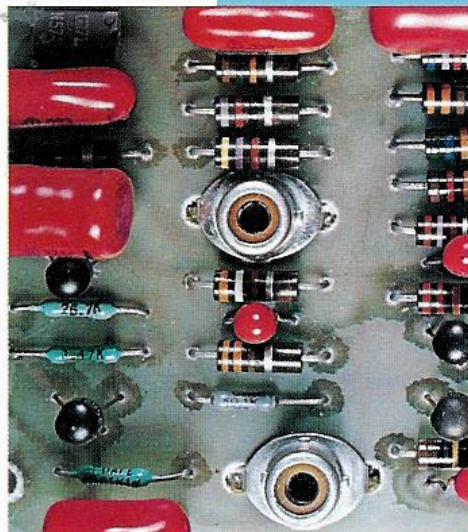


Kustom[®]

ELECTRONICS
INCORPORATED
1970
ANNUAL
REPORT



Kustom[®]
ELECTRONICS INCORPORATED
1971 ANNUAL REPORT

Guitar—The Ancient Instrument that Grows in Popularity

The guitar is one of the most popular instruments in the world. In the United States alone, there are 9 million guitarists. The guitar is at home everywhere—in all types of music styles. Last year, 1.8 million guitars were sold to music dealers and distributors in the U.S.

Guitars come in many forms—classical, folk, steel-string, electric, flamenco—and Kustom is now a major supplier to this huge market.

On September 1, Kustom acquired the trademarks, inventories and patents of two very popular makes of guitars—Goya and Greco. These products will be excellent companion sellers to our amplification systems. Both Goya and Greco guitars have established sales and product reputation in the marketplace, and will immediately produce important sales and earnings for Kustom.

Goya guitars are produced in Sweden by a manufacturing concern

which has been in business for over 70 years. It is a fine musical instrument made of pure Alpine woods, and is recognized as one of the world's finest guitars. Hand crafting of the guitars, by craftsmen who have made guitars for 25 to 40 years, insures high quality and customer appreciation. Goya guitars are priced from \$99.50 to \$650.00.

Greco guitars are of a more economical price, and the Grecos are extremely popular in the United States. They are available in a wide range of models, ranging in price from \$64.50 to \$109.50.

The full line of Goya accessories was also acquired, and it is highlighted by the famous Goya guitar strings. Many other guitar accessories are also available—including picks, straps, cords, polish, and other items.

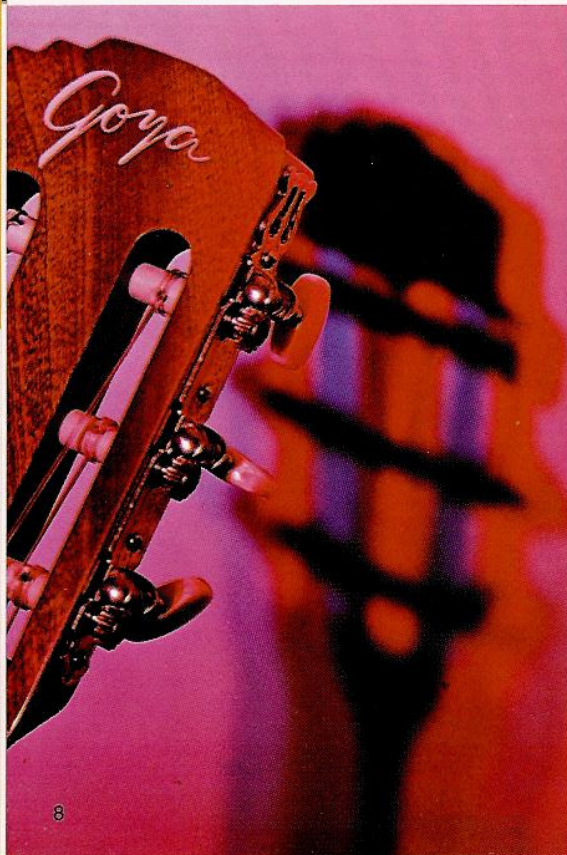
These guitars and accessories will considerably strengthen Kustom's future position in the music industry.

They provide Kustom the opportunity to take advantage of significant new trends in the guitar market. These trends include increased guitar instruction in the nation's schools, active music studio instruction and increased instrument leasing programs. There is also the tradition of the guitar player to continue stepping up to a higher quality instrument as his skills increase.

The guitar market appears to have excellent growth potential from every aspect, and Kustom's new ability to serve this market should add measurably to future sales and earnings.

Distribution of the guitars will be through franchised music dealers, primarily the Kustom amplifier dealers.

These products will allow us to offer a more complete line of musical merchandise to our dealer organization.



1. Today approximately one of every five Americans plays a musical instrument and the guitar ranks second only behind the piano in popularity with these 40 million amateur musicians.

2. Kustom's purchase of the well-known Goya and Greco guitar lines gives the company added capability to service the music industry.

Guitar Market Continues Expanding

Mostly because of the increased sale of fretted instruments, principally guitars, the music business became a \$1 billion-a-year industry in 1970. From 1960 to 1970 the sale of these instruments increased 357%. This compares with a 100% increase for the music industry as a whole.

During this 10-year period the number of guitar sales rose from 420,000 units in 1960 to 2,214,680 in 1970. In the latter year the retail value of guitars sold amounted to \$160 million. Of all such instruments sold annually in the U.S. more than one-half are imported. It was the import of quality guitars in recent years which gave added impetus to their increased sale.

It was because of this pronounced trend that Kustom acquired

ownership to two imported lines of guitars in 1969—the superb Goya and the popularly priced Greco.

The Goyas are manufactured for Kustom by a Swedish firm which has produced quality guitars for more than 70 years. The Goya is a fine musical instrument made of non-laminated pure Alpine woods and is recognized as one of the world's finest. The excellence of these handcrafted instruments in construction and tone assures customer satisfaction. Goyas are priced from \$99.50 to \$650.00.

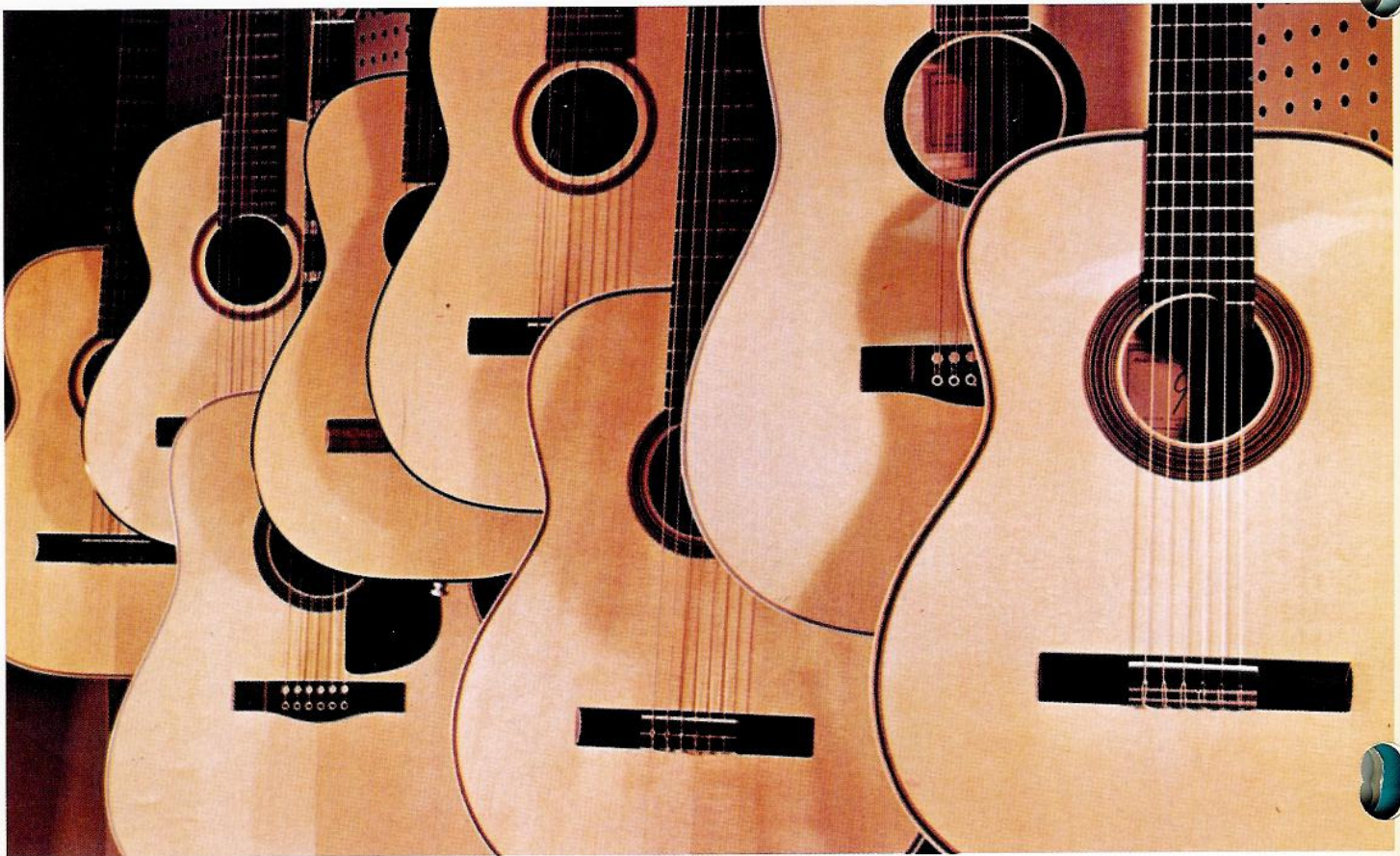
Greco guitars are priced from \$64.50 to \$109.50. In both lines, however, Kustom offers a complete selection of models, including classical, steel string (country-western) and folk instruments.

In all, they give Kustom the opportunity to meet the varied

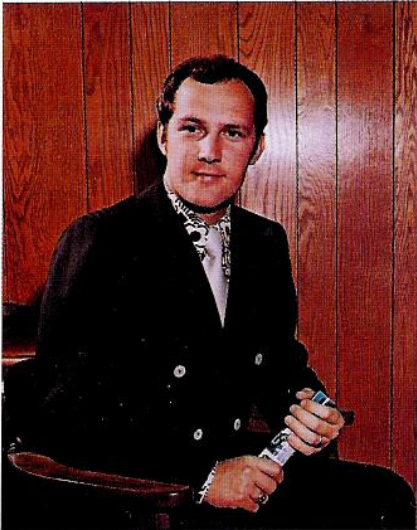
needs of this growing market. This growth trend is expected to continue, not only because of the increased interest in the instrument, but also because of increased use of the guitar in the nation's schools to provide young students with an introduction to music.

Kustom's sales potential in this field is enhanced by our full line of Goya accessories, including the well known and widely accepted Goya guitar strings.

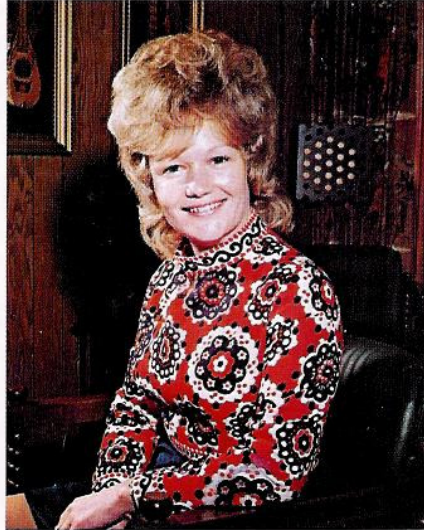
Goya is a superb contender in the guitar market which has shown a sales increase of 357% from 1960 to 1970.



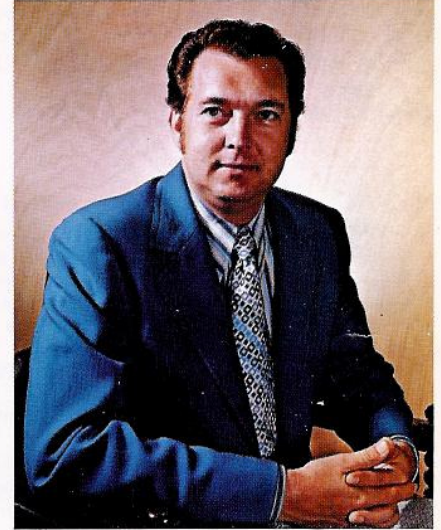
Directors and Officers



CHARLES A. ROSS, President and Director, Kustom Electronics. Patented Kustom product design. Kansas City, Mo. schools. Experienced in sales and production, product design, management.



CAROLYN ANN ROSS, Secretary-Treasurer and Director, Kustom Electronics. Emporia State Teachers' College. Has served as secretary of Kustom since its founding. Active in Kustom trade show promotion, community relations, area civic affairs.



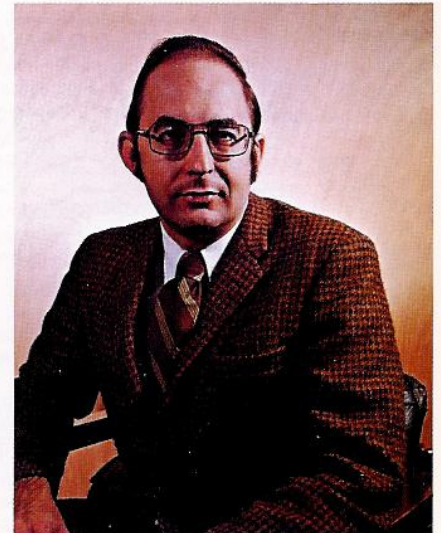
H. KEITH DODD, Director, Kustom Electronics. Business Administration, Kansas State College, Emporia, Ks. Business manager of country club, manager of national insurance company's regional office. Formerly VP Sales for Kustom.



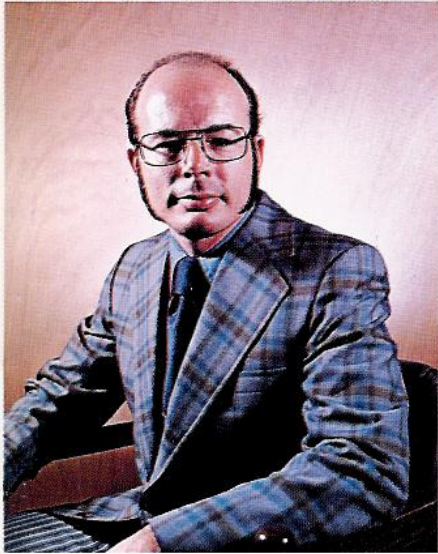
CHARLES H. MCKINNEY, Vice President Sales and Director, Kustom Electronics. Graduate of Wharton School of Finance and Commerce, University of Pennsylvania; wide experience in wholesale and retail sales management, product merchandising and dealer sales. Served as VP and general marketing manager for recreational vehicle producer. Past president of national Recreational Vehicle Institute.



WAYNE A. McMURTREY, Vice President of Finance and Director, Kustom Electronics. Manager with Touche Ross & Co., public accounting firm; holds CPA and business administration degree, Central Missouri State College.



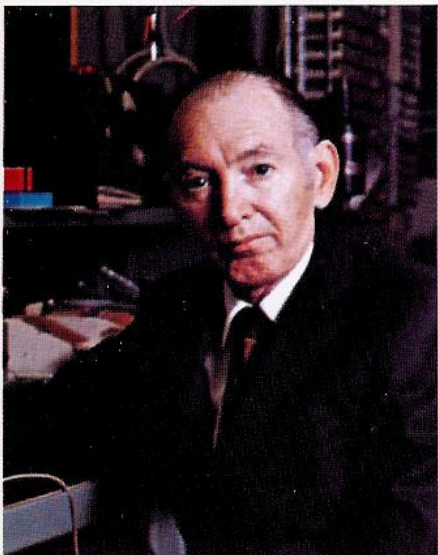
JOHN L. AKER, Vice President of Engineering and Director, Kustom Electronics. Electrical engineering graduate, University of Louisville, Ky. Navigation group, Boeing Co., Wichita, Kansas. Engineering group leader for King Radio Corp., Olathe, Kansas.



JAMES L. BERRY, Vice President of Manufacturing. Mechanical Engineering, Kansas University. 10 years as mechanical engineer with Collins Radio. Mechanical Engineering Department Head, Collins Radio Corp., major avionics equipment producer.



EARLE E. KOPKE, Vice President of Material, Kustom Electronics. Business Administration graduate, University of Kansas. Four years on Audit General's staff, U.S. Air Force. Extensive experience as buyer for communications accessories company in Kansas City area.



FRED M. BERRY, SR., Director, Kustom Electronics. Electrical and electronic engineering consultant. Over a quarter century of experience in product development and design engineering, research consulting with the University of Kansas Medical Center, railway and aeronautical communications. Developed first Kustom amplifiers and police radar units.



WILLIAM G. BODLEY, Director, Kustom Electronics; President, Bank of Commerce, Chanute, Kansas. Science and petroleum engineering graduate, University of Southern California. Experience in aircraft industry, petroleum production, beef production, and banking.

**Corporate Headquarters
Plant Location**

Kustom Electronics, Inc.
1010 West Chestnut
Chanute, Kansas 66720

General Counsel

Stinson, Mag, Thomson, McEvers
& Frizzell
Kansas City, Missouri

Auditors

Touche Ross & Co.
Kansas City, Missouri

**Transfer Agent and
Registrar**

Commercial National Bank
Kansas City, Kansas

Notes To Financial Statements

YEAR ENDED SEPTEMBER 30, 1970

Note A—Principles of Consolidation:

The consolidated financial statements include the accounts of the Company and all wholly-owned subsidiaries except those of the discontinued operations as explained below. All material intercompany transactions have been eliminated. As of September 30, 1970, the Company acquired for approximately \$575,000 the inventories, patents and trademarks for Goya and Greco guitars.

As of May 15, 1970, the Company acquired certain assets, at book

Notes

Letter to Shareowners

During 1970, Kustom Electronics, Inc. has accomplished national leadership in both musical amplification sales and law enforcement radar sales.

Musical amplification sales have continued at a very high level, and we have expanded our amplification products to meet the opportunities of this market.

Law enforcement radar sales have grown at an extremely high rate, from \$15,327 in the initial sales month of February, to \$209,645 in September.

Total sales for 1970 were \$6,901,263, compared to 1969 sales of \$5,948,598, an increase of more than 16%. Net earnings of continued operations for 1970 were \$442,200, compared to 1969 earnings of \$595,164. This decline came about because of non-recurring start-up and introductory costs of new products. Net earnings experienced a sharp up-turn in June, and the last quarter of 1970 was the most profitable fourth quarter in your company's history. This trend of higher earnings is expected to continue through 1971.

Many new products were introduced to the market in 1970. In musical amplification, we introduced the new series of Kustom SC (self-contained)

models, the full line of Kasino amplifiers, a new special effects instrument called The Bag, and a revolutionary new series of Kustom public address systems. In addition to the Prefect TR-6 Radar, we also introduced our line of amplified lecterns.

On September 1, we acquired the inventories, trademarks and patents of Goya and Greco guitars, plus a full line of Goya guitar accessories. Goya and Greco guitars are recognized major brands in the United States, and will give us a more complete line of musical merchandise to offer to our dealer organization.

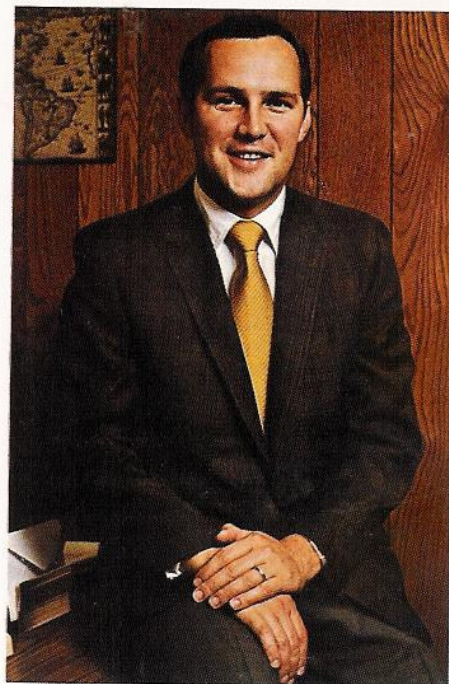
Your company has taken steps to become a highly specialized electronics firm, serving several industries. We have continued to expand our engineering department to insure a continual flow of new products for both the music and law enforcement markets. During 1971, we will enter another new market—aviation electronic testing equipment. We have developed a highly technical, sophisticated product that will test the accuracy of DME (distance measuring equipment) and Transponder units for the aviation industry.

To accommodate this expansion, we have added 8,000 square feet

December 8, 1970

to our main manufacturing plant, and have moved into 23,000 square feet of our adjacent building. This space has previously been leased to another corporation. Having additional space will permit us to also manufacture some of our own speakers. The first production run of Kustom speakers has been successfully completed.

1971 appears to offer a great opportunity for Kustom. The addition of our new product lines and the continued sales increase of existing lines, gives us the potential of record sales and earnings.



Charles A. Ross
President