Annual Report 1972

cga

cga COMPUTER ASSOCIATES
INCORPORATED
715 PARK AVENUE, EAST ORANGE, NEW JERSEY 07017 · 201-678-6100

Dear Shareholders:

Enclosed are the Company's financial statements for the Fiscal year ended April 30, 1972. Last year was a building year in which we endeavored to lay a foundation for substantial future growth. This is partially reflected in our overall sales increase of 31% to a record $956,358. However, in the process, profits dropped to $2,564., as our diversification efforts did not have an immediate effect upon our earnings. The data processing and management consulting parts of our business continued to be profitable. The only losses sustained were in our educational and training products company, Danzig-Nevis International. During the year we completed product development on a major product and completely expensed our development costs on this item. We encountered some marketing problems which resulted in sales being slower than expected and, hence the loss.

The current fiscal year continues to show increase in growth in data processing and consulting activities, reflected in higher overall sales and profits despite continuing problems in increasing the sales of our educational products company.

We are looking forward to 1973 as we expect to achieve record sales and record operating profits.

I want to thank our employees, shareholders, and clients for their continued interest and support.

Sincerely,

Bernard M. Goldsmith, III
President

E. C. Nevis, Ph.D
Chairman of the Board

IRVING HANDEL & CO.
CERTIFIED PUBLIC ACCOUNTANTS
1350 AVENUE OF THE AMERICAS
NEW YORK, N.Y. 10019
(212) 489-1940

Board of Directors
CGA Computer Associates, Inc.

We have examined the consolidated statement of financial position of CGA Computer Associates, Inc. and subsidiaries as of April 30, 1972, and the related consolidated statements of income and of changes in financial position for the fiscal year then ended. Our examination was made in accordance with generally accepted auditing standards, and included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated statements present fairly the financial position of CGA Computer Associates, Inc. and subsidiaries as of April 30, 1972, and the result of their operations and the 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 year.

IRVING HANDEL & CO.

New York, N. Y.
July 5, 1972

CGA COMPUTER ASSOCIATES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT APRIL 30

ASSETS

	1972	1971
CURRENT ASSETS:		
Cash in Banks	$ 52,899	$ 2,329
Certificates of Deposit		125,000
Cash in Interest-Bearing Account		100,000
	$ 52,899	$ 227,329
Merchandise Inventory (Note 2)	28,599	
Accounts Receivable	229,598	176,824
Other Receivables	16,043	
Prepaid Expenses	4,957	3,628
TOTAL CURRENT ASSETS	$ 332,096	$ 407,781
Note Receivable from Dimode Industries, Inc. (Note 3)	$ 102,316	$ 74,833
Investment in 6 1/2% Convertible Capital Notes of the Waterbury National Bank, Due in 1995, at Cost which Approximates Market	$ 25,000	$ 25,000
Leasehold Improvements and Equipment at Cost Less Accumulated Amortization and Depreciation of $26,889 in 1972 and $12,434 in 1971 (note 5)	$ 69,492	$ 72,793
OTHER ASSETS:		
Deferred Debt Expenses (Being Amortized over Term of Debentures)	$ 26,659	$ 31,381
Deferred Copyright Costs	6,870	
Security Deposits	3,080	2,150
Excess of Cost of Acquisition over Equity Acquired (Note 9)	80,786	
	$ 117,395	$ 33,531
TOTAL ASSETS	$ 646,299	$ 613,938

The accompanying Notes to Financial Statements are an integral part of this statement.

CGA COMPUTER ASSOCIATES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
(Concluded)

AS AT APRIL 30

LIABILITIES AND STOCKHOLDERS' INVESTMENT

	1972	1971
CURRENT LIABILITIES:		
Accounts Payable	$ 7,189	$ 2,510
Other Current Liabilities	60,247	41,610
	$ 67,436	$ 44,120
7% Convertible Subordinated Debentures Due in 1979 (Note 4)	$ 290,000	$ 300,000
Commitments and Contingent Liabilities (Note 5)		
STOCKHOLDERS' INVESTMENT: (Notes 4 and 6)		
Common Stock, Par Value $.10 Per Share; Authorized 3,000,000 Shares; Outstanding 1972 - 269,200 Shares; 1971 - 222,000 Shares	$ 26,920	$ 22,200
Amount Contributed in Excess of Par Value	$ 305,176	$ 293,415
ACCUMULATED DEFICIT: (Note 7)		
Beginning Balance	$ (45,797)	$ (79,784)
Net Income	2,564	33,987
Ending Balance	$ (43,233)	$ (45,797)
TOTAL STOCKHOLDERS' INVESTMENT	$ 288,863	$ 269,818
TOTAL LIABILITIES AND STOCKHOLDERS' INVESTMENT	$ 646,299	$ 613,938

The accompanying Notes to Financial Statements are an integral part of this statement.

CGA COMPUTER ASSOCIATES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF INCOME

FOR THE FISCAL YEARS ENDED APRIL 30

	1972	1971
NET REVENUES	$ 956,358	$ 728,339
COST OF REVENUES	641,501	488,440
GROSS PROFIT	$ 314,857	$ 239,899
Selling, General and Administrative Expenses	310,278	218,060
INCOME FROM OPERATIONS	$ 4,579	$ 21,839
OTHER INCOME (EXPENSE):		
Interest Income	$ 14,497	$ 30,089
Interest Expense	(19,994)	(21,309)
Other - Net	4,998	3,368
	$ (499)	$ 12,148
INCOME BEFORE FEDERAL, STATE AND LOCAL INCOME TAXES AND EXTRAORDINARY ITEM	$ 4,080	$ 33,987
Federal, State and Local Income Taxes	2,416	10,000
INCOME BEFORE EXTRAORDINARY ITEM	$ 1,664	$ 23,987
Extraordinary Item - Federal Income Tax Benefit from Carry Forward of Net Operating Loss (Note 7)	900	10,000
NET INCOME	$ 2,564	$ 33,987
INCOME PER COMMON SHARE: (Note 8)		
Income before Extraordinary Item	$ .01	$ .11
Extraordinary Item		.04
NET INCOME	$ .01	$ .15
Income before Extraordinary Item, Assuming Full Dilution		$ .10

The accompanying Notes to Financial Statements are an integral part of this statement.

CGA COMPUTER ASSOCIATES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

FOR THE FISCAL YEARS ENDED APRIL 30

	1972	1971
SOURCES OF FUNDS:		
Income before Extraordinary Item	$ 1,664	$ 23,987
Depreciation of Equipment and Amortization of Leasehold Improvements	12,849	9,629
Amortization of Deferred Charges	3,804	3,804
Amortization of Acquisition Cost of Subsidiaries	1,840	
Extraordinary Item-Federal Income Tax Benefit from Carryforward of Net Operating Loss	900	10,000
Inclusion of Net Assets of Subsidiaries Acquired	11,944	
Issuance of Capital Stock	7,400	
Capital Stock Issued to Retire Convertible Bonds - Net of Deferred Financing Charges	9,081	
TOTAL SOURCES OF FUNDS	$ 49,482	$ 47,420
APPLICATION OF FUNDS:		
Investment in 6 1/2% Convertible Capital Notes	$	$ 25,000
Leasehold Improvements	785	65,794
Other Equipment Additions	8,763	(1,202)
Deferred Copyright Costs	6,870	
Loan Receivable-Dimode Industries, Inc.	27,483	74,833
Increase in Other Assets	11	80
Initial Cost of Acquisition of Subsidiaries (Note 5)	85,571	
Provision for Contingent Acquisition Payments (Notes 5 and 9)	9,000	
Retirement of Convertible Bonds through Exchange for Capital Stock	10,000	
TOTAL APPLICATION OF FUNDS	$ 148,483	$ 164,505
INCREASE (DECREASE) IN WORKING CAPITAL	$ (99,001)	$(117,085)
INCREASE (DECREASE) IN WORKING CAPITAL BY COMPONENTS:		
Cash	$(174,430)	$(193,827)
Accounts Receivable	52,774	49,536
Prepaid Expenses	1,329	1,364
Other Receivables	16,043	
Merchandise Inventory	28,599	
Accounts Payable	(4,679)	28,974
Accrued Liabilities	(9,637)	(3,132)
Other Current Liabilities	(9,000)	
INCREASE (DECREASE) IN WORKING CAPITAL	$ (99,001)	$(117,085)

The accompanying Notes to Financial Statements are an integral part of this statement.

CGA COMPUTER ASSOCIATES, INC. AND SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - PRINCIPLES OF REPORTING:

The accompanying consolidated financial statements include the accounts of CGA Computer Associates, Inc. and its wholly-owned subsidiary CGA Data Services, Inc. for the Full year ended April 30, 1972. Two subsidiaries, Nevis-Wallen Associates, Inc. and Danzig-Nevis International, Inc., were acquired by purchase on August 3, 1971, and their accounts for the period August 3, 1971 through April 30, 1972 are included in the consolidated statements. The statements and accounts of all the above-named corporations are on the accrual basis. All inter-company balances and transactions have been eliminated.

NOTE 2 - MERCHANDISE INVENTORY:

The merchandise inventory is priced at the lower of cost (first in, first out) or market.

NOTE 3 - NOTE RECEIVABLE FROM DIMODE INDUSTRIES, INC.:

The demand note receivable from Dimode Industries, Inc. (Dimode) bears interest at 10% per annum and is secured by the following collateral:

a) All of the outstanding capital stock of Dimode's active subsidiaries: Minisink Rubber Co., Inc. and Burton Manufacturing Corp.

b) All of the outstanding capital stock of two inactive subsidiaries: Plymouth Enterprises, Inc. and Plastic Packaging Materials, Inc.

c) A secondary security interest in the accounts receivable of Minisink Rubber Co., Inc.

d) A secondary security interest in the inventories of Minisink Rubber Co., Inc. and Burton Manufacturing Corp.

e) A $50,000 convertible subordinated debenture of Pemtek, Inc. and 10,000 shares of the common stock of Pemtek, Inc.

In January, 1972, the Company called the note and payment was not received. Under the collateral agreement, the Company has appointed a manager for Dimode's active subsidiaries, "Minisink" and "Burton", and has taken control of their operations. Audited financial statements for the fiscal year ended August 31, 1972 show combined operations maintained on a profitable basis, and a combined net equity slightly in excess of the obligation due to the Company. In October, 1972, the Company started proceedings necessary to assume ownership of these subsidiaries of Dimode.

In September, 1972, the "Pemtek" debentures and stock were sold for $9,000 which will be applied against the balance of the Dimode note.

NOTE 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 into common stock at $2.50 per share. In the fiscal year ended April 30, 1972, one $10,000 bond was converted under this option. 116,000 shares of common stock are reserved for possible future conversions.

NOTE 5 - COMMITMENTS AND CONTINGENT LIABILITIES:

The Company leases space at annual rentals of approximately $34,500 under leases extending through May 31, 1974.

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 sub-leased these facilities for substantially the same aggregate rentals and for the same period. In connection with the sub-lease agreement, the Company has expended approximately $67,000 for improvements. The sub-lessee has agreed to pay $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.

In connection with the acquisition of Nevis-Wallen Associates, Inc. and Danzig-Nevis International, Inc., the Company has contracted, for five years, to pay annually to the former stockholders of the acquired companies, an amount equal to the after-tax income of those companies as determined by the Company's independent certified public accountants. The base period for this purpose is the twelve months ended August 31 each year and a portion of the payments may be in the form of the Company's common stock.

The Company's attorneys have stated that there is no litigation pending against the Company.

NOTE 6 - STOCK OPTIONS:

As of April 30, 1972, 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 at the date of grant. During the fiscal year ended April 30, 1972, the Company granted options for the purchase of 1,500 shares at prices ranging from $1 to $2 per share, and options for 9,350 shares were cancelled. On April 30, 1972, options for 19,050 shares were outstanding.

In addition, there is an Executive Incentive Stock Purchase Plan for which 50,000 shares of common stock were reserved for issuance to key executives, including officers and directors. Under this plan, the Board of Directors may allocate shares of the Company's common stock to key executives, at a price to be determined by the Board, but which may not be less than $1 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 the grant. Upon termination of the recipient's employment, the Company has the option to repurchase the remaining restricted shares. 37,000 shares have been allocated under this plan for future grant at $1 per share. However, no shares have yet been offered or issued under the plan.

NOTE 7 - FEDERAL INCOME TAX LOSS CARRYFORWARD:

As of April 30, 1972, the Company had a net operating loss carryforward of approximately $43,000 which may be used to reduce future income otherwise subject to Federal income taxes through 1976.

The utilization of the aforementioned loss carryforward is dependent upon the Company earning sufficient future taxable income.

NOTE 8 - NET INCOME PER COMMON SHARE:

Net income per common share was computed using the weighted average number of common shares outstanding during each period. The effect of outstanding stock options is not material and has been excluded from the computation.

Fully diluted income per common share, before the extraordinary item, was computed for the fiscal year ended April 30, 1971, assuming full conversion of all of the 7% convertible subordinated debentures at the beginning of the year. Consequently, the number of shares assumed to have been converted was added to the weighted average number of common shares outstanding and income before extraordinary item was adjusted to eliminate the interest paid on these debentures.

Fully diluted income for the fiscal year ended April 30, 1972, is not shown on the accompanying consolidated statement of income because the effect of assumed conversion is anti-dilutive.

NOTE 9 - EXCESS OF COST OF ACQUISITION OVER EQUITY ACQUIRED:

The initial cost of acquiring Nevis-Wallen Associates, Inc. and Danzig-Nevis International, Inc. was $85,470.94, including cash paid, common stock issued and certain costs connected with the acquisition. The stockholders' equity in the two acquired companies on the purchase date, August 3, 1971, amounted to $11,843.69. The difference amounting to $73,627.25 is being amortized on a straight-line basis over thirty years.

In addition to the above, the Company is obligated to pay annually to the former stockholders of the acquired companies an amount equal to the after-tax income of those companies for the next five years. The base period for this purpose is the twelve months ended August 31 each year. For the twelve months ended August 31, 1972, the amount to be paid is approximately $13,500. A provision of $9,000 has been accrued for the eight months ended April 30, 1972, and it is included in the financial statements.

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
Lawrence S. Robinson, Vice President
Joel M. Handel, Secretary

TRANSFER AGENT

Fidelity Union Trust Co.
765 Broad Street
Newark, New Jersey

COUNSEL

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

COMPUTER ASSOCIATES INCORPORATED
715 PARK AVENUE, EAST ORANGE, NEW JERSEY 07017 · 201-678-8100