cga

# ANNUAL REPORT 1971

## PRESIDENT'S LETTER TO SHAREHOLDERS

DEAR SHAREHOLDERS:

We are pleased to report that the operating revenues and earnings for the year ending April 30, 1971, were the best in our 3 years of operations. These results are gratifying especially in the light of the current economic condition and of the changing market place. The company increased net operating revenues from $614,458 to $728,339 and earnings from a loss of $7,614 to a profit of $33,987 after utilization of a tax loss carryforward.

We have accomplished two major developments during this past year which should provide for continued growth of our data processing consulting activities. We have expanded the services and products that we are able to offer to our clients. By signing marketing agreements with other companies, we can offer application software packages to our clients. By developing educational courses we have increased our activity in the data processing educational market. Secondly, we have increased the size of our marketing organization which should provide us with better market coverage and penetration.

CGA Data Services, a wholly owned subsidiary specializing in facilities management, started operations with its first contract in July of this year. Our Plans to have CGA Data Services become active during this past fiscal year did not materialize, but since July, CGA Data Services has been actively contributing to our growth. We are pursuing other facilities management contracts and are dedicating many of our marketing and technical resources to that end.

On August 3, 1971, as part of our diversification plan, we acquired Danzig-Nevis International and Nevis-Wallen Associates. These companies provide services and products in the area of management and professional development to industrial and educational organizations. Nevis-Wallen, a management consulting organization provides consultation and training services to some of the nation's leading corporations. Danzig-Nevis International was formed in December of 1969 to develop educational products to be used to aid in the development and training of managerial and professional people. This company was formed to meet the changing demands of the management education market. The initial reception of our first product 'BLOCKS TO CREATIVITY' is extremely favorable. We are in the process of signing marketing agreements for this and other products which are in the development stages. We feel that the prospects for future growth in this industry are excellent. Through the acquisition of these companies we strengthened our management team through the addition of Dr. Edwin C. Nevis as a corporate officer.

We will continue to look for acquisitions which will add to the services currently offered or which will provide us with growth opportunities in other market places.

I want to thank our employees, shareholders and clients for their support during this past year. Your continued support, which we will endeavor to justify, is a most essential ingredient for our continued success.

Respectfully Submitted

B Goldsmith

Bernard M. Goldsmith III
President

CGA COMPUTER ASSOCIATES, INCORPORATED AND SUBSIDIARY

## CONSOLIDATED STATEMENTS OF INCOME
## FOR THE FISCAL YEARS ENDED APRIL 30, 1971 AND MAY 1, 1970

| | 1971 | 1970 |
|---|---|---|
| NET REVENUES (Note 1) | $728,339 | $614,458 |
| COST OF REVENUES | 488,440 | 450,117 |
| Gross profit | $239,899 | $164,341 |
| SELLING, GENERAL AND ADMINISTRATIVE EXPENSES | 218,060 | 172,495 |
| Income (loss) from operations | $ 21,839 | ($ 8,154) |
| OTHER INCOME (EXPENSE): | | |
| Interest income | $ 30,089 | $ 16,713 |
| Interest expense | ( 21,309) | ( 16,173) |
| Other, net | 3,368 | —— |
| | $ 12,148 | $ 540 |
| Income (loss) before Federal income taxes and extraordinary item | $ 33,987 | ($ 7,614) |
| FEDERAL INCOME TAXES | 10,000 | —— |
| Income (loss) before extraordinary item | $ 23,987 | ($ 7,614) |
| EXTRAORDINARY ITEM - - Federal income tax benefit from carryforward of net operating loss (Note 7) | 10,000 | —— |
| Net income (loss) | $ 33,987 | ($ 7,614) |
| PER COMMON SHARE (Note 8): | | |
| Income (loss) before extraordinary item | $ .11 | ($ .04) |
| Extraordinary item | .04 | —— |
| Net income (loss) | $ .15 | ($ .04) |
| Income before extraordinary item, assuming full dilution | $ .10 | |

The accompanying notes to consolidated financial statements are an integral part of these statements.

CGA COMPUTER ASSOCIATES, INCORPORATED AND SUBSIDIARY

## CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION FOR THE FISCAL YEARS ENDED APRIL 30, 1971 AND MAY 1, 1970

| | 1971 | 1970 |
|---|---|---|
| FUNDS WERE PROVIDED BY: | | |
| Income (loss) before extraordinary item | $ 23,987 | ($ 7,614) |
| Depreciation and amortization of equipment (straight-line method) | 9,629 | 3,113 |
| Amortization of deferred charges | 3,804 | 2,680 |
| Total provided from operations exclusive of extraordinary item | $ 37,420 | ($ 1,821) |
| Extraordinary item - - Federal income tax benefit from carryforward of net operating loss | 10,000 | — |
| Net proceeds from sale of common stock | — | 289,735 |
| Proceeds from sale of 7% convertible subordinated debentures | — | 300,000 |
| | $ 47,420 | $587,914 |
| FUNDS WERE USED FOR: | | |
| Leasehold improvements for office facilities located in Pelham Manor, New York (Note 5) | $ 65,794 | $ — |
| Net other equipment additions | ( 1,202) | 10,323 |
| Investment in 6½% convertible capital notes | 25,000 | — |
| Note receivable from Dimode Industries, Inc. (Note 2) | 74,833 | — |
| Increase in other assets | 80 | 14,022 |
| | $164,505 | $ 24,345 |
| INCREASE (DECREASE) IN WORKING CAPITAL | ($117,085) | $563,569 |
| CHANGES IN WORKING CAPITAL BY COMPONENT WERE: | | |
| Increase (decrease) in current assets — | | |
| Cash | ($193,827) | $390,450 |
| Accounts receivable | 49,536 | 59,411 |
| 4% notes receivable from officers and stockholder | — | ( 10,880) |
| Prepaid expenses | 1,364 | 2,151 |
| | ($142,927) | $441,132 |
| Decrease (increase) in current liabilities — | | |
| 4% demand notes payable to director | $ — | $ 99,750 |
| Accounts payable | 28,974 | 25,163 |
| Accrued liabilities | ( 3,132) | ( 13,392) |
| Other | — | 10,916 |
| | $ 25,842 | $122,437 |
| INCREASE (DECREASE) IN WORKING CAPITAL | ($117,085) | $563,569 |

The accompanying notes to consolidated financial statements are an integral part of these statements.

| ASSETS | 1971 | 1970 |
|---|---|---|
| CURRENT ASSETS: | | |
| Cash — | | |
| Cash in banks | $ 2,329 | $ 21,156 |
| Certificates of deposit (Note 2) | 125,000 | 400,000 |
| Cash in interest bearing account | 100,000 | —— |
| | $227,329 | $421,156 |
| Accounts receivable | 176,824 | 127,288 |
| Prepaid expenses | 3,628 | 2,264 |
| Total Current Assets | $407,781 | $550,708 |
| NOTE RECEIVABLE FROM DIMODE INDUSTRIES, INC. (Note 2) | $ 74,833 | $ —— |
| INVESTMENT IN 6½% CONVERTIBLE CAPITAL NOTES OF THE WATERBURY NATIONAL BANK, due in 1995, at cost which approximates market | $ 25,000 | $ —— |
| LEASEHOLD IMPROVEMENTS AND EQUIPMENT, at cost less accumulated amortization and depreciation of $12,434 in 1971 and $3,803 in 1970 (Note 5) | $ 72,793 | $ 17,830 |
| OTHER ASSETS: | | |
| Deferred debt expense (being amortized over term of debentures) | $ 31,381 | $ 35,185 |
| Security deposits | 2,150 | 2,070 |
| | $ 33,531 | $ 37,255 |
| | $613,938 | $605,793 |

The accompanying notes to consolidated financial statements are an integral part of these balance sheets.

| LIABILITIES AND STOCKHOLDERS' INVESTMENT | 1971 | 1970 |
|---|---|---|
| CURRENT LIABILITIES: | | |
| Accounts payable | $ 2,510 | $ 31,484 |
| Accrued liabilities | 41,610 | 38,478 |
| Total Current Liabilities | $ 44,120 | $ 69,962 |
| 7% CONVERTIBLE SUBORDINATED DEBENTURES, due in 1979 (Note 4) | $300,000 | $300,000 |
| COMMITMENTS AND CONTINGENT LIABILITIES (Notes 2 and 5) | | |
| STOCKHOLDERS' INVESTMENT (Notes 4, 6 and 7): | | |
| Common stock, par value $.10 per share; authorized 1,000,000 shares; outstanding 222,000 shares | $ 22,200 | $ 22,200 |
| Amount contributed in excess of par value | $293,415 | $293,415 |
| Accumulated deficit — | | |
| Beginning balance | ($ 79,784) | ($ 72,170) |
| Net income (loss) | 33,987 | ( 7,614) |
| Ending balance | ($ 45,797) | ($ 79,784) |
| Total Stockholders' Investment | $269,818 | $235,831 |
| | $613,938 | $605,793 |

CGA COMPUTER ASSOCIATES, INCORPORATED AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - - APRIL 30, 1971

(1) PRINCIPLES OF REPORTING AND BUSINESS OF THE COMPANY:

The accompanying consolidated financial statements include the accounts of CGA Computer Associates, Incorporated and its wholly-owned inactive subsidiary, CGA Data Services, Inc., which was incorporated on December 8, 1970. These statements were prepared on the accrual basis of accounting, whereas the accounts are maintained and the Federal income tax returns are filed on the cash basis.

The Company's consulting services are presently limited to a relatively few number of clients (fifteen in 1971 and thirteen in 1970).

(2) NOTE RECEIVABLE FROM DIMODE INDUSTRIES, INC.:

The demand note receivable from Dimode Industries, Inc. (Dimode) bears interest at the rate of 10% and is secured by the following: (a) all of the outstanding capital stock of Dimode's subsidiaries, Minisink Rubber Co., Inc., Burton Manufacturing Corp., Plymouth Enterprises, Inc. (presently inactive) and Plastic Packaging Materials, Inc. (also inactive); (b) a secondary security interest in the accounts receivable of Minisink Rubber Co., Inc.; (c) all accounts receivable of Dimode arising from the operations of its Pemco Division prior to May 1, 1970; (d) a $50,000 convertible subordinated debenture of Pemtek, Inc., owned by Dimode, due May 1, 1980; and (e) all of the common stock of Pemtek, Inc.

In addition, the Company has guaranteed the following: (a) a loan of up to $30,000 to one of Dimode subsidiaries; (b) accounts payable of up to $25,000 to a supplier of a subsidiary of Dimode which is secured by the pledging of a $25,000 certificate of deposit of the Company.

The consolidated financial statements of Dimode and subsidiaries as of August 31, 1970, reflected a net worth deficit of approximately $3,000,000 and unaudited statements subsequent to that date reflect continued losses. The Company has made no provision for possible loss on the note receivable or with respect to the guarantees. In the opinion of management, the above mentioned collateral is sufficient to cover the loan and guarantees in the event that Dimode is unable to repay or in the event that the Company is required to expend funds in connection with the guarantees.

A present and a former director of the Company are or have been associated with Dimode Industries, Inc. as security holders or as an officer.

(3) SUBSEQUENT ACQUISITIONS:

On August 3, 1971, the Company purchased for an aggregate of $67,500 and 10,000 shares of common stock with additional consideration to be paid on the basis of future profitable operations, all of the outstanding stock of (a) Nevis-Wallen Associates, Inc., a Cleveland, Ohio based management consulting firm, specializing in the area of human resources training and development, and (b) Danzig-Nevis International, Inc., a company which develops educational products and training programs for professional and management development. Unaudited financial statements of Nevis-Wallen Associates, Inc. for the six months ended August 31, 1971 and of Danzig-Nevis International, Inc. for the eight months ended August 31, 1971 reflect net revenues of $46,419 and $16,971, respectively. Both of these acquisitions will be accounted for in fiscal 1972 as purchases.

(4) 7% CONVERTIBLE SUBORDINATED DEBENTURES:

The debentures are redeemable at par, at the Company's option, in whole or in part. The holders of debentures may, at their option, convert the principal of such debentures into common stock at $2.50 per share. Accordingly, 120,000 shares of common stock are reserved for such conversion.

(5) COMMITMENTS AND CONTINGENT LIABILITIES:

The Company leases its main office facilities under agreements which expire in 1974 and provide for annual rentals of approximately $25,000.

The Company has also leased facilities located at Pelham Manor, New York, under an agreement expiring in 1978, at an annual rental of approximately $14,000 plus a portion of utilities and other costs. The Company has subleased these facilities for substantially the same aggregate rental and for the same period. In connection with the sublease agreement, the Company has expended approximately $66,000 for improvements. Under the terms of the sublease agreement, the sublessee has agreed to pay (in addition to the rental stipulated above) $7,500 per year, representing the amortization of the leasehold improvements, plus a 10% interest charge on the monthly unamortized balance of the leasehold improvements.

(6) STOCK OPTIONS:

As of April 30, 1971, 50,000 shares of common stock were reserved under a Qualified Stock Option Plan for the granting of options to key employees, including officers who are directors. Options granted under the Plan become exercisable over a period of four years from the date of grant and may not be granted at less than 100% of fair market value of the common stock of the Company at the date of grant. As of April 30, 1971, options for the purchase of 26,600 common shares were outstanding at prices ranging from $1.00 to $2.00 per share. During the fiscal year ended April 30, 1971, options for the purchase of 7,200 shares (at prices ranging from $1.00 to $2.00 per share) were granted and options for 5,100 shares were cancelled. No options have been exercised under the Plan.

In addition, as of April 30, 1971, 50,000 shares of common stock were reserved for issuance to key executives (including officers and directors) under an Executive Incentive Stock Purchase Plan. Under this plan, the Board of Directors may allocate shares of common stock of the Company to key executives, at a price to be determined by the Board, but which shall not be less than $1.00 per share. These shares are restricted, as they may not be sold, transferred, pledged, hypothecated or otherwise disposed of by the recipient unless they are first offered to the Company for repurchase at the issue price. This restriction terminates ratably over a five year period following the date of grant. Upon termination of the recipient's employment or position, the Company has the option to repurchase the remaining restricted shares. As of April 30, 1971, 37,000 shares of common stock of the Company were allocated for future grant under this plan at a price of $1.00 per share. However, no shares have yet been offered or issued under the Plan.

(7) FEDERAL INCOME TAX LOSS CARRYFORWARD:

As of April 30, 1971, the Company had a net operating loss carryforward of approximately $45,000 based upon the accompanying financial statements, which may be used to reduce future income otherwise subject to Federal income taxes in decreasing amounts through 1975. Principally due to the fact that the Company's Federal income tax returns are prepared on a cash basis, the loss carryforward for tax purposes amounts to approximately $182,000.

(8) NET INCOME (LOSS) PER COMMON SHARE:

Net income (loss) per common share has been computed based upon the weighted average number of common shares outstanding during each year. The effect of outstanding stock options is not material and has been excluded from the computation.

Fully diluted income before extraordinary item per common share has been computed assuming full conversion at the beginning of 1971 of all of the 7% convertible subordinated debentures. Consequently, the number of shares assumed to have been converted were added to the weighted average number of common shares outstanding and income before extraordinary item was adjusted to eliminate the interest on these debentures, net of applicable Federal income taxes. Net income (loss) per common share, assuming full dilution, is not shown on the accompanying consolidated statements of income because the effect thereon of assumed conversion is antidilutive in both years.

## AUDITORS' REPORT

To the Stockholders and the Board of Directors of CGA Computer Associates, Incorporated:

We have examined the consolidated balance sheet of CGA Computer Associates, Incorporated (a New York corporation) and subsidiary as of April 30, 1971, and the related consolidated statements of income and changes in financial position for the fiscal 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 on the financial statements for the preceding fiscal year.

As explained in Note 2 to the financial statements, the Company has a note receivable due from Dimode Industries, Inc. in the amount of $74,833 and has guaranteed indebtedness of up to $55,000 for subsidiaries of Dimode Industries, Inc. Due to the financial condition of Dimode Industries, Inc., and its subsidiaries, we are unable to form an opinion as to the value of the collateral and the eventual collectibility of this note or any loss that may result from the guarantees.

In our opinion, subject to the effect of any loss that may be sustained in collection of the note receivable or with respect to the guarantees referred to in the preceding paragraph, the accompanying consolidated financial statements present fairly the financial position of CGA Computer Associates, Incorporated and subsidiary as of April 30, 1971, and the results of their operations and changes in financial position for the fiscal year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding fiscal year.

Arthur Andersen & Co.

ARTHUR ANDERSEN & CO.

Newark, New Jersey
October 1, 1971

DIRECTORS

Bernard M. Goldsmith, III
Joel M. Handel
Benson A. Selzer
Dr. Edwin C. Nevis

CORPORATE OFFICERS

Bernard M. Goldsmith, III, President, Treasurer
Elliot Raphaelson, Vice President
Joel M. Handel, Secretary

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