COMPUTER USAGE COMPANY, INC.

BOARD OF DIRECTORS  Cuthbert C. Hurd, Chairman
                 Elmer C. Kubie
                 Walter B. Nelson

OFFICERS  Elmer C. Kubie, President and Treasurer
             Walter B. Nelson, Vice President
             Carl H. Reynolds, Vice President
             William M. Sloane, Secretary
             Walter M. Johnson, III, Controller
             Carmel J. Mecca, Assistant Secretary
             Lawrence Berman, Assistant Controller

COMPUTER USAGE DEVELOPMENT CORPORATION

             Carl H. Reynolds, President
             Robert H. Glaser, Vice President

COMPUTER USAGE EDUCATION, INC.

             Elmer C. Kubie, President
             Ascher Opler, Executive Director

COMPUTER USAGE BUSINESS SERVICES, INC.

             Elmer C. Kubie, President
             Irving C. Liggett, Vice President

CUC REALTY CORPORATION

             Elmer C. Kubie, President
             Walter M. Johnson, III, Vice President
             William M. Sloane, Vice President
ANNUAL REPORT 1966
COMPUTER USAGE COMPANY, INC.
344 Main Street, Mount Kisco, N. Y. 10549

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## ANNUAL REPORT HIGHLIGHTS

<table>
<thead>
<tr>
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</tr>
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<td>Income from Services</td>
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<tr>
<td>Earnings per Share*</td>
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</tr>
<tr>
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<td>.20</td>
<td>—</td>
</tr>
<tr>
<td>Net Assets</td>
<td>2,001,072</td>
<td>1,560,956</td>
</tr>
<tr>
<td>Net Assets per Share</td>
<td>2.82</td>
<td>2.33</td>
</tr>
<tr>
<td>Employees</td>
<td>667</td>
<td>397</td>
</tr>
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</table>

*Based on average number of shares outstanding in each year.

Cuthbert C. Hurd, Chairman
The 11th fiscal year of your company has been one especially significant from the standpoint of organization and growth. We believe that CUC has made a vital transition necessary for continued advancement in the expanding data processing field.

The critical need for well trained, experienced professionals remains one of our most important challenges. In spite of the difficulties involved in finding such people, we were able to increase our personnel during the year by 68 per cent. Of course this growth required significant investment. However, since our ability to provide professional services is strictly dependent upon the size and talent of our staff, this investment is in the long term interest of your company and, therefore, fully warranted.

We were especially pleased to appoint Carl H. Reynolds President of Computer Usage Development Corporation. During his tenure at IBM, Mr. Reynolds gained a reputation as one of the outstanding managers of software development in the nation. His decision to join our management team greatly strengthens Computer Usage Development Corporation, whose activity of developing applications of data processing equipment continues to be the heart of our business. This subsidiary now operates 12 branch offices, having recently opened one in San Francisco and one in Montclair, New Jersey.

As expected, CUC's book, Programming the IBM System 360, written by members of our staff, was published early in 1966. It was very well received and is now in its third printing, with over fifteen thousand copies sold. This number of sales is especially gratifying when you consider its highly technical content.

Computer Usage Education, Inc., whose purpose is to provide educational services in respect to the use of computers, experienced a year of substantial development. Sixteen seminars were given by CUE in both the United States and Europe. These seminars were enthusiastically received by the data processing specialists who attended. Also, during the year a home study course in computer programming was developed and it is currently being introduced to the field. We believe that this course will represent one of the most effective and unique solutions to the general manpower problem facing the data processing industry. (continued)
For several years CUC has sought to develop proprietary systems which could be sold on a repetitive basis, thereby providing more economic service to our clients and higher profit margins for your company. In doing so it became evident that in order to effectively serve the client, certain programming systems required a processing service as well. For this reason Computer Usage Business Services, Inc. was formed in January, 1966. This subsidiary is providing repetitive data processing services to clients using proprietary systems developed by CUC.

Our financial growth continued favorably during the year ended September 30, 1966. Income from services increased 47 per cent with an increase in net income of 30 per cent. The rise in earnings did not parallel the growth in revenue because of the substantial investments made during this year in starting our new operating subsidiaries and in building our staff. We believe that our next year will show continued growth in revenues. However, we hope then to achieve commensurate improvement in earnings.

Once again, we would like to express our appreciation for the cooperation, assistance and encouragement received from employee and stockholders. We have realized another record year for CUC—a year made possible only through this help. We know that we can expect your continued aid during the forthcoming year so that we will be able to meet the challenges it will present.

Very truly yours,

Elmer C. Kubie, President

Cuthbert C. Hurd, Chairman

November 10, 1966
ANNUAL REPORT HIGHLIGHTS

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*Based on average number of shares outstanding in each year.

Elmer C. Kubic, President
WHAT DOES SOFTWARE MEAN TO MARY?

Nothing. Not a thing. She never heard of it. Probably nobody she ever met has heard of it.

But if anything is going to make her life richer and more hopeful, it's probably going to be with the help of computer software—the design and programming of systems to process information.

Software is unusual. You can't really see it or touch it. True, it manifests itself in tangibles like magnetic tape, punched cards and flowcharts, but actually it is an abstract entity—the intelligence behind the metal and glass computer. And it is as limitless as man's imagination.

Take Mary. Without knowing anything about programming, she has a good chance of getting a helping hand with an assist of a Computer Usage effort in the war on poverty. And her housing conditions can be examined much more rapidly because of another CUC effort in the Buildings Complaint field.

And her food might be fresher. Her clothing less expensive. Her education broader and deeper.

Programming doesn't have to mean a thing to Mary. As long as it means everything to us, and other companies engaged in the use of computers.
Right now? Everything. Maybe even survival.
Although he might not know it, programming plays a part in keeping tabs on almost everything he does, sees, says and eats.
For more than 10 years CUC has helped in the supply, maintenance, and strategic planning of the Army, Navy, and Air Force. This is the nature of SAMPAM — The System for Automation of Materiel Plans for Army Materiel. Through this system, the Army's enormous inventory is kept under control. From pistols to paint brushes and tanks to toothbrushes, project SAMPAM has organized this problem area that has kept scores of clerks bogged down for years.

One of the most important defense projects CUC has ever worked on is a real-time, on-line command and control system used by the Headquarters Command of the U. S. Air Force. The decisions these men make must be well researched because many lives depend on them—not only his.

Where he's concerned, mobilization war gaming is no game. It's one of the fastest means of determining what his chances are in a given battle situation. And that's no game for him. Computer Usage provided computer analysis and programming support for such a war gaming project designed to determine the ability of the U. S. economy and of U. S. Military forces to react to an enemy attack.

He might not know the difference between software and hardware. But it's nice to know somebody does.
WHAT DOES SOFTWARE MEAN TO HER?

She's stuck on a physics problem. In a couple of minutes, the bell will ring and she's on her way to the library for study period. Then lunch. French in the afternoon. And home.

Programming? It's something she will be studying next year. It has something to do with computers, like the remote study station her sister is using as a freshman in an upstate university. Right now, that physics problem, an upcoming party, and even lunch are a lot more important to her.

At least, so it would seem. She doesn't really have to know that the class and teacher she's been assigned to were a result of a computer program. And that she provided part of the system input through punched cards she filled out last term. That her lunch is nutritionally planned through the use of computer programs—or that the food itself is better because U. S. farmers have been improving herds and upgrading crop yields through software systems. And it wouldn't be surprising if her library period is more rewarding due to a CUC system designed to make library resources more accessible through automatic processing and maintenance.

CUC has long been active in developing software for use in education. For a large Eastern city's school system, we set up a budget integrating system; on the West Coast we've worked on payroll and library systems. Alumni funds are gathered and university scientific research is processed with the help of CUC software.

Today, waiting for the bell to ring, she couldn't care less about programming—but programming now and throughout her life will care about her.
WHAT DOES SOFTWARE MEAN TO CUC?

It's many things. And many people.

To CUC, programming is a way of life. Frequently frustrating. Usually exhausting. Sometimes even boring.

There are special things about programming. A special language, with names like COBOL and FORTRAN IV; real-time, time-sharing, buffering, and queuing. A special world of things like flowcharts and templates, sliderules, punched cards, tape decks, and computers.

But, in a real sense, programming is our way of participating in the exploration of the moon. The defense of the United States. The expansion of our economy. The fight against disease and poverty.

For manufacturers and for computer users, we help build, extend, and maintain the range of computer capabilities.

In pursuit of these objectives, CUC is active in all areas of software—analysis and programming, education, data processing through proprietary programs, and management of computing facilities. To organize CUC's efforts most efficiently, we have formed three subsidiaries:

Computer Usage Education offers educational services in data processing. It has successfully held seminars on electronic data processing subjects throughout the United States and in Europe. After its first year of organization CUE is now introducing a comprehensive home study course in programming.

Computer Usage Business Services is working on the problem of giving certain businesses the benefit of specialized data processing packages. CUBS' professional and commercial accounts receivable programs, along with its country club systems, have successfully served professionals and smaller businesses in this, its first year of operation.

Computer Usage Development Corporation, the largest subsidiary, is responsible for all analysis and programming services. This subsidiary now has 12 offices in key cities throughout the nation. These offices are concerned with projects so broad in scope that our professional staff will continue to grow in depth and experience.

You see, we're revolutionaries. The advance guard of the computer revolution. A revolution that has spawned CUC, nurtured it, and has seen it develop into an organization of substantial technical, financial and managerial strength.
**THE PATTERN OF PROGRESS**

**INCOME FROM SERVICES**
Millions of dollars


**NET INCOME**
Thousands of dollars


**NET ASSETS**
Thousands of dollars


**PERSONNEL**
Number of employees

STOCKHOLDERS INVESTMENT

SHARES OUTSTANDING

thousands

NUMBER OF SHAREHOLDERS

1250

1000

750

500

250


NET ASSETS PER SHARE

2.50

2.00

1.50

1.00

$.50


RETAINED EARNINGS PER SHARE

1.50

1.25

1.00

.75

$.25


(SHARES AND PER SHARE AMOUNTS ADJUSTED FOR 5-2 STOCK SPLIT IN JANUARY, 1965)
### COMPUTER USAGE COMPANY, INC.
and Subsidiaries

### CONSOLIDATED BALANCE SHEETS, September 30, 1966 and 1965

<table>
<thead>
<tr>
<th>ASSETS:</th>
<th>1966</th>
<th>1965</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Current assets:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and temporary investments</td>
<td>$299,064</td>
<td>$464,766</td>
</tr>
<tr>
<td>Accounts receivable</td>
<td>2,993,552</td>
<td>1,600,237</td>
</tr>
<tr>
<td>Contracts in process, at cost</td>
<td>75,258</td>
<td>42,474</td>
</tr>
<tr>
<td>Prepaid expenses</td>
<td>118,449</td>
<td>58,301</td>
</tr>
<tr>
<td><strong>Total current assets</strong></td>
<td>3,486,323</td>
<td>2,165,778</td>
</tr>
<tr>
<td><strong>Land, building, office furniture and equipment, at cost, less allowance</strong> for depreciation, 1966, $104,687; 1965, $69,185</td>
<td>955,459</td>
<td>165,036</td>
</tr>
<tr>
<td>Cash surrender value of life insurance</td>
<td>101,438</td>
<td>93,808</td>
</tr>
<tr>
<td>Deferred research and development costs</td>
<td>164,814</td>
<td>24,973</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td>$4,708,034</td>
<td>$2,449,595</td>
</tr>
</tbody>
</table>

*The accompanying notes are an integral part of the financial statements.*
LIABILITIES:

<table>
<thead>
<tr>
<th></th>
<th>1966</th>
<th>1965</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current liabilities:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounts payable and accrued expenses</td>
<td>$1,137,036</td>
<td>$ 622,732</td>
</tr>
<tr>
<td>Note payable</td>
<td>750,000</td>
<td></td>
</tr>
<tr>
<td>Accrued federal income taxes</td>
<td>358,943</td>
<td>265,907</td>
</tr>
<tr>
<td>Dividend payable</td>
<td>35,483</td>
<td></td>
</tr>
<tr>
<td>Total current liabilities</td>
<td>2,281,462</td>
<td>888,639</td>
</tr>
<tr>
<td>Mortgage payable, 6%, due 1967-1982</td>
<td>425,500</td>
<td></td>
</tr>
<tr>
<td></td>
<td>2,706,962</td>
<td>888,639</td>
</tr>
</tbody>
</table>

CAPITAL:

Common stock, par value 25c per share, authorized 1,500,000 shares; issued and outstanding, 1966, 709,654 shares; 1965, 670,904 shares (Note 1) ........................................ 177,414 167,726

Additional paid-in capital (Note 2) ........................................ 648,789 526,433

Retained earnings, as annexed ........................................ 1,174,869 866,797

Total capital ........................................ 2,001,072 1,560,956

$4,708,034 $2,449,595

The accompanying notes are an integral part of the financial statements.
### CONSOLIDATED STATEMENTS OF INCOME

for the years ended September 30, 1966 and 1965

<table>
<thead>
<tr>
<th></th>
<th>1966</th>
<th>1965</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income from services</td>
<td>$8,897,174</td>
<td>$6,033,403</td>
</tr>
<tr>
<td>Costs and expenses:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cost of services</td>
<td>4,054,692</td>
<td>2,756,366</td>
</tr>
<tr>
<td>General, administrative and selling expenses</td>
<td>3,993,104</td>
<td>2,612,237</td>
</tr>
<tr>
<td></td>
<td>8,047,796</td>
<td>5,368,603</td>
</tr>
<tr>
<td>Income before federal income taxes</td>
<td>849,378</td>
<td>664,800</td>
</tr>
<tr>
<td>Federal income taxes</td>
<td>400,000</td>
<td>320,000</td>
</tr>
<tr>
<td>Net income</td>
<td>$ 449,378</td>
<td>$ 344,800</td>
</tr>
</tbody>
</table>

Earnings per share (based on average number of shares outstanding in each year adjusted for five-for-two stock split in 1965) | $.64 | $.53 |

### CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

for the years ended September 30, 1966 and 1965

<table>
<thead>
<tr>
<th></th>
<th>1966</th>
<th>1965</th>
</tr>
</thead>
<tbody>
<tr>
<td>Beginning of year</td>
<td>$ 866,797</td>
<td>$ 521,997</td>
</tr>
<tr>
<td>Net income</td>
<td>449,378</td>
<td>344,800</td>
</tr>
<tr>
<td></td>
<td>1,316,175</td>
<td>866,797</td>
</tr>
<tr>
<td>Less, Cash dividends on common stock, 20c per share</td>
<td>141,306</td>
<td></td>
</tr>
<tr>
<td>End of year</td>
<td>$1,174,869</td>
<td>$ 866,797</td>
</tr>
</tbody>
</table>

*The accompanying notes are an integral part of the financial statements.*
1. Under the terms of the Company's employee stock option plan, as amended on May 18, 1964, options to purchase shares of the Company's common stock may be granted to key employees. Options granted prior to May 18, 1964 may be exercised at a price which is not less than 95 per cent of the fair market value of the optioned shares on the date immediately preceding the date of grant; such options are generally exercisable during the three-year period beginning three years after the date of grant. Options granted subsequent to the amendment of the plan may be exercised during the three-year period beginning two years after the date of grant, at a price which is not less than the fair market value of the optioned shares on the date of grant.

In addition to the options granted under the terms of the aforementioned plan, an option to purchase shares of the Company's common stock was granted in a prior year to an officer of the Company. This option was exercised during the year ended September 30, 1966, at a price which was not less than 95 per cent of the fair market value of the optioned shares on the date immediately preceding the date of grant.

Information with respect to the foregoing options as of September 30, 1966 and for the year ended on that date is as follows:

<table>
<thead>
<tr>
<th></th>
<th>Number of Shares</th>
<th>Option Price Per Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>At September 30, 1966:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Shares under option (expire from 1969 to 1971, aggregate option price $629,883)</td>
<td>34,900</td>
<td>$4.85 to $25.00</td>
</tr>
<tr>
<td>Options exercisable (expire in 1969)</td>
<td>6,250</td>
<td>8.60 to 9.50</td>
</tr>
<tr>
<td>Shares reserved for future options...</td>
<td>36,350</td>
<td></td>
</tr>
<tr>
<td>During the year ended September 30, 1966:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Options granted</td>
<td>24,350</td>
<td>19.13 to 24.00</td>
</tr>
<tr>
<td>Options exercised</td>
<td>38,750</td>
<td>2.98 to 5.23</td>
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</table>

2. Changes in additional paid-in capital are summarized as follows:

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<th>1966</th>
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<tr>
<td>Balance, beginning of year</td>
<td>$526,433</td>
<td>$512,254</td>
</tr>
<tr>
<td>Excess of proceeds from sales of common stock sold under option agreements over the par value thereof, 1966, 38,750 shares; 1965, 2,500 shares prior to five-for-two stock split and 21,500 shares subsequent thereto</td>
<td>$122,356</td>
<td>112,375</td>
</tr>
<tr>
<td>Transfer to common stock of par value of 389,616 shares issued in connection with five-for-two stock split</td>
<td>(97,404)</td>
<td></td>
</tr>
<tr>
<td>Cash payments in lieu of issuance of fractional shares in connection with five-for-two stock split</td>
<td>(792)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>$648,789</td>
<td>$526,433</td>
</tr>
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</table>

3. The Company leases the premises which it occupies under agreements providing for the payment of aggregate annual rentals ranging from approximately $401,000 in 1967 to $171,000 in 1971.
AUDITORS' REPORT

LYBRAND, ROSS BRO. & MONTGOMERY
CERTIFIED PUBLIC ACCOUNTANTS

To the Stockholders,
Computer Usage Company, Inc.:

We have examined the consolidated balance sheet of COMPUTER USAGE COMPANY, INC. and SUBSIDIARIES as of September 30, 1966 and the related consolidated statements 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 previously examined and reported upon the financial statements of the Company for the year ended September 30, 1965.

In our opinion, the aforementioned financial statements present fairly the consolidated financial position of Computer Usage Company, Inc. and Subsidiaries at September 30, 1966 and 1965 and the consolidated results of their operations for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

SUBSIDIARY COMPANIES
COMPUTER USAGE DEVELOPMENT CORPORATION

Baltimore
1111 Park Avenue
Baltimore, Maryland 21201
Tel. (301) 539-3260

Boston
387 Elliot Street
Newton Upper Falls,
Massachusetts 02164
Tel. (617) 969-5840

Chicago
200 South Michigan Avenue
Chicago, Illinois 60604
Tel. (312) 427-8934

Houston
2020 Southwest Freeway
Houston, Texas 77006
Tel. (713) 526-3523

Los Angeles
8939 Sepulveda Boulevard
Los Angeles, California 90045
Tel. (213) 670-7246

Montclair
37 No. Fullerton Avenue
Montclair, New Jersey 07042
Tel. (201) 746-3200

Mount Kisco
344 Main Street
Mount Kisco, N. Y. 10549
Tel. (914) 666-6741

New York
655 Madison Avenue
New York, New York 10021
Tel. (212) 752-5900

Palo Alto
3181 Porter Drive
Palo Alto, California 94304
Tel. (415) 321-6754

Philadelphia
Barclay Building
City Line & Belmont Avenues
Bala-Cynwyd, Pa. 19004
Tel. (215) 839-4185

San Francisco
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San Francisco, California 94111
Tel. (415) 981-6791

Washington
7315 Wisconsin Avenue, N. W.
Washington, D. C. 20014
Tel. (301) 656-0200

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Palo Alto, California 94303
Tel. (415) 328-0823

COMPUTER USAGE EDUCATION
51 Madison Avenue
New York, New York 10010
Tel. (212) 889-7850

COMPUTER USAGE BUSINESS SERVICES
3 River Road
Cos Cob, Connecticut 06807
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