

# SPACO, INC. • ANNUAL REPORT • 1965



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SPACO, INC. HUNTSVILLE, ALABAMA



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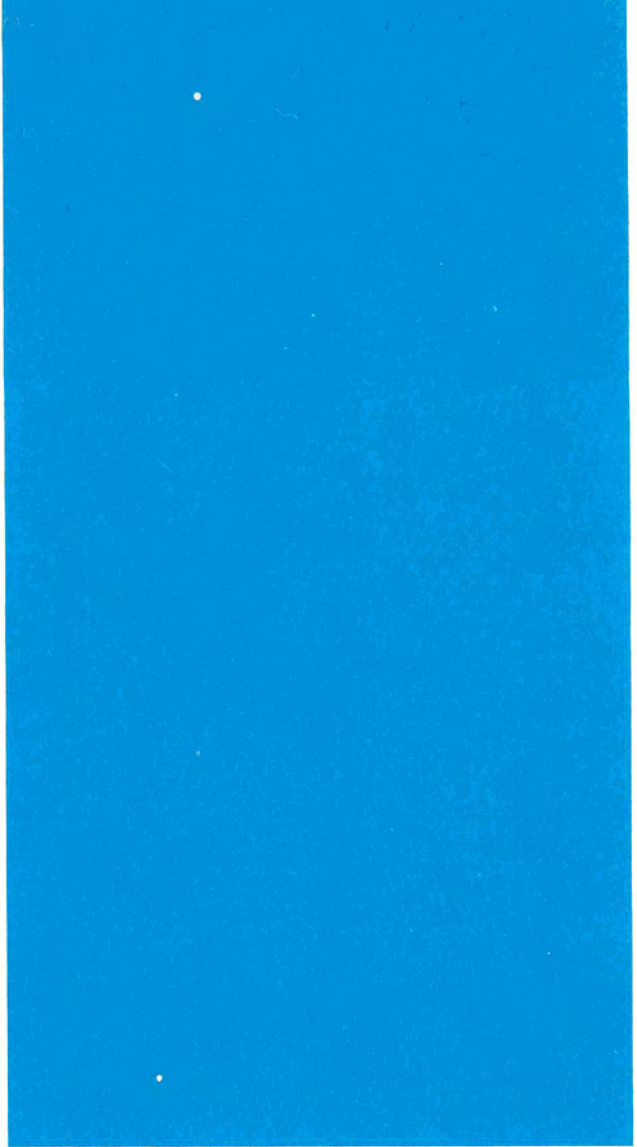
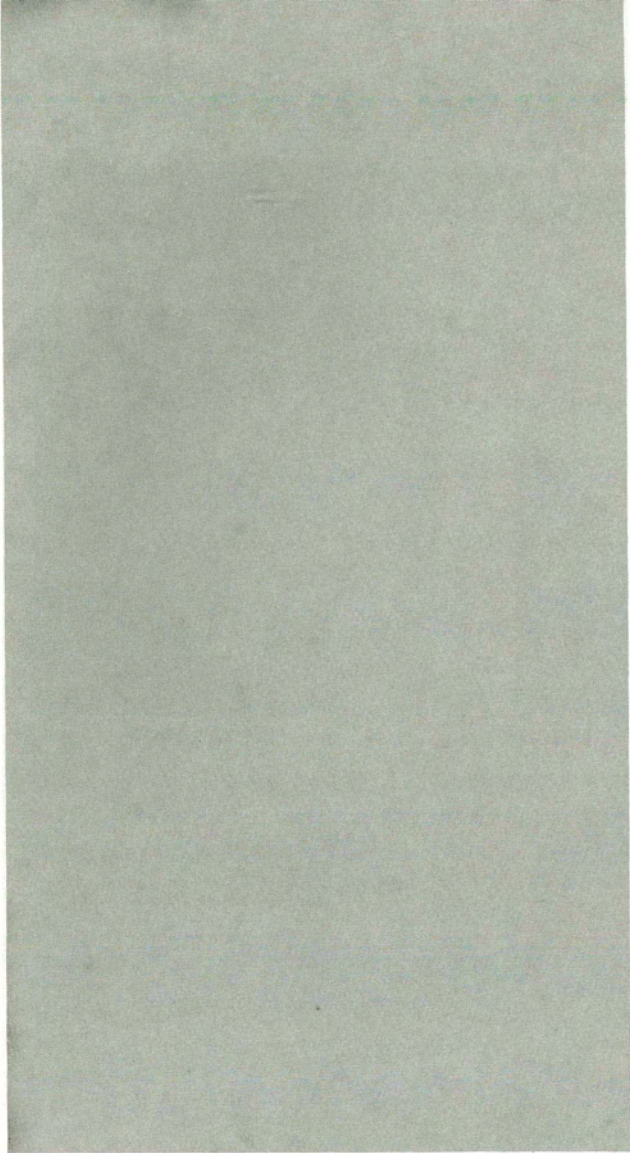
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**DIRECTORS**

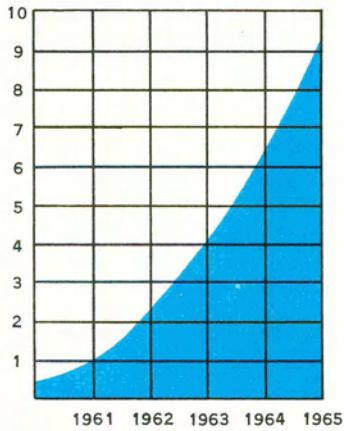
JOHN E. HATCH, JR. . . . . President  
WILLIAM A. BEACH . . . Executive Vice President  
ANNA RUTH GAMBRELL . . . Corporate Secretary

**OFFICERS**

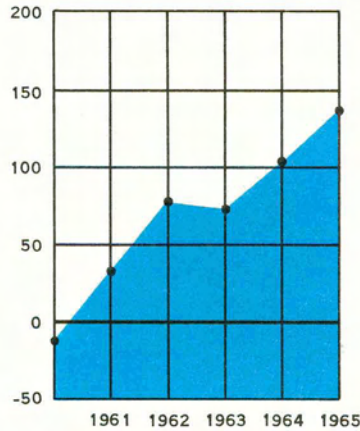
JOHN E. HATCH, JR. . . . . President  
WILLIAM A. BEACH . . . Executive Vice President  
ANNA RUTH GAMBRELL . . . Corporate Secretary  
DON MORRING . . . . . Treasurer  
GEORGE F. EPPS . . . . . Vice President  
GEORGE S. HARRIS . . . . . Vice President  
ROGERS C. McCAULEY . . . . . Vice President



# SPACO FIVE YEAR COMPARISON CHARTS

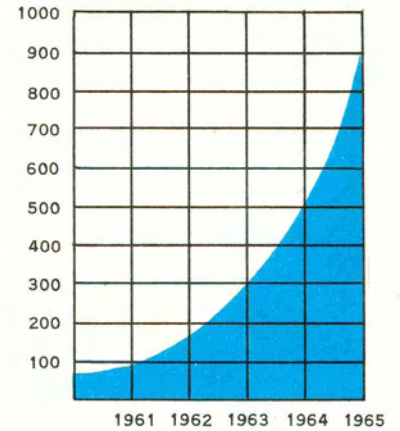


SALES\*



NET EARNINGS AFTER TAXES\*\*

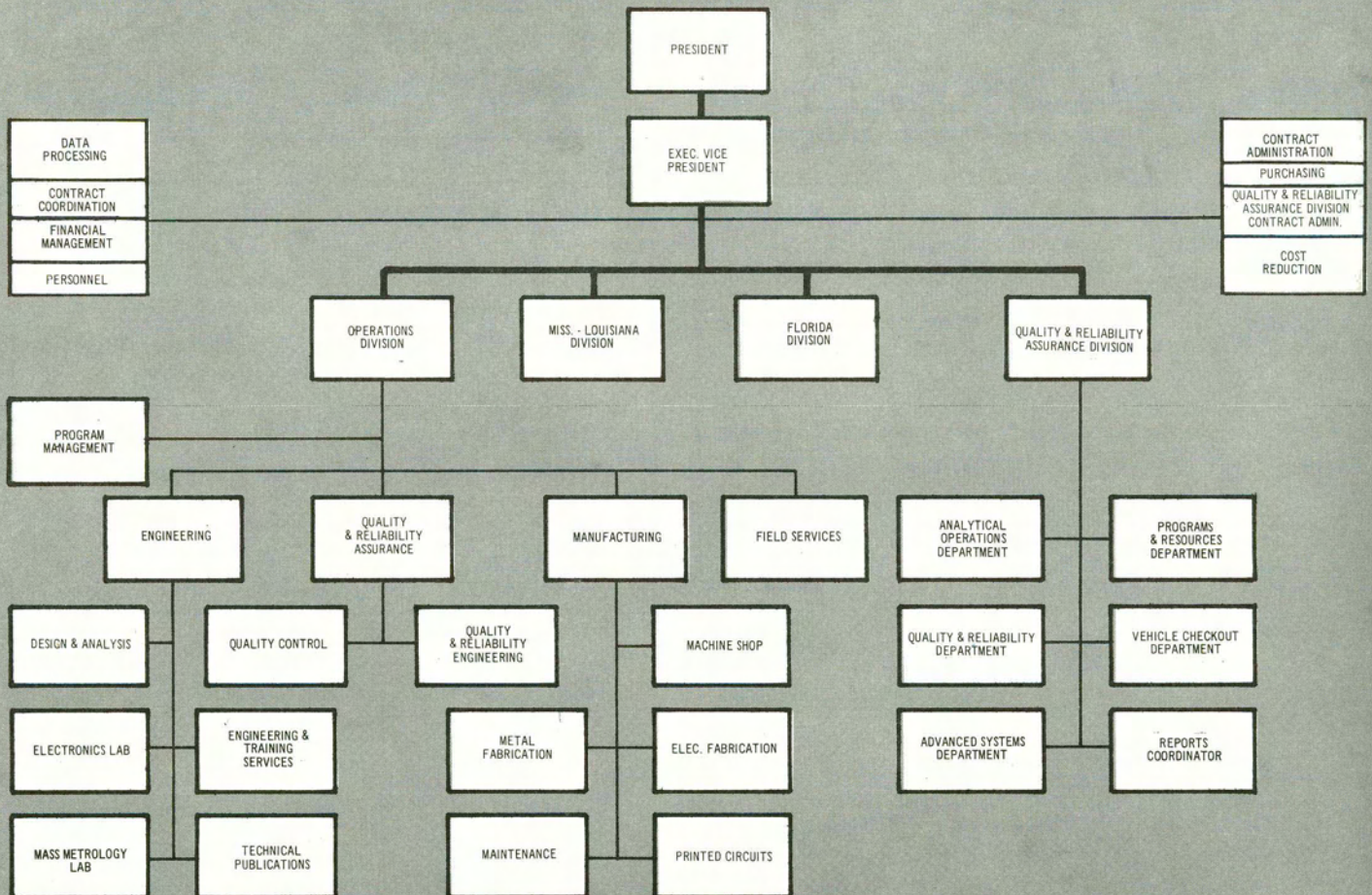
LOSSES PRIOR TO 1960 REDUCED INCOME TAXES PAID FOR YEARS 1960, 1961, AND 1962.



PERSONNEL

\* IN MILLIONS OF DOLLARS

\*\* IN THOUSANDS OF DOLLARS





## REPORT TO SHAREHOLDERS



The year 1965 was an eventful one for SPACO, INC. As pointed out elsewhere in this report, our sales and earnings reached another all-time high. Total sales of \$9,198,981.91 and net earnings of \$135,701.03 for 1965 as compared to sales of \$6,416,712.65 and earnings of \$102,625.23 for 1964 are indicative of our growth during the past year.

The single most significant event which occurred in 1965 was the award to SPACO of the prime contract for support services to the Quality and Reliability Assurance Laboratory of the George C. Marshall Space Flight Center. The \$7,000,000.00 contract was largely responsible for our increase in personnel to approximately 900 at the close of our fiscal year.

In July SPACO opened a division in Slidell, Louisiana to provide technical publication services to the Mississippi Test Facility and other contractors in the area. Also during the year SPACO established an electronic assembly capability at Titusville, Florida to provide support to government agencies and contractors in the Cape Kennedy area.

Our growth in personnel and our expanded facilities have created many challenges and problems which we are meeting and solving. It is gratifying to me that our employees have produced a reasonable profit even though SPACO was going through a very difficult transition period.

In the months ahead we intend to build a highly technical engineering department and a more sophisticated manufacturing capability in order that we will be in a better competitive position and be of greater service to our many government and industry customers.

I would like to express my appreciation to our employees who made 1965 a success for you, our stockholders. We are looking forward to serving you in the years ahead.

January 21, 1966

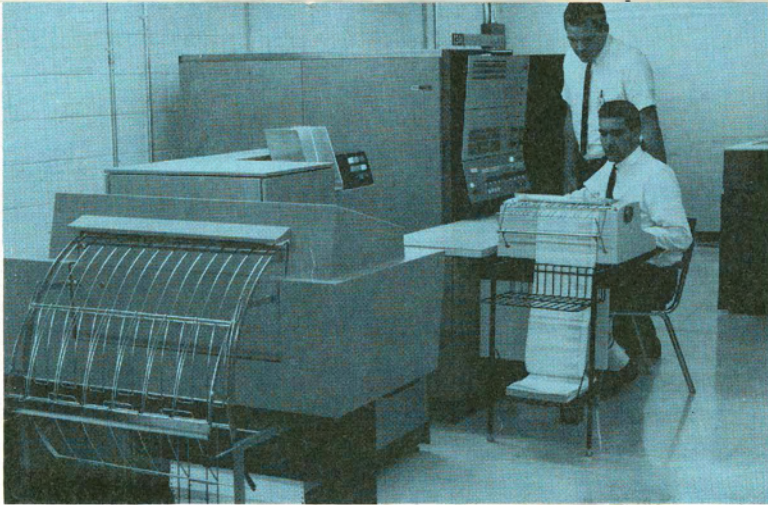
Huntsville, Alabama

Respectfully

A handwritten signature in cursive script that reads "John E. Hatch Jr." The signature is written in dark ink and is positioned above the printed name "President".

President

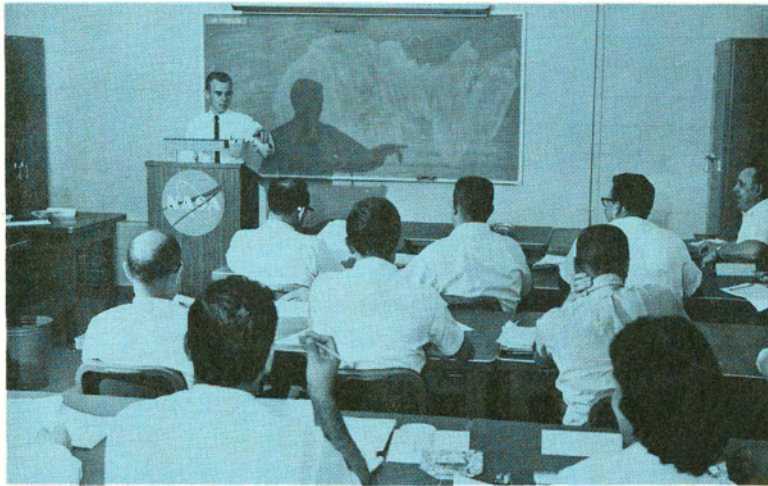




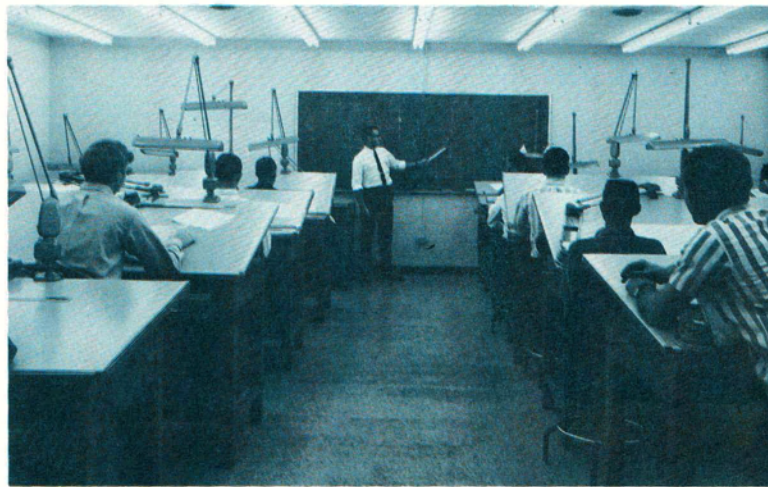
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## 1965 PICTURE REVIEW OF CAPABILITIES

- A. DATA PROCESSING DEPARTMENT
- B. QUALITY MANAGEMENT TRAINING
- C. MDTA PROGRAM DRAFTING TRAINING
- D. POTTING LABORATORY
- E. FABRICATION DEPARTMENT
- F. DIGITAL ELECTRONICS LABORATORY
- G. TECHNICAL PUBLICATIONS
- H. CLEAN ROOM ASSEMBLY



B



C

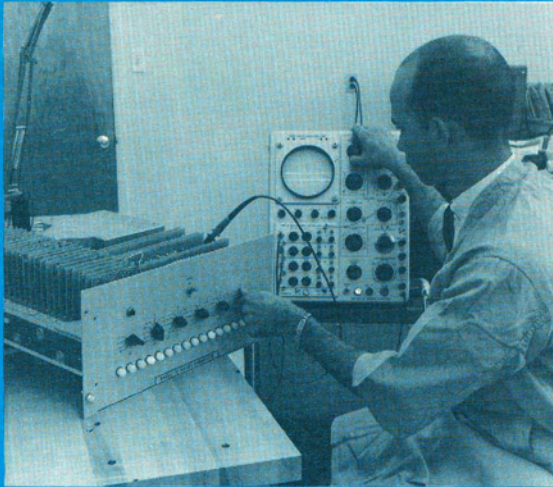


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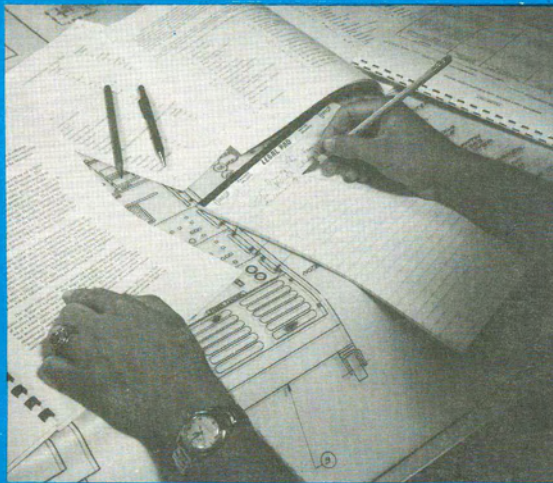




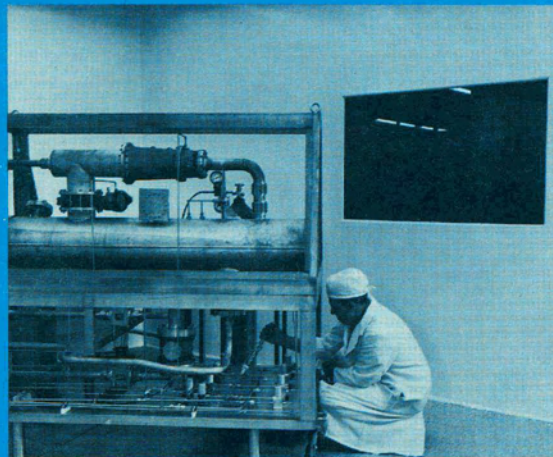
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The year 1965 was a year of significant expansion for SPACO. Total employment increased from 634 to 884 persons, expanding the company's organizational structure from two Divisions to the following four Divisions:

- Operations Division
- Quality and Reliability Assurance Division
- Florida Division
- Mississippi-Louisiana Division.

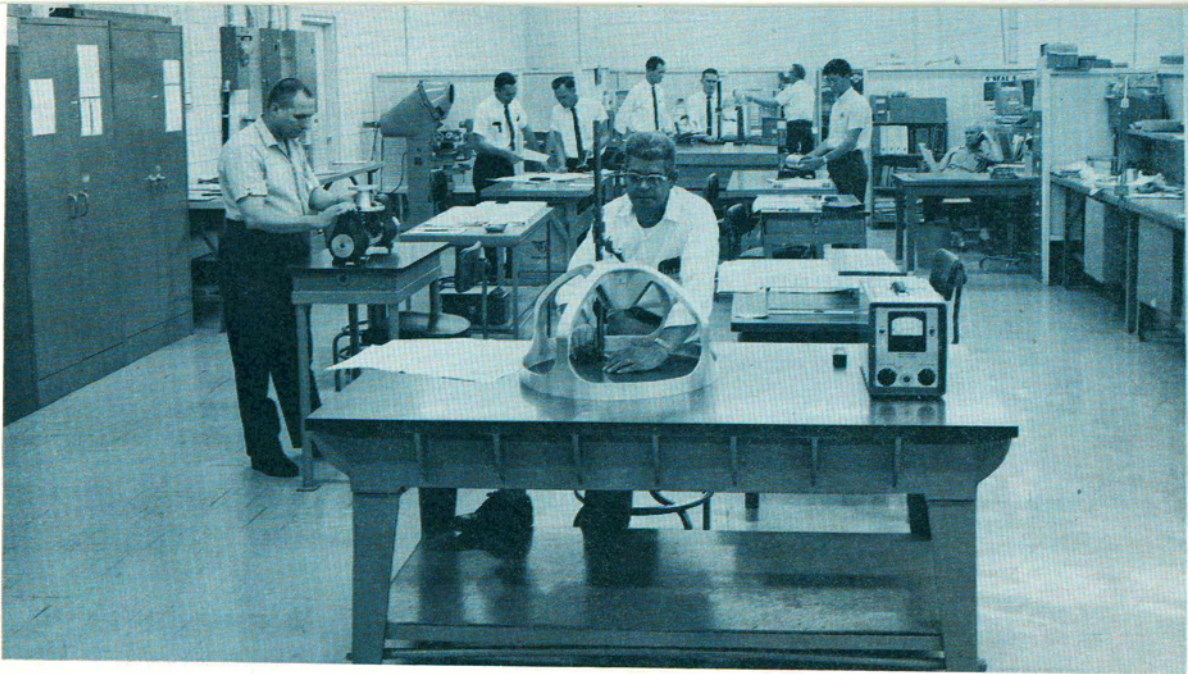
The Operations Division, consisting of four Departments, provides complete engineering, manufacturing, field support, and quality control services.

The Engineering Department, employing over 150 persons by the end of 1965, is staffed with highly versatile engineers, designers, draftsmen, technicians, and technical publications personnel who are familiar with government and industrial research, design, development, test, and evaluation programs. This staff furnishes complimentary services to provide SPACO's customers total source engineering and manufacturing services which can handle any task from its conception through training and field engineering.

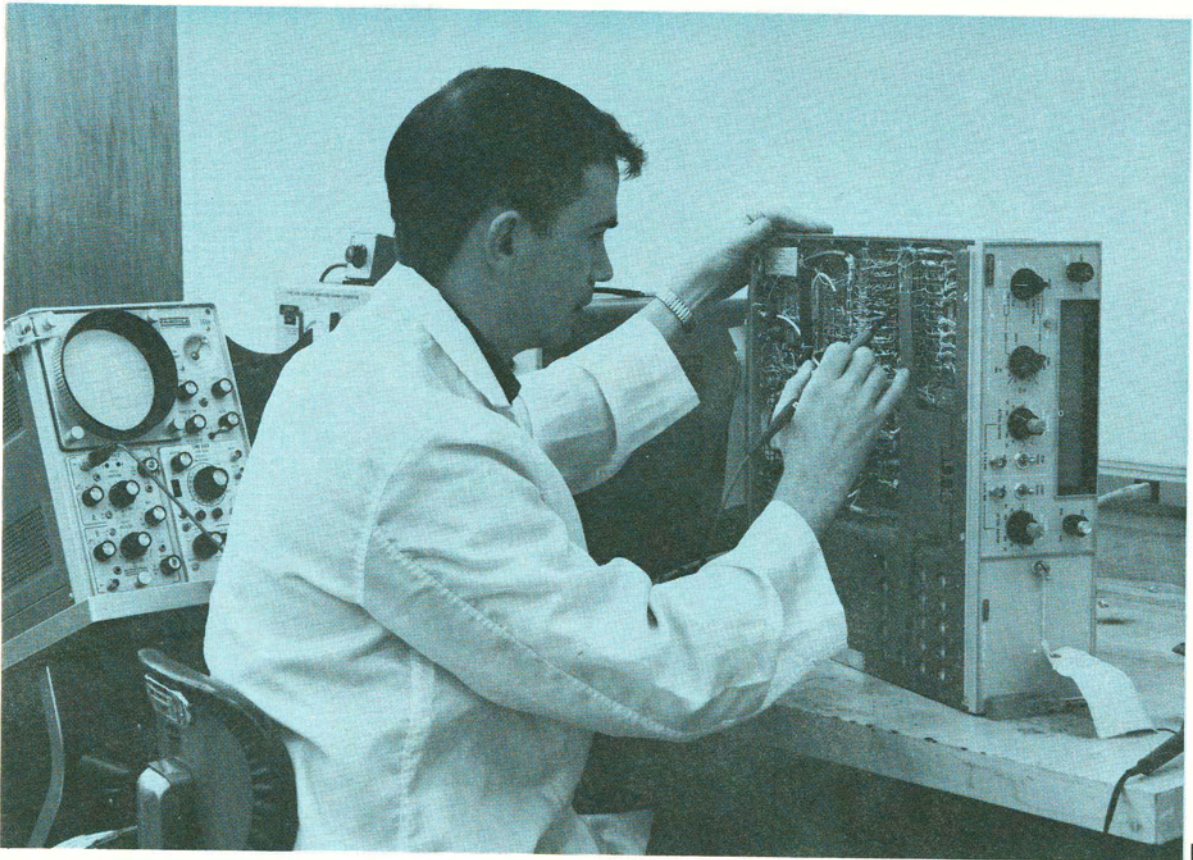
The Manufacturing Department has made an excellent contribution to SPACO's growth. This Department provides the most effective and economically feasible methods for manufacturing a variety of products. A few of the highly specialized services performed by this department are the custom manufacture of printed circuit boards, the fabrication of electronic systems and equipments, and a complete, modern machine shop and metal fabrication capability.

To meet the customer's demands for greater accent on quality and reliability, the Operations Division formed a Quality and Reliability Assurance Department. This new Department is responsible for quality and reliability engineering as well as assuring the quality and reliability of every product produced by the Company. SPACO made further manifestation of its quality consciousness by implementing a company wide Zero Defects program. The cooperation of all employees was individually pledged to ensure that SPACO would continue to be a leader in providing quality engineering and manufacturing services.





A



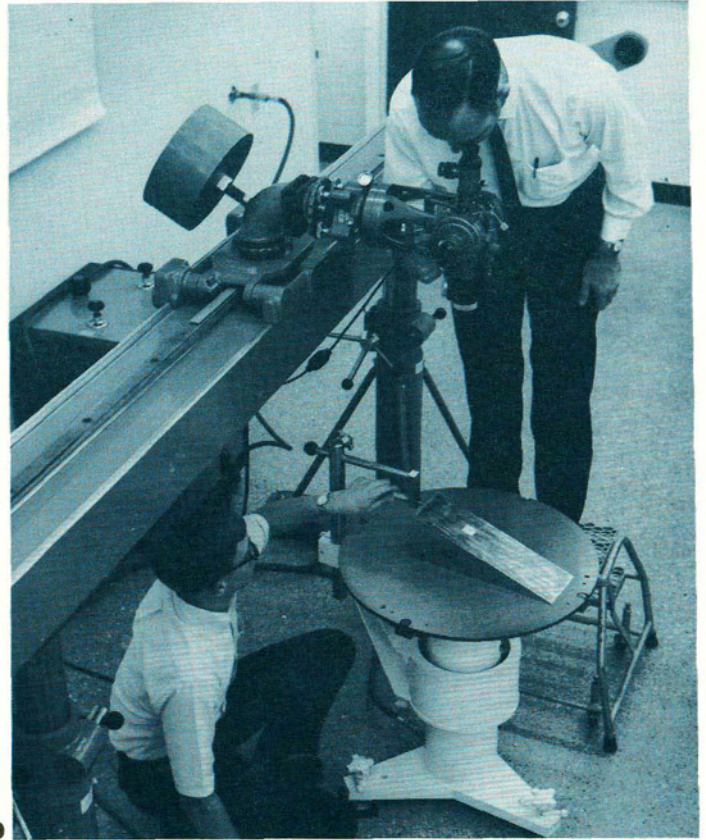
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C



- A. MECHANICAL INSPECTION
- B. INSTRUMENT REPAIR AND CALIBRATION DEPARTMENT
- C. ELECTRICAL AND PRINTED CIRCUIT INSPECTION
- D. MASS METROLOGY LABORATORY



The Field Services Department was formed to provide offsite engineering and technical services to both government and industrial agencies. The opportunities for further expansion in this area are excellent.

Early in 1965, SPACO was awarded a single support contract for NASA's Quality and Reliability Assurance Laboratory at the Marshall Space Flight Center, Huntsville. This required the formation of the Quality and Reliability Assurance Division to manage the efforts of over 300 SPACO employees and over 160 subcontractor personnel in supporting the quality control and reliability assurance functions of the Saturn Space Program.

The six Departments comprising the Division are • Advanced Systems Engineering Department • Quality Engineering Department • Programs and Resources Department • Vehicle Systems Checkout Department • Analytical Operations Department • Reports Coordination Department.

The Advanced Systems Engineering Department provides the necessary engineering and technical skills required for the research and development of computer controlled automatic checkout systems and space simulation programs. The Quality Engineering Department is responsible for ensuring timely resolution of discrepancies discovered during space vehicle checkout. The Programs and Resources Department provides programs coordination, publications services, technical training, design and engineering support services, and facilities engineering for the laboratory. The Vehicle Systems Checkout Department is responsible for establishing checkout concepts and procedures, and performing actual checkout of all Saturn space vehicle systems. This Department is staffed with competent personnel representing a variety of sciences and skills. The Analytical Operations Department is staffed with engineers and technicians experienced in performing mechanical and electrical testing and analyses of systems and components used in the Saturn program. The Reports Coordination Department prepares all of the numerous progress reports and statistics required by NASA for monitoring the performance and cost of the support contract.

It should be apparent that the Quality and Reliability Assurance Division alone contains an impressive repertoire of engineering talent and managerial capabilities.

The reputation for excellent workmanship and timely delivery won by SPACO has spread throughout the aerospace industry. In taking advantage of this reputation, facilities were established in Titusville, Florida and Slidell, Louisiana. The Florida Division has a staff of 37 engineering and technical services personnel busy producing electronic assemblies and electrical cables to government specifications. The Mississippi-Louisiana Division, established in June, has made significant inroads into the technical publications market in that area. The publication capabilities include technical and commercial writing, editing, illustrating, photography, and reproduction.



# COMPARATIVE BALANCE SHEET

SEPTEMBER 30, 1965 AND 1964

ASSETS	1965	1964
Cash .....	\$ 73,094.70	\$ 93,361.15
Receivables, trade:		
United States Government:		
Billed (Note 2) .....	1,388,322.78	759,382.69
Unbilled .....	254,272.42	80,464.88
	<u>1,642,595.20</u>	<u>839,847.57</u>
Other .....	328,648.95	187,758.95
	<u>1,971,244.15</u>	<u>1,027,606.52</u>
Inventories, at the lower of specific cost or market:		
Raw materials .....	66,931.01	67,327.82
Work in process and finished goods .....	445,221.89	133,383.88
	<u>512,152.90</u>	<u>200,711.70</u>
Prepaid expenses and deferred charges .....	20,253.35	30,830.87
Total current assets .....	<u>2,576,745.10</u>	<u>1,352,510.24</u>
Notes receivable from officers .....	20,115.57	51,403.25
Fixed assets, at cost (Note 2):		
Equipment, furniture and fixtures .....	440,104.89	419,896.44
Less allowance for depreciation .....	229,107.20	184,382.07
	<u>210,997.69</u>	<u>235,514.37</u>
Leasehold improvements .....	144,413.73	87,008.00
Less allowance for amortization .....	42,332.55	26,132.81
	<u>102,081.18</u>	<u>60,875.19</u>
	313,078.87	296,389.56
Deposits and other assets .....	33,088.88	12,965.01
	<u>\$ 2,943,028.42</u>	<u>\$ 1,713,268.06</u>
 <b>LIABILITIES</b>		
Notes payable (Note 2):		
Banks .....	\$ 552,192.72	\$ 472,187.52
Trade .....	13,871.59	43,176.10
	<u>566,064.31</u>	<u>515,363.62</u>
Accounts payable:		
Trade .....	1,080,185.92	246,449.28
Other .....	121,235.90	96,219.90
	<u>1,201,421.82</u>	<u>342,669.18</u>
Accrued expenses:		
Salaries and wages .....	336,246.55	237,084.72
Other .....	32,331.56	12,885.16
	<u>368,578.11</u>	<u>249,969.88</u>
Federal and state taxes on income .....	127,527.57	28,084.80
Total current liabilities .....	<u>2,263,591.81</u>	<u>1,136,087.48</u>
Long-term portion of notes payable, current portion above (Note 2):		
Banks .....	18,207.00	15,241.79
Trade .....	10,492.25	24,081.46
	<u>28,699.25</u>	<u>39,323.25</u>
 <b>STOCKHOLDERS' EQUITY</b>		
Capital stock, no par value; authorized, issued and outstanding, 217,500 shares .....	421,425.00	421,425.00
Retained earnings, as annexed .....	230,392.36	116,432.33
	<u>651,817.36</u>	<u>537,857.33</u>
Less: Treasury stock, 90 shares at cost .....	1,080.00	
	<u>650,737.36</u>	<u>537,857.33</u>
	<u>\$ 2,943,028.42</u>	<u>\$ 1,713,268.06</u>



# COMPARATIVE STATEMENT OF INCOME AND RETAINED EARNINGS

SEPTEMBER 30, 1965 AND 1964

	1965	1964 (Note 1)
Net sales . . . . .	\$ 9,198,981.91	\$ 6,416,712.65
Cost of sales . . . . .	7,752,090.06	5,402,964.99
Gross profit . . . . .	1,446,891.85	1,013,747.66
Selling, general and administrative expenses . . . . .	1,150,526.92	855,179.82
Operating profit . . . . .	296,364.93	158,567.84
Other deductions:		
Interest expense . . . . .	39,345.58	21,642.68
Miscellaneous, net . . . . .	(2,281.68)	9,299.93
	37,063.90	30,942.61
Income before taxes . . . . .	259,301.03	127,625.23
Provision for federal and state taxes on income . . . . .	123,600.00	25,000.00
Net income . . . . .	135,701.03	102,625.23
Retained earnings, beginning of year . . . . .	116,432.33	35,557.10
	252,133.36	138,182.33
Cash dividend paid, 10 cents per share . . . . .	21,741.00	21,750.00
Retained earnings, end of year	<u>\$ 230,392.36</u>	<u>\$ 116,432.33</u>

## NOTES to FINANCIAL STATEMENTS

1. On July 28, 1964, the wholly-owned subsidiary, Genco Tool Company of Alabama, was merged with the Company. The statement of income for the year ended September 30, 1964 includes the operations of the subsidiary which resulted in a net loss of \$9,949.45 for the period October 1, 1963 through July 28, 1964. The provision for taxes on income has been reduced by approximately \$34,000 due to the tax loss on liquidation.
2. Fixed assets costing approximately \$137,000 and \$172,000 and United States Government receivables in the approximate amounts of \$505,000 and \$539,000 for the years 1965 and 1964, respectively, have been pledged as collateral for notes payable to banks and trade creditors. The long-term portion of notes payable at various interest rates is due at various dates through April 1968.
3. Depreciation and amortization are included in the statement of income in the amount of \$81,470 for 1965 and \$89,287 for 1964.
4. The Company is committed on leases for buildings and equipment which expire at varying dates in 1966 through 1969. The amount of annual rental for the year ending September 30, 1966 approximates \$354,000 and varying amounts thereafter through 1969. The main leases for buildings and equipment contain options to extend the terms for five additional years.
5. The Company is a party to a Government contract which provides that the Company may earn a potential award fee and an estimated amount has been included in the financial statements. The amount of the fee for the six months ended September 30, 1965 has not been finally determined by the Performance Evaluation Board.



# ACCOUNTANTS OPINION

LYBRAND, ROSS BROS. & MONTGOMERY

FIRST NATIONAL BUILDING  
BIRMINGHAM 3

THE BOARD OF DIRECTORS  
SPACO, INC.

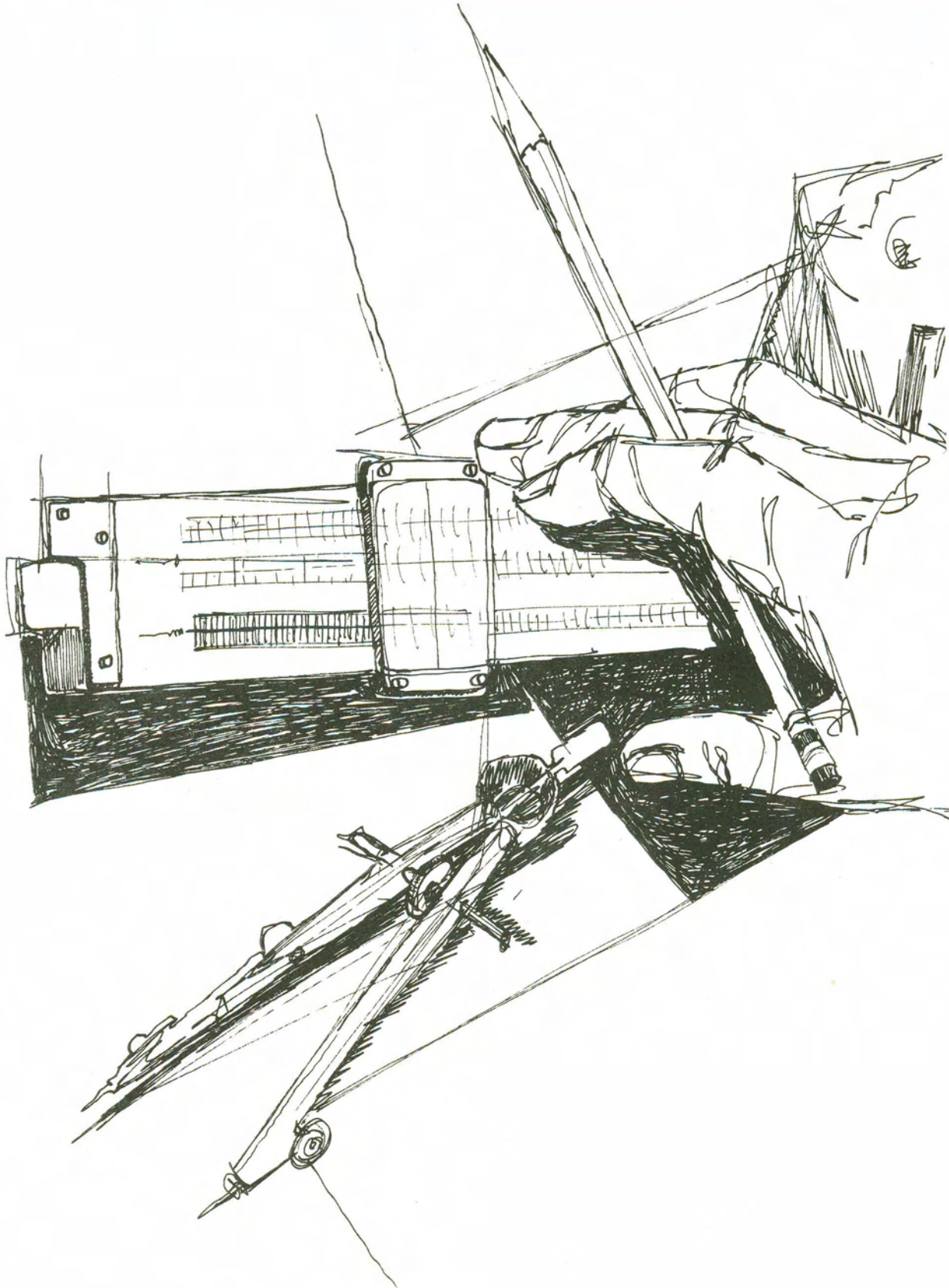
We have examined the balance sheet of SPACO, INC. as of September 30, 1965 and the related statement of income and retained earnings for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We have previously examined and reported upon the financial statements for the year ended September 30, 1964.

In our opinion, the accompanying financial statements present fairly the financial position of SPACO, INC. at September 30, 1965 and 1964 and the results of operations for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

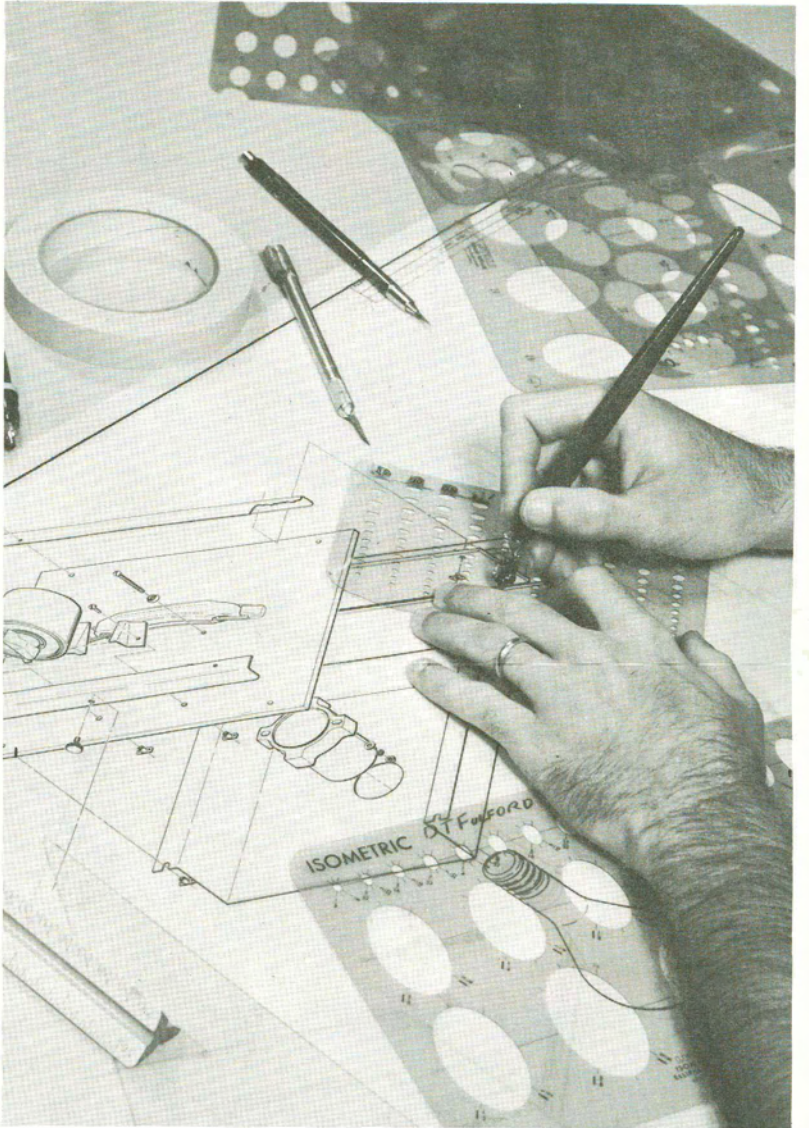
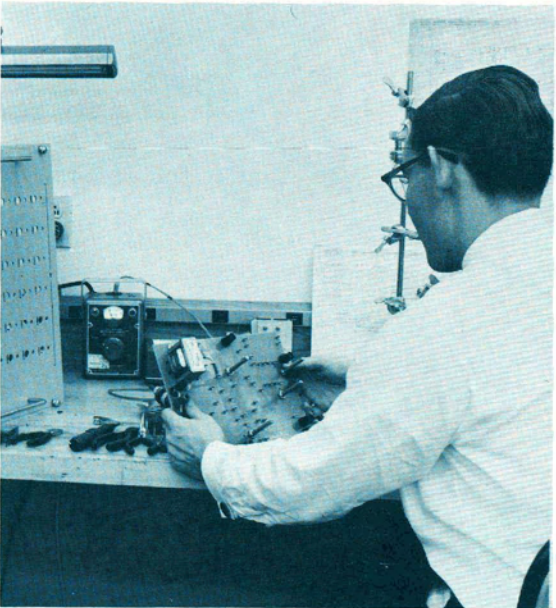
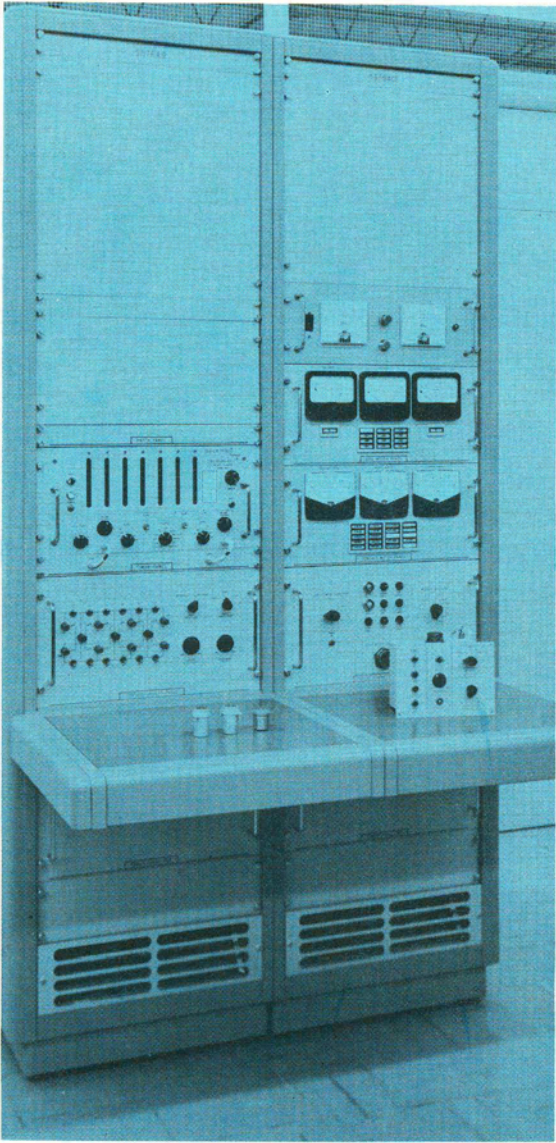
Birmingham, Alabama  
December 29, 1965

*Lybrand Ross Bros. & Montgomery*

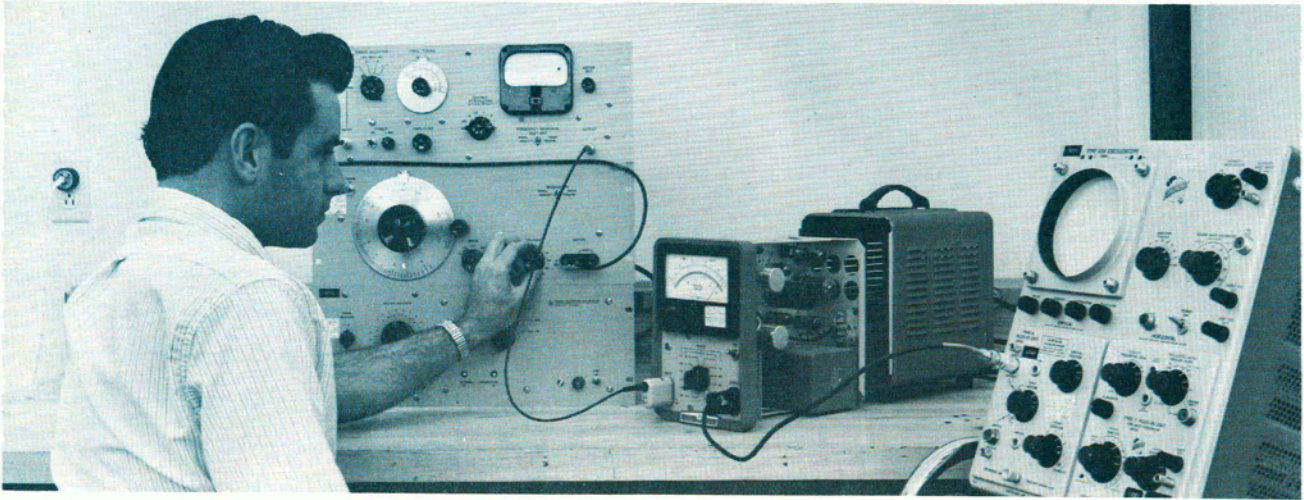
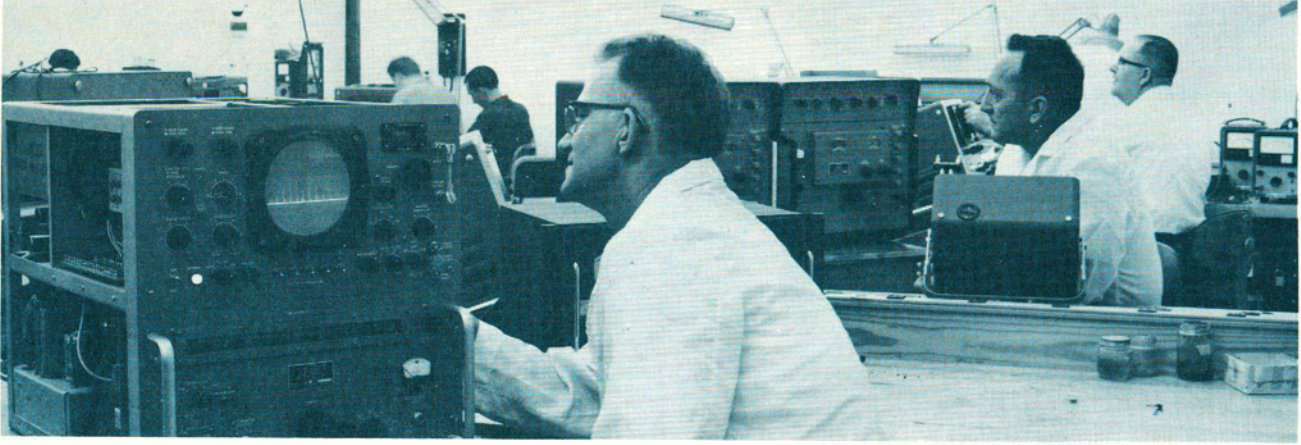












SPACO continued to advance its proud reputation in the field of engineering and technical services. SPACO's ability to provide a total service from concept through training and field engineering was a major factor in the success of the engineering organizations.

A significant display of confidence was made to SPACO's engineering capabilities when the company was awarded the single support contract for the Quality and Reliability Assurance Laboratory, NASA. Design of complex automatic space vehicle checkout equipment, installation of the equipment, and actual performance of checkout of Saturn space vehicles was competently undertaken by the engineering organizations.

At the SPACO Huntsville facility, research and development was carried out on a variety of programs for both governmental and industrial agencies. One such program is the development of a completely automated moment of inertia measurement system for calibration of space flight hardware. Another undertaking is the simulation of space environment up to 100 miles altitude by means of large vacuum chamber for testing space flight components. The research and development of computer controlled automatic checkout systems is still another such program currently in progress.

Technical services provided by SPACO range from calibration and repair of electronic equipment to the preparation of technical publications and the training of personnel in both professional and technical skills.

A field service and a quality and reliability assurance capability have been added to further advance the total engineering capability offered by SPACO.

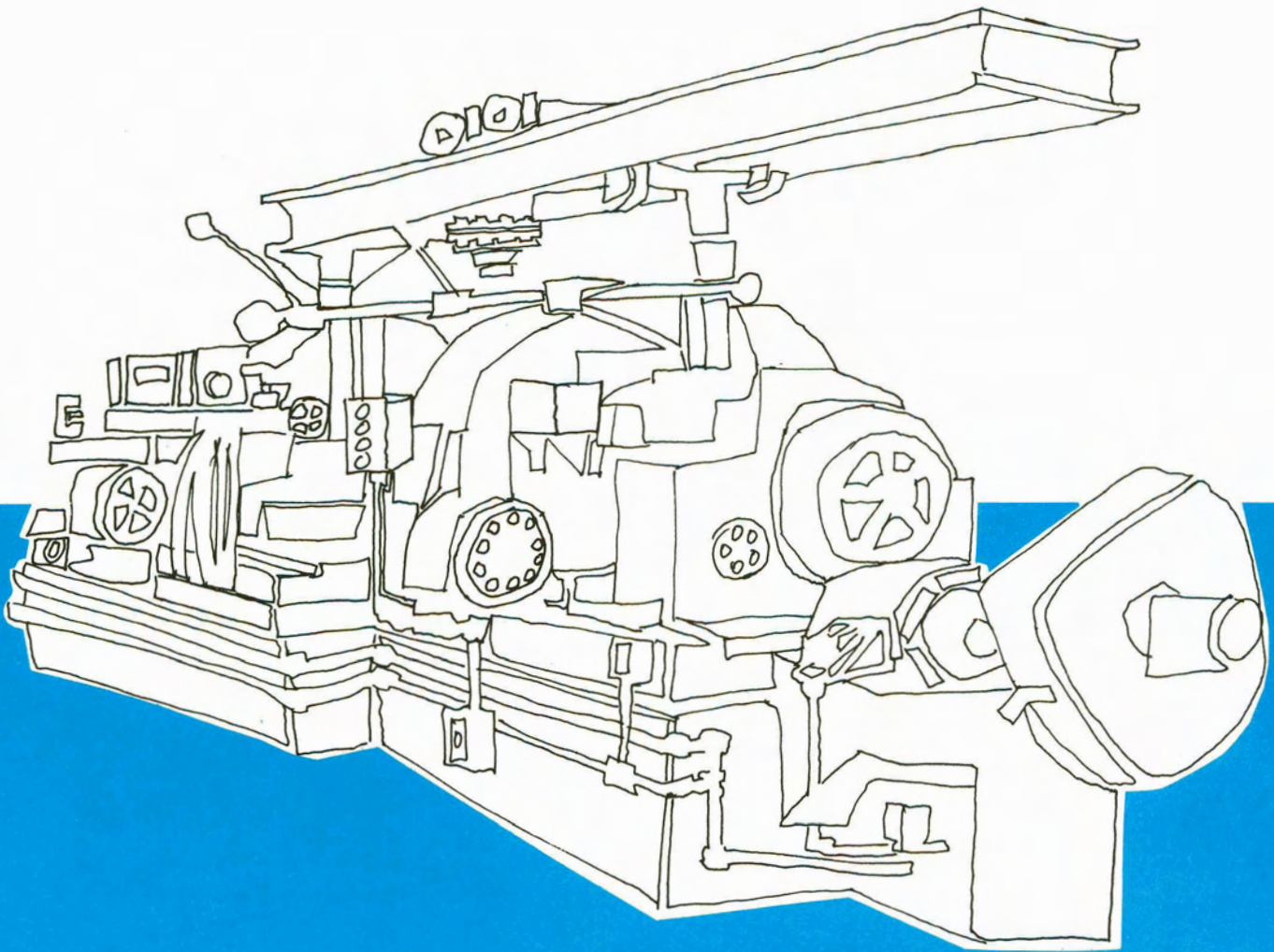
To meet the demands of the top flight engineering capabilities offered by SPACO, approximately 200 engineers and technicians were added to the personnel force.

Engineering services have been extended to the missile and aerospace industries of Florida and Louisiana. Both of the new Divisions serving these two areas show promise of rapid, stable growth.

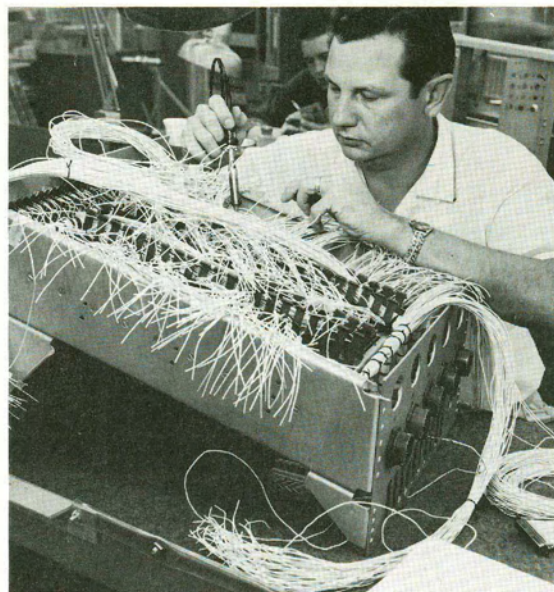
Throughout SPACO's engineering organizations, the quest for engineering excellence and increased competence in technical services is continuously pursued. Such a quest is in full harmony with the company's Zero Defects Program implemented in the last quarter of 1965. Both the shareholders and customers of SPACO, INC. are ensured of the company's continued success as a leader in the field of engineering and technical services.



# MANUFACTURING



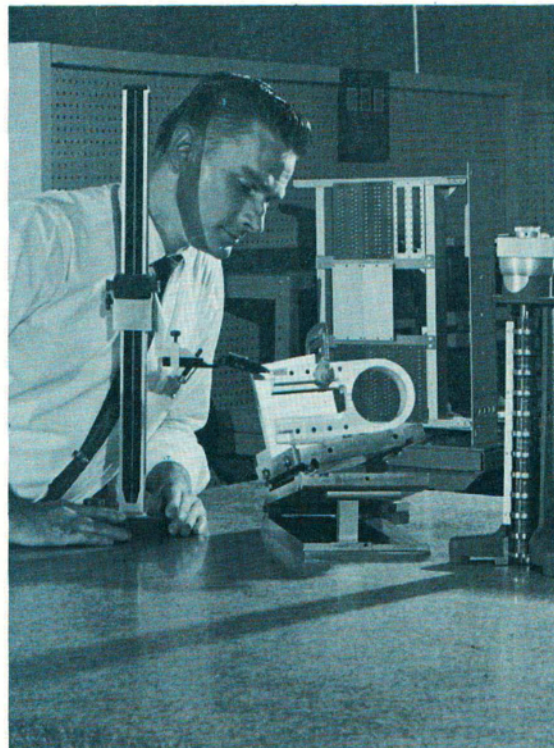




SPACO's manufacturing service has experienced a substantial growth rate in the past two years. The manufacturing service is performed in a modern, air-conditioned building and presently offers complete machine shop services, including welding and sheet metal fabrication, and the latest in electrical fabrication services.

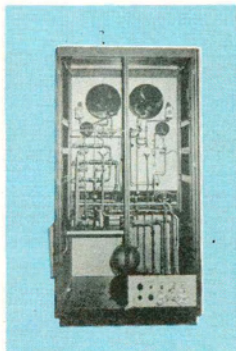
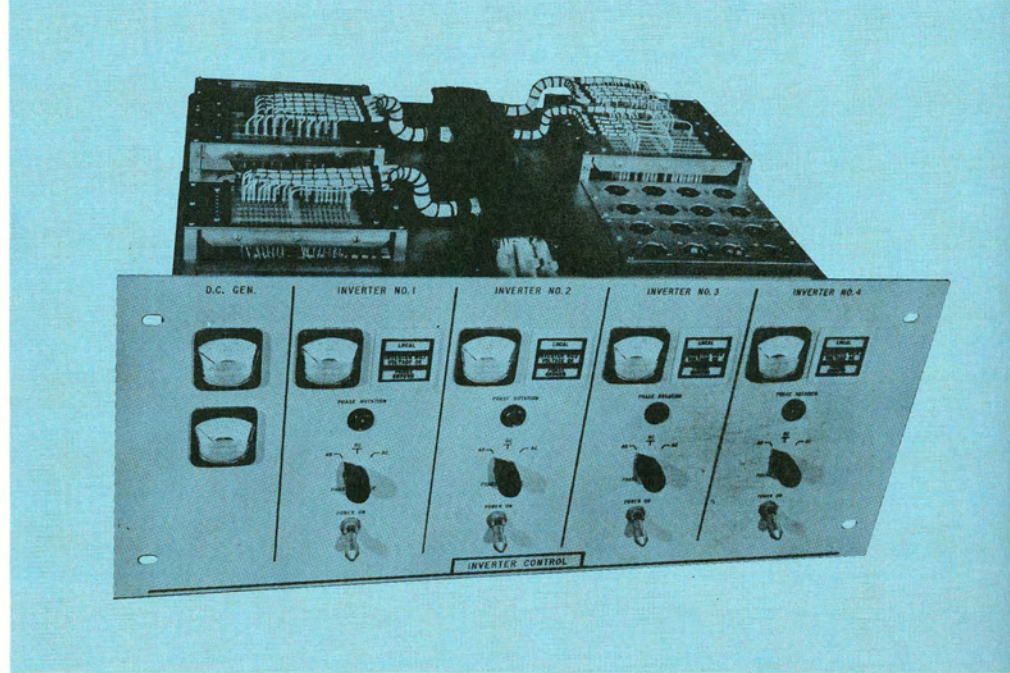
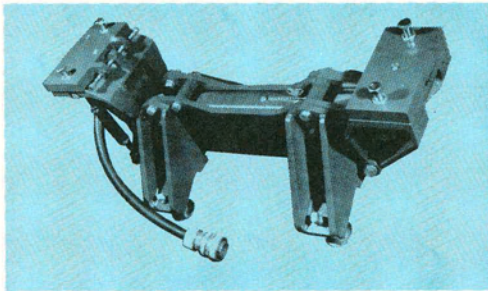
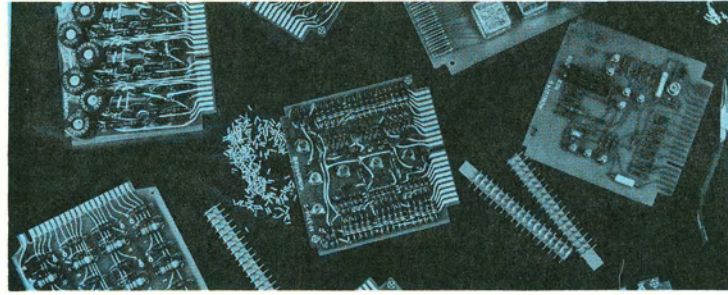
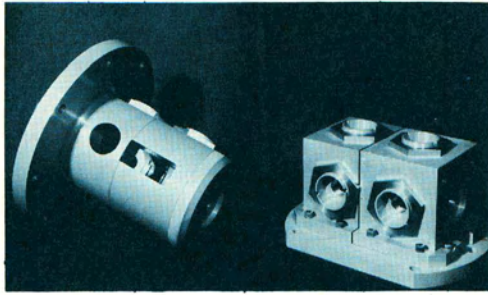
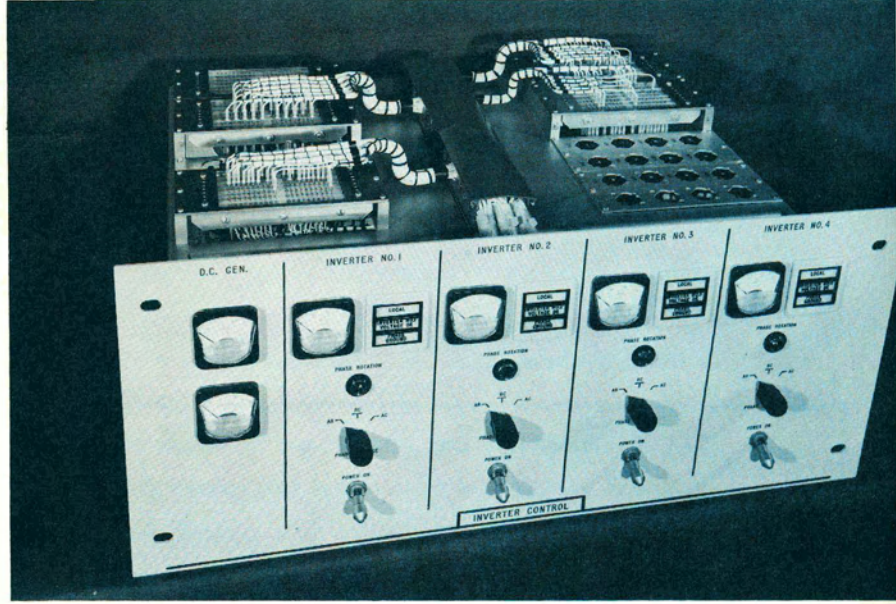
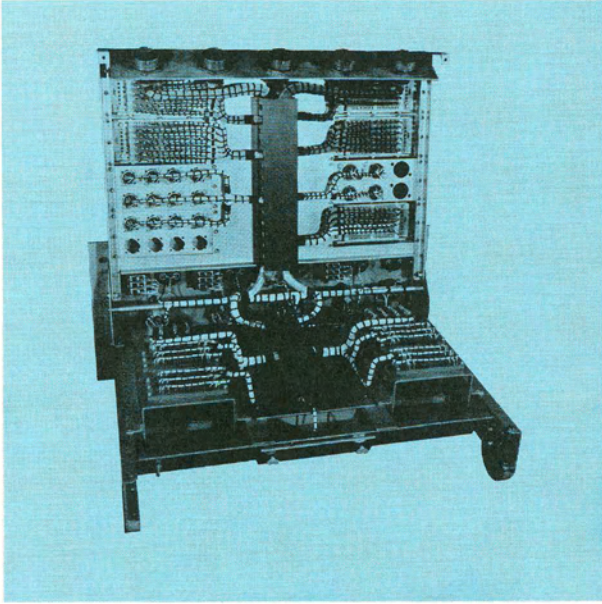
The manufacturing organizations are staffed with experienced machinists, welders, sheet metal workers, and electrical fabrication specialists. SPACO takes pride in providing the high level of manufacturing talent necessary to satisfy the special skills required and stringent specifications imposed by the aerospace industry. The investments made throughout the year for equipment and facilities for manufacturing have been well repaid. SPACO still boasts of having one of the most complete and modern manufacturing organizations in the southeast. The increased business and organizational expansion enjoyed in 1965 attest to SPACO's ability to successfully compete in the highly competitive field of manufacturing.

SPACO's leadership in the manufacturing field is receiving widespread recognition. Now, with Divisions in Florida and Louisiana, further expansion of the manufacturing facilities is anticipated.





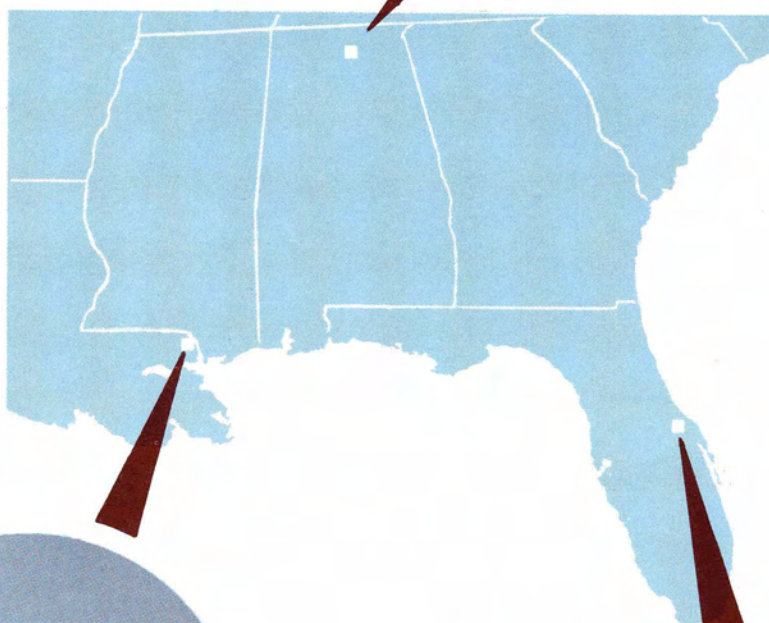
# SOME OF OUR PRODUCTS





# SPACO FACILITY LOCATIONS

HUNTSVILLE, ALABAMA



SLIDELL, LOUISIANA

TITUSVILLE, FLORIDA





**SPACO, INC.** 3022 UNIVERSITY DRIVE • HUNTSVILLE, ALABAMA • TELEPHONE 536-5541-205

