction of Federal income taxes resulting from use of net operating loss carryforward—Note D ...		35,000
		<u>222,944</u>
Net income (loss)	<u>(639,371)</u>	<u>91,393</u>
(Deficit) at beginning of year	(635,284)	(726,677)
(Deficit) at end of year	<u>(\$1,274,655)</u>	<u>(\$ 635,284)</u>
Income (loss) per common share, after preferred stock dividend requirements of \$33,615—Note E:		
From continuing operations	\$.05	\$.11
From discontinued operations	(.57)	(.24)
Before extraordinary items	(.52)	(.13)
Extraordinary items		.17
Net income (loss)	<u>(\$.52)</u>	<u>\$.04</u>

The accompanying notes are an integral part of this statement.

comparative restated figures indicate a reduction in net profit. It should be noted that in this year of transition, certain costs attributable to the discontinued operations were charged to Commercial Decal.

We have been strenuously reviewing all corporate expenses and intend to make substantial reductions in order to increase our profit for fiscal 1974. The heavy losses incurred from discontinued operations and the loss from the sale of the Sanborn business are now behind us.

Barring unforeseen developments arising from the energy crisis and possible shortages of materials, I am confident that the current fiscal year will mark the beginning of a new era for our company.

Enclosed with this report is a new selling brochure describing the activities of Commercial Decal which I believe our stockholders should find very informative.

I should like to express my appreciation for the cooperation and efforts of all of my associates during the eventful year which has just ended, and we trust that the new year will be a successful one for the company and its stockholders.

Sincerely,



Charles K. Silberstein
President

Consolidated Balance Sheet

As at September 30

Assets—Note B	1973	1972
Current Assets:		
Cash	\$ 194,286	\$ 168,888
Receivables:		
Trade	1,068,485	1,516,989
Due from insurance company—Note F		390,000
Notes receivable from former Director/Officer—Note A	50,000	50,000
Sundry	28,934	69,749
	1,147,419	2,026,738
Less: Allowance for doubtful accounts	260,000	132,000
	887,419	1,894,738
Inventories:		
Finished goods	245,344	303,232
Work in process	310,969	486,004
Raw materials	222,715	253,017
	779,028	1,042,253
Prepaid expenses	91,890	105,924
Total current assets	1,952,623	3,211,803
Property, Plant and Equipment, at cost—Notes A and B:		
Land	425,086	425,086
Buildings and improvements	1,854,392	1,742,240
Machinery and equipment, etc.	933,440	1,581,565
	3,212,918	3,748,891
Less: Accumulated depreciation	1,376,676	1,719,083
	1,836,242	2,029,808
Deferred Charges and Other Assets:		
Cash surrender value of officers' life insurance policies	92,305	80,384
Note receivable from former Director/Officer—Note A		50,000
Sundry	82,973	61,712
	\$3,964,143	\$5,433,707

Liabilities and Shareholders' Equity	1973	1972
Current Liabilities:		
Notes payable to banks—Note B	\$ 426,708	\$1,100,141
Current portion of long-term debt—Note B	249,263	202,008
Accounts payable	323,453	595,593
Accrued expenses and sundry liabilities	426,526	448,501
Total current liabilities	1,425,950	2,346,243
Long-term Debt, less current portion—Note B	1,051,810	961,710
Total liabilities	2,477,760	3,307,953
Shareholders' Equity—Notes B and C:		
6% Cumulative Convertible Preferred Stock, par value \$10 a share (liquidation value)—authorized 200,000 shares; issued and outstanding 56,025 shares	560,250	560,250
Common Stock, par value \$.20 a share—authorized 2,000,000 shares; issued 1,318,721 shares	263,744	263,744
Additional paid-in capital	2,024,957	2,024,957
(Deficit)	(1,274,655)	(635,284)
	1,574,296	2,213,667
Less: Cost of 28,837 shares of Common Stock held in treasury	87,913	87,913
	1,486,383	2,125,754
Pension Plan—Note F	\$3,964,143	\$5,433,707

Company and its subsidiaries (subject to first mortgages) and the capital stock of such subsidiaries. The related loan agreement prohibits the Company from paying any dividends.

Maturities of long-term debt during each of the five years subsequent to September 30, 1973 are \$249,263 (1974), \$210,021 (1975), \$169,684 (1976), \$63,349 (1977) and \$58,760 (1978).

Note C:

- 1) Each share of the 6% Cumulative Convertible Preferred Stock is convertible into one share of Common Stock during the ten year period commencing January 1, 1974 and is redeemable at par, plus accrued dividends, any time after such date at the option of the Company. As at September 30, 1973, cumulative dividends in arrears totaled \$92,441 (\$1.65 per share).
- 2) The Company has two qualified stock option plans in effect (adopted in 1965 and 1970), under which an aggregate of 140,900 shares of its Common Stock are reserved for issuance to officers and key employees of the Company and its subsidiaries. The plans expire ten years from their respective dates of adoption. Under the plans, the option prices per share may not be less than 100% of the fair market value at the date of grant. Options granted under the plans become exercisable cumulatively at the rate of 25% per year commencing one year from the date of grant; all options granted expire five years after the date of grant. Additional information regarding stock options follows:

	Shares	
	1973	1972
Options outstanding at beginning of year	77,000	90,500
Options granted (at prices ranging from \$1.25 to \$2.50)		7,500
	77,000	98,000
Options expired or cancelled . .	(34,500)	(21,000)
Options outstanding at end of year (at prices ranging from \$1.25 to \$7.00)	42,500	77,000
Total options exercisable at end of year	22,375	27,250

Note D:

As at September 30, 1973, available consolidated net operating loss carryforwards for Federal income tax purposes aggregate approximately \$1,800,000 expiring \$900,000 in 1975, \$600,000 in 1976 and \$300,000 in 1978.

Note E:

Per common share data are based on the weighted average number of shares outstanding during each year

(1,289,884); the effect of conversion of the preferred stock and exercise of stock options would not be dilutive.

Note F:

A subsidiary of the Company has a contributory pension plan covering all eligible non-union employees. The plan, which was revised effective January 1, 1973, is funded under a deposit administration group annuity contract issued by an insurance company (the Company's prior plans were funded by a combination of individual insurance policies and an investment fund). Although the Company has not received its first actuarial report based on the new plan, the insurance company administering the plan has indicated that as at September 30, 1973, the fund balances held by the insurance company exceeded the actuarially computed value of vested benefits. Pension expense amounted to \$25,000 (1973) and \$35,117 (1972).

During 1972, a subsidiary's (Sanborn Map Company, Inc.) pension plan was terminated. Such termination resulted in a refund of approximately \$390,000 from the insurance company administering the plan, representing funds in excess of amounts required to provide for vested benefits of present and former employees; such refund, less applicable expenses and Federal income taxes, is included as an extraordinary item in the accompanying consolidated statement of operations and deficit.

Accountants' Report

To the Board of Directors
Pictorial Productions, Inc.
Mount Vernon, N.Y.

We have examined the consolidated balance sheet of Pictorial Productions, Inc. and subsidiaries as at September 30, 1973 and 1972 and the related consolidated statements of operations and deficit and of changes in financial position for the years 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, the aforementioned financial statements present fairly the consolidated financial position of Pictorial Productions, Inc. and subsidiaries at September 30, 1973 and 1972 and the consolidated results of their operations and consolidated changes in their financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

S. D. Leidesdorf & Co.

New York, N.Y.
December 7, 1973

Pictorial Productions, Inc.

Board of Directors
Charles K. Silberstein
Saul Weingrad
Charles Seliger
Richard D. Windatt
James F. Kane, Jr.

Officers
Charles K. Silberstein, *President*
Saul Weingrad, *Executive Vice President*
Charles Seliger, *Vice President-Design*
Martin Shulman, *Treasurer*
Harry Schneider, *Secretary*
Hubert G. Neumann, *Assistant Secretary*

Transfer Agent and Registrar
Morgan Guaranty Trust Co. of New York
Stock Transfer Dept.
30 West Broadway, New York, N.Y. 10015

General Counsel
Jaffin, Schneider, Conrad and Rubin
245 Park Ave., New York, N.Y. 10017

Executive Offices and Plants
Mount Vernon, New York 10551
East Liverpool, Ohio 43920

Auditors
S. D. Leidesdorf & Co.
Certified Public Accountants
100 East 42nd Street
New York, N.Y. 10017

Subsidiaries and Divisions

Commercial Decal, Inc.
Ceramics Division
Plastics Division
International Division
Unique Kiln Division
S M C Realty Co., Inc.

Pictorial Productions, Inc./Annual Report 1974



Pictorial Productions, Inc.

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Ceramics Division
Plastics Division
International Division
Unique Kiln Division
S M C Realty Co., Inc.

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To Our Shareholders

December 12, 1974

Dear Shareholder,

As I stated in my letter of December 18, 1973, a course was charted to eliminate all unprofitable operations and this was completed by the end of the last fiscal year.

Accordingly, I am pleased to report that this is the first year in a long while during which the company made a good profit from operations. Gross revenues increased from \$4,581,787 to \$5,048,199. We also were successful in arranging for the sale of the Sanborn building at a good profit, which resulted in a considerable gain in working capital.

This has given us the opportunity to devote all our attention to Commercial Decal which is now the remaining operating entity. Our company is well known under this name in the world market as a manufacturer of high quality ceramic decals for the permanent decoration of china and glass products, as well as laminates for the plastics industry. It can be said that every major manufacturer, both in the United States and abroad, who use decal for their products can be counted as one of our customers to a greater or lesser degree.

Your management has decided that it would be in our best interest to change the name of the parent company to Commercial Decal, Inc. which is a highly respected name in our industry, and would more truly reflect the scope of the company as it exists today. Subject to the approval of our shareholders, it is our intent to make this name change effective immediately after the forthcoming annual meeting.

Cover: The Bluebird, painted by Fracé, is one of the gift items offered to the subscribers to The National Wildlife Federation, using a lithographic ceramic decal printed by Commercial Decal, Inc.

In this age of ever increasing technical improvements, we have continued to enlarge our research and development facilities with particular emphasis towards automation in the use of our products, as well as to decrease manufacturing costs with no sacrifice to quality. It is my opinion that we are making very good progress and we are currently working on several projects which could result in improved sales in the coming year.

It is regrettable that economic forecasts for the year 1975 appear to indicate that this will be a difficult year for almost every sector of American industry. As you will see from the balance sheet contained in this report, we are in a better position today to cope with difficult economic conditions.

Our products, in most cases, are used in the manufacture of dinnerware and other houseware articles which may not be unduly affected by the economic slowdown. We enter the year 1975 with every hope to maintain or even improve the profitability of our company.

I should like to extend my appreciation to all my associates who have worked with me to make this a successful year.

Sincerely yours,



Charles K. Silberstein
President

Pictorial Productions, Inc. and Subsidiaries

Consolidated Statement
of Operations and Deficit

Year ended September 30

	1974	1973
Revenues:		
Net sales	\$4,765,666	\$4,392,369
Other, principally rents and royalties	282,533	189,418
	<u>5,048,199</u>	<u>4,581,787</u>
Costs and expenses:		
Cost of sales	3,179,338	2,760,086
Selling, general and administrative	1,180,137	1,248,250
Research and development	170,760	157,823
Expenses of property held for rental	198,373	101,833
Interest—net	133,854	139,094
	<u>4,862,462</u>	<u>4,407,086</u>
	185,737	174,701
Gain on sale of property, plant and equipment of a subsidiary—Note B	371,247	
	<u>556,984</u>	<u>174,701</u>
Provision for income taxes:		
Federal—Note F	190,000	72,000
State	8,000	9,000
	<u>198,000</u>	<u>81,000</u>
Income from continuing operations	358,984	93,701
Discontinued operations—Note A:		
(Loss) from discontinued operations— net of Federal income tax credits of \$72,000		(692,527)
(Loss) on sales of businesses		(40,545)
		<u>(733,072)</u>
Income (loss) before extraordinary credit	358,984	(639,371)
Extraordinary credit—reduction of Federal income taxes resulting from use of net operating loss carryforward—Note F	190,000	
Net income (loss)	<u>548,984</u>	<u>(639,371)</u>
(Deficit) at beginning of year	(1,274,655)	(635,284)
(Deficit) at end of year	<u>(\$ 725,671)</u>	<u>(\$1,274,655)</u>
Income (loss) per common share, after preferred stock dividend requirements of \$33,615—Note G:		
From continuing operations	\$.25	\$.05
From discontinued operations		(.57)
Before extraordinary credit	.25	(.52)
Extraordinary credit	.15	
Net income (loss)	<u>\$.40</u>	<u>(\$.52)</u>

The accompanying notes are an integral part of this statement.

Consolidated
Balance Sheet

As at September 30

Assets—Note C

	1974	1973
Current Assets:		
• Cash	\$ 301,784	\$ 194,286
Receivables:		
Trade	925,095	1,068,485
Notes receivable from former director/ officer		50,000
Sundry	19,918	28,934
	<u>945,013</u>	<u>1,147,419</u>
Less: Allowance for doubtful accounts	118,000	260,000
	<u>827,013</u>	<u>887,419</u>
Inventories:		
Finished goods	372,642	245,344
Work in process	295,120	310,969
Raw materials	297,100	222,715
	<u>964,862</u>	<u>779,028</u>
Prepaid expenses	44,221	91,890
Total current assets	<u>2,137,880</u>	<u>1,952,623</u>
Property, Plant and Equipment, at cost— Notes A, B and D:		
Land	404,566	425,086
Buildings and improvements	1,477,949	1,854,392
Machinery and equipment, etc.	1,012,745	933,440
	<u>2,895,260</u>	<u>3,212,918</u>
Less: Accumulated depreciation	1,089,562	1,376,676
	<u>1,805,698</u>	<u>1,836,242</u>
Other Assets:		
Cash surrender value of officers' life insurance policies	102,849	92,305
Bond receivable of \$273,657 (1974) relating to sale of property, plant and equipment, less unrealized profit on sale of \$273,657—Note B	—	—
Sundry	29,020	82,973
	<u>\$4,075,447</u>	<u>\$3,964,143</u>

Liabilities and Shareholders' Equity

	1974	1973
Current Liabilities:		
Notes payable to banks—Note C	\$ 366,708	\$ 426,708
Current portion of long-term debt— Note D	93,402	249,263
Accounts payable	322,601	323,453
Accrued expenses and sundry liabilities	457,207	426,526
Total current liabilities	<u>1,239,918</u>	<u>1,425,950</u>
Long-term Debt, less current portion— Note D	800,162	1,051,810
Total liabilities	<u>2,040,080</u>	<u>2,477,760</u>
Shareholders' Equity—Notes C and E:		
6% Cumulative Convertible Preferred Stock, par value \$10 a share—authorized 200,000 shares; issued and outstanding 56,025 shares	560,250	560,250
Common Stock, par value \$.20 a share— authorized 2,000,000 shares; issued 1,318,721 shares	263,744	263,744
Additional paid-in capital	2,024,957	2,024,957
(Deficit)	(725,671)	(1,274,655)
	<u>2,123,280</u>	<u>1,574,296</u>
Less: Cost of 28,837 shares of Common Stock held in treasury	87,913	87,913
	<u>2,035,367</u>	<u>1,486,383</u>
Pension Plan—Note H	<u>\$4,075,447</u>	<u>\$3,964,143</u>

The accompanying notes are an integral part of this statement.

Consolidated Statement
of Changes in Financial Position

Year ended September 30

	1974	1973
Financial Resources Provided:		
Income from continuing operations	\$ 358,984	\$ 93,701
Items not requiring current outlay of working capital:		
Depreciation of property, plant and equipment	141,457	136,915
Other	39,944	16,557
Working capital provided from continuing operations	540,385	247,173
(Loss) from discontinued operations, net of depreciation and amortization of \$37,506		(655,021)
Working capital provided from (used for) operations, exclusive of extraordinary credit	540,385	(407,848)
Working capital provided from extraordinary credit	190,000	
Net book amount of property, plant and equipment sold	87,768	22,573
Sale of machinery and equipment of businesses sold		112,960
Current maturity of note receivable		50,000
Refinancing of notes payable to banks		350,000
Other—net	3,467	
Total Financial Resources Provided	821,620	127,685
Financial Resources Used:		
Additions to plant and equipment less, in 1974, \$71,754 of additions to long-term debt for financing building construction	126,929	158,540
Current maturities of long-term debt, and, in 1974, \$230,000 accelerated payment of long-term debt	323,402	249,263
Other—net		58,769
Total Financial Resources Used	450,331	466,572
Increase (Decrease) in Working Capital	\$ 371,289	(\$ 338,887)
Increase (Decrease) in Working Capital, by element:		
Cash	\$ 107,498	\$ 25,398
Receivables—net	(60,406)	(1,007,319)
Inventories	185,834	(263,225)
Prepaid expenses	(47,669)	(14,034)
Notes payable to banks	60,000	673,433
Current portion of long-term debt	155,861	(47,255)
Accounts payable and accrued expenses	(29,829)	294,115
Increase (Decrease) in Working Capital	\$ 371,289	(\$ 338,887)

The accompanying notes are an integral part of this statement.

Notes to
Financial Statements

Accounting Policies

- 1) The accompanying consolidated financial statements include the accounts of the Company and its subsidiaries after elimination of all significant intercompany balances and transactions.
- 2) Inventories are stated at the lower of cost (principally first-in, first-out) or replacement market.
- 3) Depreciation of property, plant and equipment aggregating \$141,457 (1974) and \$165,390 (1973) is computed principally on the straight line method. Expenditures for renewals and betterments are capitalized and expenditures for maintenance and repairs are charged to operations as incurred.
- 4) Research and development costs are expensed as incurred.

Note A:

During 1973, the Company sold the specialized mapping and engineering services businesses of a subsidiary (Sanborn Map Company, Inc.), including inventories and machinery and equipment with a net book amount of \$214,143, for \$175,000, exclusive of expenses, plus the assumption by the buyer of certain installment obligations relating to the machinery and equipment.

The operations of the business sold during 1973 are shown separately in the accompanying consolidated statement of operations and deficit as discontinued operations; a condensed summary of operations of the discontinued business is as follows:

Net sales	\$ 919,711
Costs and expenses, including interest expense of \$1,888	1,684,238
(Loss) before credit for Federal income taxes	(764,527)
Credit for Federal income taxes	72,000
Net (loss)	(\$692,527)

Note B:

During 1974, a subsidiary sold property, plant and equipment for \$800,000. In connection therewith, the subsidiary received \$525,000 and a bond for \$275,000 collateralized by a second mortgage on the property. The bond is receivable in equal monthly installments including interest at 10% from September 10, 1974 through August 10, 1984. In accordance with guidelines established for accounting for profit recognition on sales of real estate, the sale is being accounted for on the cost recovery method; accordingly, profit has been deferred to the extent of the uncollected proceeds (\$273,657 at September 30, 1974), and will be recognized as collected. The gain on the sale included in the consolidated statement of operations amounted to \$371,247 before taxes and its effect on income before extraordinary credit amounted to \$260,247 (\$.20 per share).

Note C:

As at September 30, 1974 the Company had an agreement with two banks for collateralized short-term revolving loans at ¾% over the banks' prime interest rates. During the year ended September 30, 1974, the average outstanding borrowings under the agreements were \$417,502 at a weighted average interest rate of approximately 11¼% (based upon the daily outstanding borrowings and actual interest paid during the year), and the maximum outstanding at any month end was \$426,708. At September 30, 1974, \$366,708 was outstanding at an interest rate of 12¾%.

The Company has pledged as collateral for notes payable to banks substantially all the operating assets of the Company and its subsidiaries (subject to first mortgages) and the capital stock of such subsidiaries. The related loan agreement prohibits the Company from paying any dividends.

Note D:

Long-term debt consists of the following:

	1974 (1)	1973
6% mortgages:		
Due in quarterly installments of \$23,306, including interest, to 1985	\$762,758	\$ 808,489
Due in monthly installments of \$750, including interest, to 1977	25,262	32,508
8% mortgage due in monthly installments of \$750, including interest, to 1987	71,754	
Notes payable to banks (interest at 2% over prime rate) due in monthly installments of \$10,000		350,000
Installment purchase obligations and notes (4½-6%) due in varying monthly installments (approximately \$6,400 including interest) to 1975	33,790	110,076
	893,564	1,301,073
Less: Current portion	93,402	249,263
	<u>\$800,162</u>	<u>\$1,051,810</u>

1) Property, plant and equipment with a net book amount of approximately \$1,520,000 as at September 30, 1974, is pledged as collateral.

Maturities of long-term debt during each of the five years subsequent to September 30, 1974 are \$93,402 (1975), \$63,346 (1976), \$67,315 (1977), \$63,056 (1978) and \$66,245 (1979).

Note E:

1) Each share of the 6% Cumulative Convertible Preferred Stock is convertible into one share of Common Stock during the ten year period commenced January 1, 1974 and is redeemable at par, plus accrued dividends, any time after such date at the option of the Company. As at September 30, 1974, cumulative dividends in arrears totaled \$126,056 (\$2.25 per share).

2) The Company has a qualified stock option plan in effect, under which an aggregate of 100,000 shares of its Common Stock are reserved for issuance to officers and key employees of the Company and its subsidiaries. Under the plan, the option prices per share may not be less than 100% of the fair market value at the date of grant. Options granted under the plan become exercisable cumulatively at the rate of 25% per year commencing one year from the date of grant; all options granted expire five years after the date of grant. Additional information regarding stock options follows:

	Shares	
	1974	1973
Options outstanding at beginning of year	42,500	77,000
Options expired or canceled	(10,000)	(34,500)
Options outstanding at end of year (at prices ranging from \$1.25 to \$2.50)	<u>32,500</u>	<u>42,500</u>
Total options exercisable at end of year	<u>23,000</u>	<u>22,375</u>
Options available for grant at end of year	<u>67,500</u>	<u>98,400</u>

Note F:

As at September 30, 1974, available consolidated net operating loss carryforwards for Federal income tax purposes aggregate approximately \$1,400,000 expiring \$500,000 in 1976 and \$900,000 in 1978.

The difference between the Federal statutory tax rate of 48% and the effective tax rate of 35% (1974) per the Statement of Operations and Deficit is due principally to certain income being taxed at the capital gains rate.

Note G:

Per common share data are based on the weighted average number of shares outstanding during each year (1,289,884); the effect of conversion of the preferred stock and exercise of stock options would not be dilutive.

Note H:

A subsidiary of the Company has a contributory pension plan covering all eligible non-union employees. The plan, which was revised effective January 1, 1973, is funded under a deposit administration group annuity contract issued by an insurance company. The insurance company administering the plan has indicated that as at September 30, 1974, the fund balances held by the insurance company exceeded the actuarially computed value of vested benefits. Pension expense amounted to \$25,000 (1974 and 1973).

Accountants' Report

To the Board of Directors
Pictorial Productions, Inc.
Mount Vernon, N.Y.

We have examined the consolidated balance sheet of Pictorial Productions, Inc. and subsidiaries as at September 30, 1974 and 1973 and the related consolidated statements of operations and deficit and of changes in financial position for the years 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, the aforementioned financial statements present fairly the consolidated financial position of Pictorial Productions, Inc. and subsidiaries at September 30, 1974 and 1973 and the consolidated results of their operations and consolidated changes in their financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

S. D. Leidesdorf & Co.

New York, N.Y.
November 20, 1974