

ANNUAL REPORT

APRIL 30, 1976

DIRECTORS

Bernard M. Goldsmith, III
Lawrence S. Robinson
Joel M. Handel

CORPORATE OFFICERS

Bernard M. Goldsmith, III, President, Treasurer
Lawrence S. Robinson, Vice President, Secretary
Jack Goldstein, Vice President
Elliott J. Rosenzweig, Vice President
Joel M. Handel, Assistant Secretary

TRANSFER AGENT

Fidelity Union Trust Company
765 Broad Street
Newark, New Jersey 07101

AUDITORS

Sax, Macy, Fromm and Company
1200 U.S. Highway 46
Clifton, New Jersey 07013

COUNSEL

Upham, Meeker & Weithorn
Chrysler Building
New York, New York 10017

SHARES TRADED

Over the Counter

OFFICES:

25 Commerce Drive
Cranford, New Jersey 07016
(201) 272-3900

1901 North Fort Myer Drive
Suite 1015
Rosslyn, Virginia 22209
(703) 522-1666

PRESIDENT'S LETTER TO SHAREHOLDERS

Dear Shareholders:

The year ending April 30, 1976 was again a record year. We are pleased to report that sales continued to increase and this year's sales exceeded the \$2,000,000 mark. Sales were up 8.9% to \$2,093,267. Profits also set a record high in this fiscal year. The net after tax profit increased from \$160,485 or \$.53 per share to \$164,133 or \$.55 per share.

Consistent with our management goals of diversifying within the data processing industry CGA took two major steps. All of our software product activities were centralized in our new office facility in the Washington, D. C. area. This facility will not only serve as a center for all of our software product activities, it will also serve as a base from which we can expand our consulting services to the Washington, D. C. area including the Federal Government. In April of this year CGA announced the acquisition of another software product to supplement its software product line — INQUIRY/IMS which is an English language query language. Initial responses to INQUIRY/IMS have been very favorable and we expect sales and profits of I/I to start contributing favorably to the overall position of the company in the coming fiscal year.

The recruiting of qualified professionals to staff our consulting engagements continues to be a major corporate problem. We have supplemented our personnel department and promoted Jack Goldstein to Vice President with additional responsibilities including our recruiting activities.

Elliott J. Rosenzweig was promoted to the position of Vice President in line with his excellent performance in managing all of CGA's consulting activities.

CGA's current posture is to continue expanding the consulting and software products business and exploring opportunities for diversification within the data processing field. Our outlook for the coming year is very bright and we look forward to reporting another record breaking year next year.

I want to thank our employees, our shareholders, and our clients for the excellent support and effort given CGA. It is this support which has allowed CGA continually to grow and to succeed. Thank you.

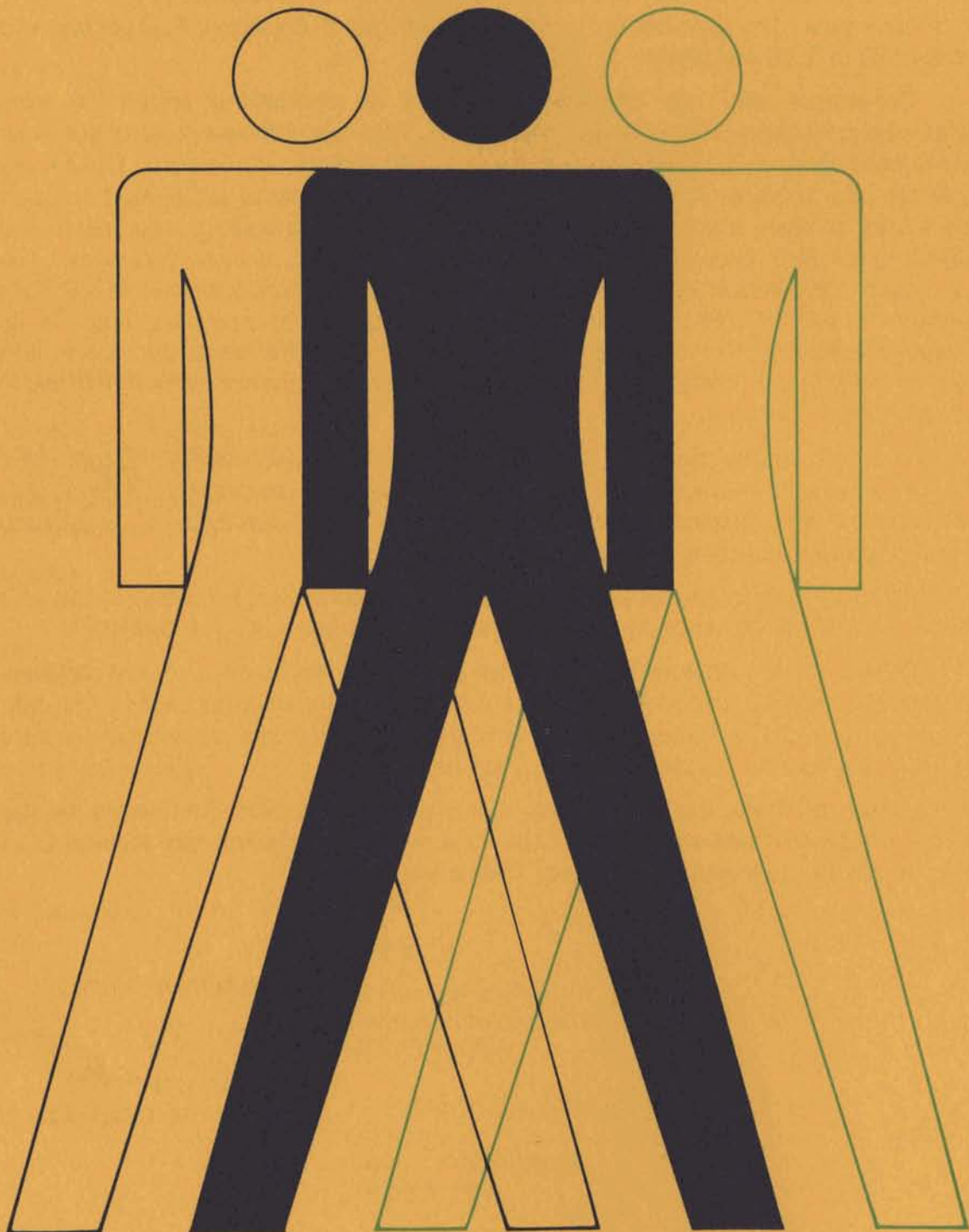
Respectfully Submitted,



Bernard M. Goldsmith, III
President

CGA Computer Associates is represented by the modular Man. Constructed of three elements, this Modular Man is a businessman, but with technical expertise and applications knowledge.

The interaction of these three elements, the business, the technical and the applications provide your organization with the degree of systems management necessary to satisfy your data processing requirements.



CGA's services

CGA's scope of services vary by assignment. One consulting effort may be very broad in scope and encompass several of the services we offer. Another may be of a precise nature and require a specific technical skill. The following services are provided by CGA to its clients:

Analysis — Performing or assisting the client in conducting the review and analysis required to obtain a clear and concise definition of the business problem. The problem may relate to a business function or to the client's technical environment. Analysis is required to determine the most cost effective solution.

Design — After analysis has been completed the business problem must be interpreted into the proper technical solution. CGA's design services bring together the proper meld of business and technical expertise to determine the best approach for implementation of the solution.

Implementation — The most mechanical of tasks is often the one that creates the most problems. CGA either assumes responsibility for this highly visible task or provides assistance to an organization by the assignment of skilled professionals to aid in various phases of the implementation effort. In either case, CGA's technical management establishes and/or reviews the reporting mechanisms to assure that the project proceeds according to the established schedule.

Education — The success of any project is directly depended on the abilities and "up to date" skills of the project team. CGA offers tailored workshop education designed to enhance the present technical capabilities of your staff or to teach them new technical skills.

Performance Evaluation — The data processing budget is continually becoming a larger part of the entire corporate budget and in many installations it has become difficult, if not impossible, to relate results in dollars and cents terms. CGA will analyze your hardware and software environment to determine if you are achieving the desired results from your investment in data processing.

Packaged Software — Technical problems are often similar from organization to organization. CGA has a varied line of packaged software which can assist you in meeting your data processing commitments.

CGA's clients

During the past decade CGA has served many of the world's largest corporations. These corporations represent a broad cross-section of industry including:

Pharmaceutical — CGA has served many of the largest pharmaceutical companies in the world. Our services have included the development of both national and international systems as well as assistance in meeting the ever-changing requirements established by the United States government.

Insurance — CGA is often granted special recognition for its experience and knowledge in claims processing. Professional Service Review Organization reporting and Utilization Review systems are other areas of specialties which contribute to CGA's expertise.

Banking — The customer demands made on the commercial banks have become increasingly severe and challenging, but to remain competitive they must be met. CGA has assisted large commercial banks in meeting the challenge by either changing or implementing systems to meet the requirements of the dynamic commercial and retail markets.

Financial — Regulation reporting as well as significant changes in the mode of doing business has created a need for new and more flexible systems. CGA has been helping design and implement those systems to allow these institutions to maintain their emphasis on service.

Communications — The analysis of equipment networks and their use is increasingly more important due to the cost of replacement and the pressure to maximize utilization of current equipment. CGA has assisted in developing several large systems to control the components of, and measure usage of, these large communication networks.

Manufacturing — The changing costs of materials has made it mandatory that the successful organization control all aspects of its inventory policy very closely. CGA has assisted organizations in developing effective means of controlling and costing their inventories. These inventory control systems have included in their scope order processing as well as purchasing functions.

CGA COMPUTER ASSOCIATES INC. (DEL.)

STATEMENT OF INCOME
For the Years Ended April 30, 1976 and 1975

	Year Ended April 30, 1976	Year Ended April 30, 1975
NET REVENUES	\$2,093,267	\$1,921,791
COST OF REVENUES	<u>1,260,198</u>	<u>1,110,512</u>
GROSS PROFIT	\$833,069	\$811,279
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	<u>539,032</u>	<u>520,460</u>
OPERATING INCOME	294,037	290,819
OTHER INCOME OR (EXPENSE):		
Interest Income	20,792	20,722
Interest Expense	<u>(7,296)</u> <u>13,496</u>	<u>(7,256)</u> <u>13,466</u>
INCOME BEFORE INCOME TAXES	307,533	304,285
PROVISION FOR INCOME TAXES [Notes 1D and 5]	<u>143,400</u>	<u>143,800</u>
NET INCOME	<u>\$164,133</u>	<u>\$160,485</u>
EARNINGS PER COMMON SHARE [Note 9]:		
Primary	\$.55	\$.53
Fully Diluted	\$.44	\$.43

CGA COMPUTER ASSOCIATES INC. (DEL.)

STATEMENT OF RETAINED EARNINGS
For the Years Ended April 30, 1976 and 1975

	Year Ended April 30, 1976	Year Ended April 30, 1975
RETAINED EARNINGS AT BEGINNING OF YEAR	\$187,059	\$ 26,574
NET INCOME	<u>164,133</u>	<u>160,485</u>
RETAINED EARNINGS AT END OF YEAR	<u>\$351,192</u>	<u>\$187,059</u>

The accompanying notes to financial statements are an integral part of this statement.

BALANCE
April 30, 1976

ASSETS

	April 30, 1976	April 30, 1975
CURRENT ASSETS:		
Cash and Cash Equivalents	\$338,572	\$269,295
Short-Term Securities [Note 1A]	100,000	100,000
Receivables:		
Trade Accounts [Note 1B]	\$252,909	\$230,682
Other	<u>7,667</u> 260,576	<u>2,483</u> 233,165
Prepaid Expenses	<u>34,420</u>	<u>2,247</u>
Total Current Assets	733,568	604,707
EQUIPMENT AND IMPROVEMENTS [Notes 1C and 2]:		
Furniture and Equipment	26,015	20,588
Leasehold Improvements	<u>675</u>	<u>—</u>
Total Equipment and Improvements	26,690	20,588
Less: Accumulated Depreciation and Amortization	<u>16,311</u>	<u>13,816</u>
Net Book Value-Equipment and Improvements	10,379	6,772
OTHER ASSETS:		
Deferred Costs [Notes 1E, 2 and 3]	50,467	5,071
Security Deposits	<u>5,326</u>	<u>4,305</u>
Total Other Assets	<u>55,793</u>	<u>9,376</u>
Total Assets	<u>\$799,740</u>	<u>\$620,855</u>

The accompanying notes to financial statements are an integral part of this statement.

LIABILITIES AND STOCKHOLDERS' EQUITY

	April 30, 1976	April 30, 1975
CURRENT LIABILITIES:		
Accounts Payable	\$ 40,505	\$ 39,423
Income Taxes Payable [Notes 1D and 5]:	9,188	22,887
Accrued Liabilities [Note 4]	<u>104,594</u>	<u>101,459</u>
Total Current Liabilities	154,287	163,769
DEFERRED INCOME TAXES [Note 1D and 5]	24,234	—
7% CONVERTIBLE SUBORDINATED DEBENTURES [Note 6]	103,000	103,000
COMMITMENTS AND CONTINGENCIES [Note 8]	—	—
STOCKHOLDERS' EQUITY [Notes 6 and 7]:		
Common Stock, Par Value \$.10 Per Share;		
Authorized 1,000,000 Shares;		
Issued and Outstanding 300,200 Shares	\$ 30,020	\$ 30,020
Amount Contributed in Excess of Par Value	137,007	137,007
Retained Earnings	<u>351,192</u>	<u>187,059</u>
Total Stockholders' Equity	<u>518,219</u>	<u>354,086</u>
Total Liabilities and Stockholders' Equity	<u>\$799,740</u>	<u>\$620,855</u>

CGA COMPUTER ASSOCIATES INC. (DEL.)

STATEMENT OF CHANGES IN FINANCIAL POSITION
For the Years Ended April 30, 1976 and 1975

	Year Ended April 30, 1976	Year Ended April 30, 1975
WORKING CAPITAL WAS PROVIDED BY:		
Operations -		
Net Income for the Year	\$164,133	\$160,485
Add Items Charged to Operations and Not Requiring Use of Working Capital:		
Depreciation and Amortization	3,792	4,635
Deferred Income Taxes	<u>24,234</u>	<u>—</u>
Total from Operations	\$192,159	\$165,120
Issuance of 7% Convertible Debentures	<u>—</u>	<u>103,000</u>
Total	192,159	268,120
WORKING CAPITAL WAS USED FOR:		
Purchase of Equipment and Improvements	6,102	4,416
New Product Costs Deferred	46,693	<u>—</u>
Increase in Security Deposits	1,021	660
Exchange of Notes Payable for Convertible Debentures	<u>—</u>	<u>103,000</u>
Total	<u>53,816</u>	<u>108,076</u>
NET INCREASE IN WORKING CAPITAL	<u>\$138,343</u>	<u>\$160,044</u>

DETAIL OF CHANGES IN ELEMENTS OF WORKING CAPITAL

	INCREASE OR (DECREASE)	
CURRENT ASSETS:		
Cash and Cash Equivalents	\$ 69,277	\$132,757
Short-Term Securities	<u>—</u>	100,000
Receivables	27,411	(22,697)
Prepaid Expenses	<u>32,173</u>	<u>308</u>
Total	\$128,861	\$210,368
CURRENT LIABILITIES:		
Accounts Payables	1,082	(46,621)
Income Taxes Payable	(13,699)	16,482
Accrued Liabilities	<u>3,135</u>	<u>80,463</u>
Total	<u>(9,482)</u>	<u>50,324</u>
NET INCREASE IN WORKING CAPITAL	<u>\$138,343</u>	<u>\$160,044</u>

The accompanying notes to financial statements are an integral part of this statement.

CGA COMPUTER ASSOCIATES INC. (DEL.)

NOTES TO FINANCIAL STATEMENTS

APRIL 30, 1976 and 1975

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

- A. Short-Term Securities - Short-term securities are stated at cost, which approximates market.
- B. Receivables and Bad Debts - It is the Company's policy to reserve for accounts considered to be uncollectible. No reserve was required at April 30, 1976 and 1975.
- C. Equipment, Improvements and Depreciation - Equipment and improvements are stated at cost, less accumulated depreciation and amortization computed on the straight-line method. Furniture and equipment are depreciated over an estimated useful life of five years and leasehold improvements are amortized over the shorter of the useful life of the improvement or the lease period.
- D. Income Taxes and Investment Credit - Deferred taxes are provided for timing differences between book and taxable income.
Investment tax credits are treated as a reduction of Federal income tax expense in the year in which the related assets are placed in service. The amount of such credits were not significant for the years ended April 30, 1976 and 1975.
- E. Deferred Costs and Amortization - Deferred costs include (a) deferred product costs and (b) expenses incurred in connection with the original issuance of the 7% convertible subordinated debentures. Deferred product costs will be amortized, commencing May 1, 1976, over periods not exceeding three years. Deferred debt expenses are being amortized over the life of the debentures, through August 14, 1979.
- F. Profit Sharing Plan - The Company has a profit sharing plan in effect, covering substantially all of its employees. The amount of the annual profit sharing plan contribution is discretionary with the Company. The Company's policy is to fund profit sharing contributions accrued.

Note 2 - DEPRECIATION AND AMORTIZATION:

Depreciation and amortization expense of equipment and improvements for the years ended April 30, 1976 and 1975 amounted to \$2,495 and \$3,337, respectively.

Amortization of deferred debt expense amounted to \$1,297 in 1976 and \$1,298 in 1975.

Note 3 - DEFERRED PRODUCT COSTS:

In January, 1976, the Company acquired the rights to a computer software program. During the remainder of the year, additional costs were incurred for the preparation of an operations manual and the development of a marketing approach. The Company began to market the product in April, 1976.

The cost of the program plus additional costs incurred, aggregating \$46,693, have been deferred as of April 30, 1976, and in the opinion of the Company's management will be recovered through future sales. The deferred product costs will be charged to earnings over periods not exceeding three years.

Note 4 - PROFIT SHARING PLAN:

Contributions to the profit sharing plan for any year are discretionary with the Company. Profit sharing contribution expense, which has been accrued as of the end of each year, amounted to \$57,000 for the year ended in 1976 and \$55,000 for the year ended in 1975.

Note 5 - INCOME TAXES:

Income tax expense as shown in the statement of income includes the following:

	Year Ended April 30,	
	1976	1975
Taxes Currently Payable		
Federal	\$ 99,268	\$127,000
State	19,898	16,800
Deferred Taxes		
Federal	20,732	—
State	3,502	—
Total Income Tax Expense	<u>\$143,400</u>	<u>\$143,800</u>

The deferred amounts for 1976 relate to the deferred product costs which have been expensed for income tax purposes.

Note 6 - 7% CONVERTIBLE SUBORDINATED DEBENTURES:

The debentures are redeemable at par, at the Company's option, in whole or in part. The holders of the debentures may, at their option, convert the principal of such debentures into common stock at \$1.25 per share. Accordingly, 82,400 shares of common stock are reserved for such conversion. The debentures mature on August 14, 1979.

Note 7 - STOCK OPTIONS:

As of April 30, 1976, 20,000 shares of common stock were reserved under an option agreement specifying that the options may be exercised at \$.75 per share, subject to adjustment for future dividends and additional shares issued. The option expires June 25, 1983. No options were exercised during the years ended April 30, 1976 and 1975.

Note 8 - LEASE COMMITMENTS:

The Company has a long-term lease on its office facilities, requiring annual rentals of \$21,390, adjusted for increases in real estate taxes and maintenance costs. The lease term extends to May 31, 1979, but may be terminated by the Company at any time after May 31, 1977, at a cost not to exceed \$8,148.

In addition to the above, the Company has several other short-term or cancelable leases. Total rental expense on all leases for the years ended April 30, 1976 and 1975 was \$38,427 and \$27,744, respectively.

Note 9 - EARNINGS PER COMMON SHARE:

Primary earnings per share were computed on the basis of 300,200 shares outstanding during both years. Fully diluted earnings per share were computed on the assumption that the 7% convertible debentures were converted as of the beginning of each year, thereby resulting in the issuance of 82,400 additional shares with a corresponding reduction in bond interest expense, net of taxes thereon.

Shares issuable in the future upon the exercise of the stock option were excluded from the computation of earnings per share, since their effect is anti-dilutive.

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Stockholders and Directors of
CGA Computer Associates Inc. (Del.)

We have examined the balance sheet of CGA Computer Associates Inc. (Del.) as of April 30, 1976 and 1975 and the related statements of income, retained earnings and 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 financial position of CGA Computer Associates Inc. (Del.) at April 30, 1976 and 1975, and the results of its operations and changes in its financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

SAX, MACY, FROMM and CO.
Certified Public Accountants

Clifton, New Jersey
June 9, 1976

CGA COMPUTER ASSOCIATES INC. (DEL.)
FIVE YEAR SUMMARY OF OPERATIONS

On May 3, 1973, CGA Computer Associates Inc. (Del.), through a reorganization, became the successor to the computer software business of CGA Computer Associates, Inc., (a New York Corporation), by acquiring all the assets and liabilities pertaining thereto. The following five year summary of operations is presented as if the business of the predecessor entity had been operated by CGA Computer Associates Inc. (Del.) for all the indicated periods. Certain pro forma adjustments had been made to historical net income for the periods prior to May 1, 1973, eliminating interest income or expense on assets or liabilities not assumed by the Company.

	For the Years Ended April 30				
	1976	1975	1974	1973	1972
<u>NET REVENUES</u>	\$2,093,267	\$1,921,791	\$1,445,013	\$1,072,407	\$887,966
<u>COST OF REVENUES</u>	1,260,198	1,110,512	940,559	658,910	618,007
<u>GROSS PROFIT</u>	833,069	811,279	504,454	413,497	269,959
<u>SELLING, GENERAL AND ADMINISTRATIVE EXPENSES</u>	539,032	520,460	390,769	333,197	257,748
<u>EXPENSES OF DISTRIBUTION TO STOCKHOLDERS</u>	—	—	25,721	—	—
<u>OPERATING INCOME</u>	294,037	290,819	87,964	80,300	12,211
<u>OTHER INCOME OR (EXPENSE):</u>					
Interest Income	20,792	20,722	938	14,178	15,707
Interest Expense	(7,296)	(7,256)	(7,468)	(21,137)	(19,993)
Other - Net	—	—	(602)	2,472	4,998
	13,496	13,466	(7,132)	(4,487)	712
<u>INCOME FROM CONTINUING OPERATIONS BEFORE TAXES, DISCONTINUED OPERATIONS AND EXTRAORDINARY ITEMS</u>	307,533	304,285	80,832	75,813	12,923
<u>INCOME TAXES</u>	143,400	143,800	32,700	30,000	3,000
<u>INCOME FROM CONTINUING OPERATIONS OPERATING LOSS ON DISCONTINUED SUBSIDIARY (Net of Income Tax Effect of \$16,100)</u>	—	—	(21,558)	—	—
<u>INCOME BEFORE EXTRAORDINARY ITEM</u>	164,133	160,485	26,574	45,813	9,923
<u>EXTRAORDINARY ITEM - Income Tax Benefit from Carry-Forward of Net Operating Loss</u>	—	—	—	18,500	3,000
<u>HISTORICAL NET INCOME</u>	164,133	160,485	26,574	64,313	12,923
<u>NET PRO FORMA ADDITIONS OR (DEDUCTIONS)</u>	—	—	—	9,530	(8,300)
<u>PRO FORMA NET INCOME</u>	\$164,133	\$160,485	\$26,574	\$73,843	\$4,623
<u>HISTORICAL PER SHARE EARNINGS BASED ON 300,200 SHARES:</u>					
Income from Continuing Operations	\$.55	\$.53	\$.16	\$.15	\$.03
Operating Loss on Discontinued Subsidiary	—	—	(.07)	—	—
Extraordinary Item	—	—	—	.06	.01
Historical Net Income	\$.55	\$.53	\$.09	\$.21	\$.04
<u>PRO FORMA PER SHARE EARNINGS BASED ON 300,200 SHARES</u>	\$.55	\$.53	\$.09	\$.25	\$.02
<u>PRO FORMA PER SHARE EARNINGS ASSUMING FULL DILUTION, BASED ON 382,600 SHARES*</u>	\$.44	\$.43	\$.08	\$.22	\$ *

*Fully diluted earnings per share assumes conversion of the 7% convertible debentures at the beginning of the year. Consequently, the number of shares assumed to have been converted, 82,400, were added to the weighted average number of common shares outstanding and historical net income was adjusted to eliminate interest on these debentures, net of applicable income taxes. For the year ending in 1972 fully diluted earnings per share on pro forma earnings is not shown because the effect of assumed conversion is anti-dilutive.

25 Commerce Drive
Cranford, New Jersey 07016
(201) 272-3900

OFFICES:

1901 North Fort Myer Drive
Suite 1015
Rosslyn, Virginia 22209
(703) 522-1666

