



CGA Computer Associates, Inc.

Annual Report 1978



Lawrence S. Robinson
Executive Vice President



Jack Goldstein
Vice President



Elliott J. Rosenzweig
Vice President



James Stanton
President, PSI-TRAN CORP.



David J. Satkovich
Vice President, PSI-TRAN CORP.

Board of Directors

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

Executive Officers

Bernard M. Goldsmith, III
President and Treasurer
Lawrence S. Robinson
Executive Vice President
Jack Goldstein
Vice President
Elliott J. Rosenzweig
Vice President
Joel M. Handel
Assistant Secretary
James Stanton
President, PSI-TRAN CORP.
David J. Satkovich
Vice President, PSI-TRAN CORP.

Transfer Agent

Fidelity Union Trust Company
Newark, New Jersey

Auditors

Sax, Macy, Fromm and Co.
Clifton, New Jersey

Counsel

Baer Marks & Upham
New York, New York

Shares Traded

Over-The-Counter

CGA Computer Associates Inc.
25 Commerce Drive
Cranford, New Jersey 07016
(201) 272-3900

To Our Shareholders:

The 1978 fiscal year was a memorable one for CGA Computer Associates Inc. A milestone year that marked the completion of our first decade as a company and our tenth consecutive year of growth.

Operating revenues for the fiscal year, ended April 30, 1978, rose over 82 percent to a new record level of \$5,776,414, from the \$3,164,961 we reported for the 1977 fiscal year. Similarly, net income grew more than 67 percent to an all-time high of \$320,230, or \$0.82 per share, from the \$191,628, or \$0.64 per share, earned the year earlier. Earnings for fiscal 1978 would have been significantly greater, but for losses experienced in our software products operations.

A further accomplishment of the past year was the extinguishment of long-term debt, consisting of \$103,000 of 7% subordinated debentures due in 1979. Of the total amount, \$44,500 were redeemed at par and the balance of \$58,500 was converted into 46,800 shares of common stock.

Our operating results for fiscal 1978 reflect both major gains and the resolution of certain problems that arose during the year. Our consulting services operations, which have consistently shown growth, increased appreciably in volume to about \$4.9 - million, with pre-tax earnings of approximately \$650,000. Further major gains, principally generated from our New York, Chicago, and Washington area consulting services, are expected for the current fiscal year. The Chicago office, which was opened in November 1977, is already operating profitably and dramatic growth is expected from this office in the months ahead. It was determined to close our software sales offices in Atlanta and Dallas during the past year as we were unable to economically service these markets with available staff. Nevertheless, we contemplate further geographic expansion as talented data processing professionals are available.

Our Psi-Tran consulting operation, located in Washington, D.C., has built its volume up to \$1 million with further gains expected during fiscal

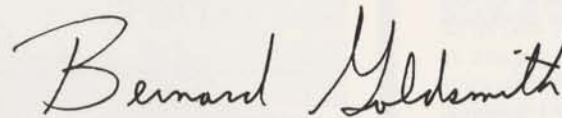
1979. This operation now seems postured for genuine growth in both sales and profitability, from governmental agencies and from a growing private sector business.

Proprietary software packages which, with about \$775,000 in volume for last year, represented about 15 percent of revenues were not profitable, largely reflecting disappointing sales results from the recently sold INQUIRY/IMS software product and excessive inherited sales costs associated with other software products. These expenses are being brought into line with anticipated sales volume and we should achieve profitable software package results for fiscal 1979. As a part of the sale of INQUIRY/IMS we are guaranteed a minimum of \$200,000 of royalties.

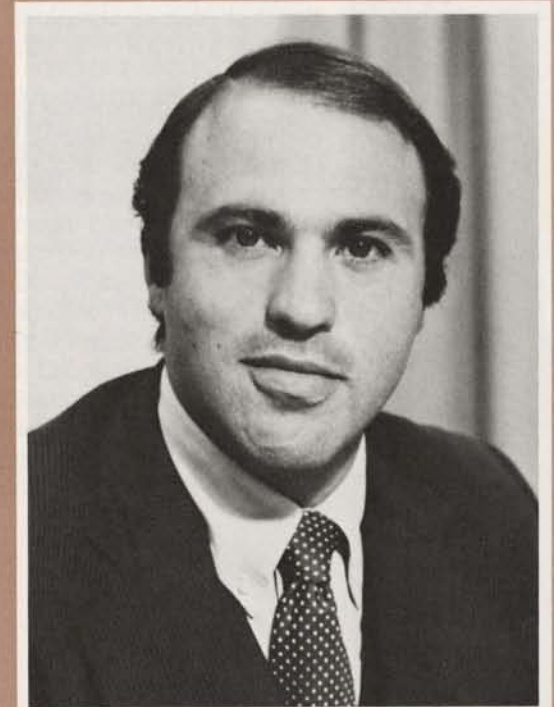
Fiscal 1979 and future years should again provide new records in revenues and earnings, consistent with the growth rate maintained in the past several years.

We are grateful to the many people, both within our organization and within our customer group, who have made CGA's progress and growth possible.

Sincerely,



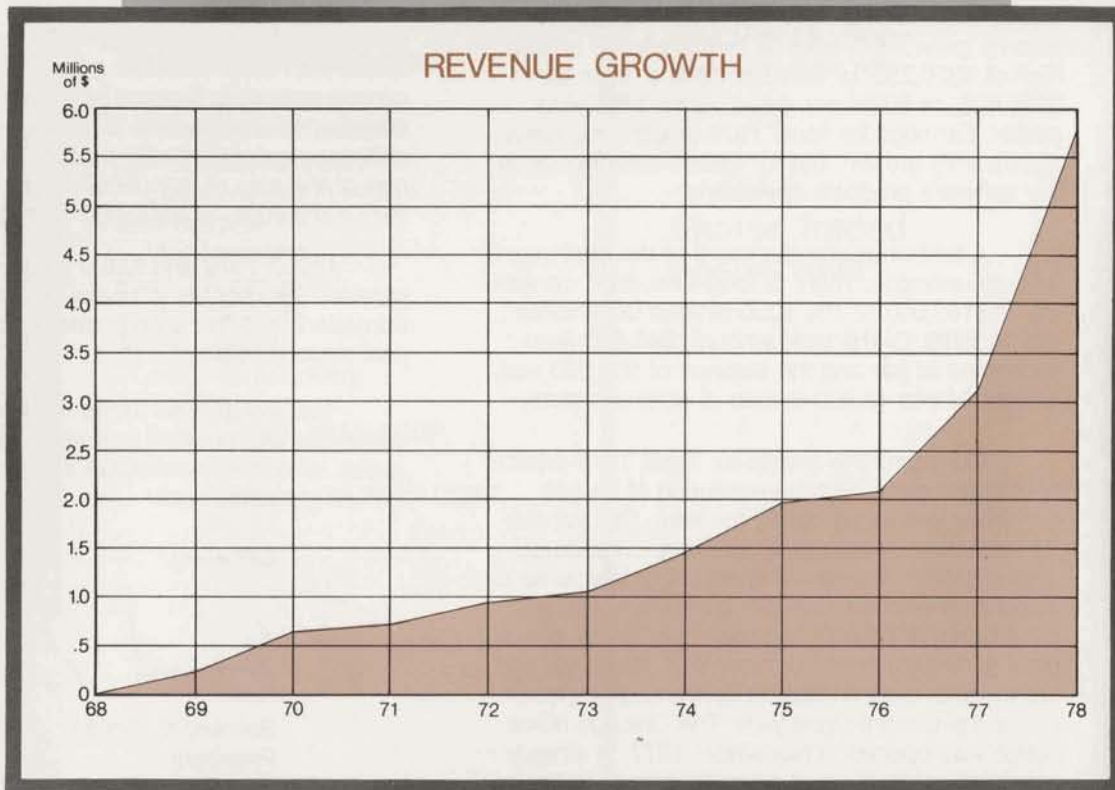
Bernard M. Goldsmith, III
President



A Decade of Growth

CGA has come a long way in its first decade. In May of 1969 we reported first year sales of \$248,379 and a loss for that first full year of operations. Three people comprised the start-up organization and the physical facilities encompassed two very modest rooms. Today, we number over 200 on staff, largely data processing professionals, and we have significant facilities in four major metropolitan areas, in addition to the corporate headquarters in Cranford, New Jersey. CGA had total assets of \$146,109 at the close of its first year, as compared to assets of approximately \$1.7 million at the end of fiscal 1978. We actually had a negative book value of \$46,290 that first year, as compared to the present book value of \$1,113,077, or \$2.49 per share.

As we commence our second decade we can look at an established and matured company of professionals serving a growing demand for our data processing expertise. As an insight into what the next decade can mean to CGA, one recent industry study of the potentials for both professional services and software products through 1985 indicates that the 1977 volume level of \$500 - million for professional software services will have doubled, reflecting expanded reliance on outside firms for application specialists and load leveling. The packaged software market, which was about \$840 - million in 1977, is predicted to reach about \$3.5-billion in that same time span.



Professional Excellence = Client Growth

The high performance standards demanded of CGA's professionals has resulted in an expanding list of satisfied clients; an exceptionally high percentage of repeat business from those clients, and their referrals to other prospective clients who have need of CGA's talents and expertise.

CGA's client list includes many of the "blue chips" of industry, as well as leaders from every aspect of business and major government services and agencies. Over the past ten years our professionals have developed expertise in the insurance, banking, finance, and communications fields, to name but a few, and provided software systems ranging from insurance claims processing, inventory controls and sales statistics to the operations of a petroleum refinery. Within government, the client roster ranges from the White House, through the Army and Navy, to such agencies as HEW and HUD.

CGA today is an established and matured group of professionals with ten years of exceptional growth behind it; a dedicated commitment to quality of service, and new milestones of accomplishment ahead.



ten years

A Decade of Computer Professionals . . .

CGA's first decade has been one of uninterrupted growth in all aspects of its operations. The key to that growth has been and remains a constantly expanding staff of data processing professionals, serving their counterparts in government, business and industry with strongly motivated, technically trained and resourceful computer expertise.

The CGA Professionals

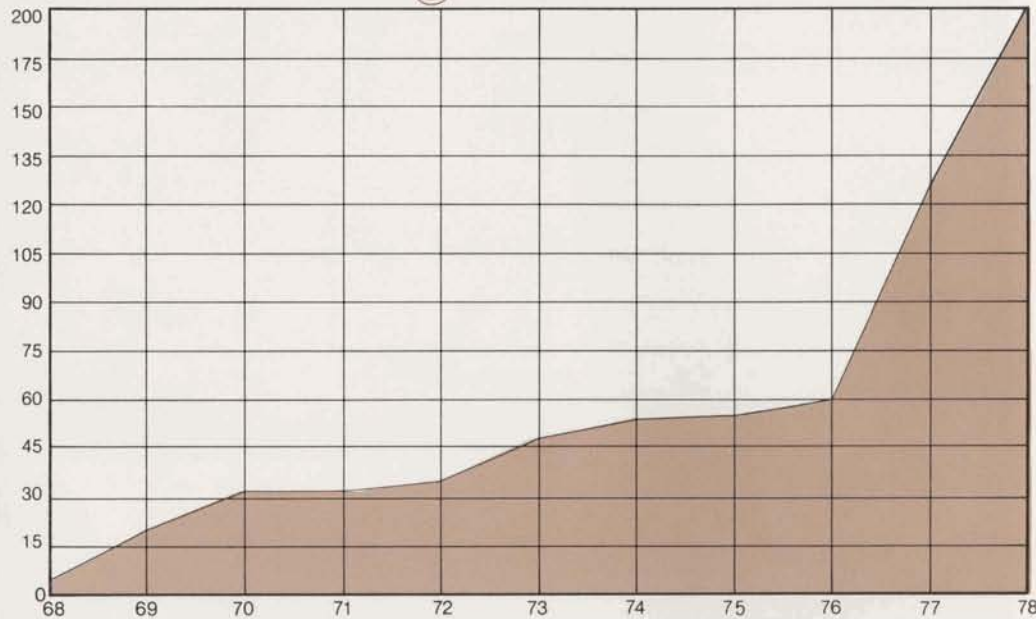
From an original group of three, the organization has grown over the past ten years to a staff of over 200, composed largely of computer professionals. This strong, applications oriented technical group includes management systems specialists, business systems specialists, programmers and software specialists. Knowledge-

1968-1978

**A
DECADE
OF
PROFESSIONALS
SERVING
PROFESSIONALS**

cgga EMPLOYEES

Employees



A Decade of Computer Professionals (Cont.)

able and experienced in all the important computer languages and disciplines, and versed in the equipment of the major computer manufacturers, they have nurtured their skills through dealing with a broad cross-section of corporate and governmental applications.

The building of this technical staff, while partially realized through acquisition, has been largely achieved through extensive and painstaking recruiting efforts. To accomplish the hiring of some 72 most recent employees, it took close to 2,500 interviews of candidates in the New York, New Jersey, Chicago and Washington areas to come up with the proper blend of talents and dedication to quality results that we feel are required to fulfill the needs of CGA and its clients.

A Decade of Professional Solutions

During the first ten years of growth the CGA professional team has provided technical services to a total of 112 clients—many on a repeat basis as well as a multiple applications basis—for a revenue volume in excess of \$20-million. In addition to providing technical solutions, CGA's proprietary software packages have been sold to about 180 client companies. We believe that the reasons for this success record relate primarily to the thoroughly trained expertise of our professional staff and the tried and proven approaches we apply to client problems and needs.

State-Of-The-Art Training

Consistent with the extensive efforts applied in building our professional staff is the continuing and regular process of educational training of that staff to keep them fully cognizant of new developments, both within CGA and its clients, and the data processing industry as a whole. This constant "up-dating" permits CGA to assign any number of thoroughly trained people to a specific project and complete the assignment on an "on-time basis" within allocated budgets.





A Decade of Professional Solutions (Cont.)

Services And Methods

CGA's technical staff provides review and analysis of the client's business problems; designs the technical solutions to those problems, and implements the mechanical aspects of the technical solutions. The results are innovative and performance oriented software designed for maximum utilization of the client's investment in data processing equipment, software and staff.

Operating with the philosophy that the development of a computer system is akin to the development of any other product, CGA's technical management structure is designed to provide the proper controls, checks and balances on the development of a product to insure that the client's specifications are met.

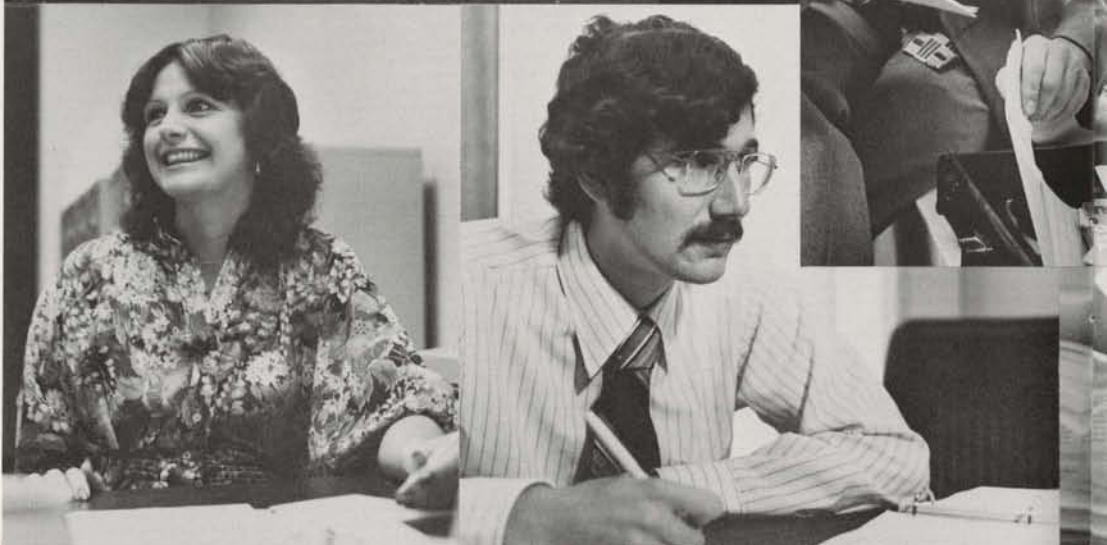
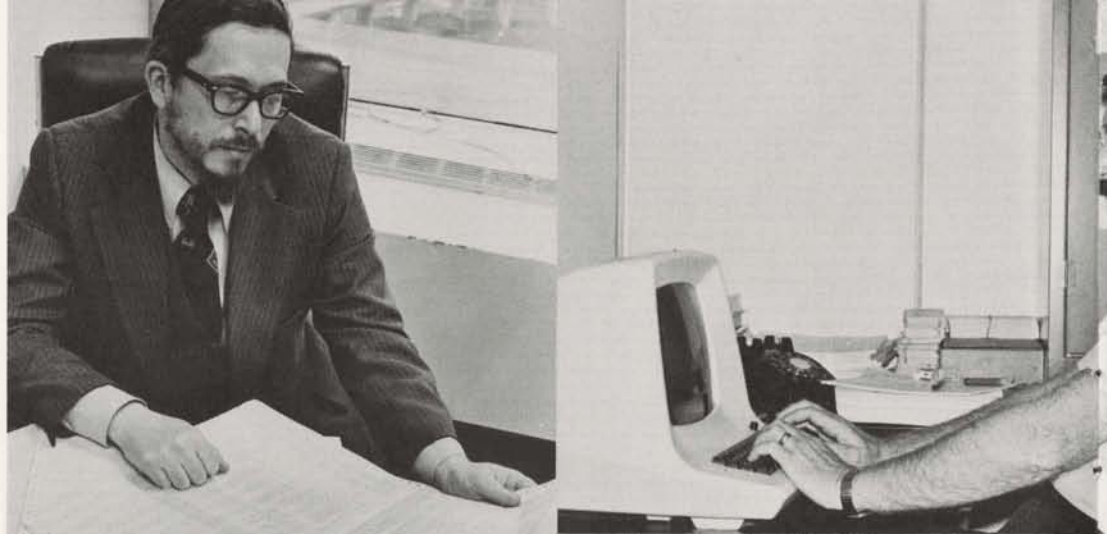
Each product development effort is under the control of a Vice President of Technical Process, who is responsible for the initial product plans and the subsequent successful implementation of that product at the client company. Further, as a quality assurance function, the completed product of CGA's technical staff is reviewed by the Company's Director of Technical Product to insure that both technical specifications as well as CGA-established standards and procedures are met.

cgga professionals

A Decade of Professional Solutions (Cont.)

Each team of CGA consultants assigned to a client's project is headed by a Project Leader, responsible for the day-to-day progress in the development of the product. These Project Leaders are trained in and responsible for the preparations of detailed estimates prior to the commencement of any project and in the monitoring of the project to catch any discrepancies that may arise and react to any problems. To assist in this control, CGA has an automated Project Control System which gathers resources spent, by task, comparing them to original budgets and producing appropriate management reports.

The benefits for the client in using CGA's professional custom services are rapidly apparent, even to the large data processing user with its own extensive staff, in that costs are known in advance of execution of the project; personnel use and training expenses for one-time projects are eliminated; specialized talent can be called upon on short notice and for brief periods, and project management—utilizing professionals to do professional work—is the responsibility of CGA.





Proprietary Products

With CGA's proprietary product software packages the client is provided an economic alternative to the costly development of in-house software and simultaneously obtains a standardization of output as well as improvements in the speed and efficiency of program execution. These generalized software packages provide the solution to data processing problems and are useful across a wide variety of industries.

CGA's approach to both the design and development of systems software involves a consistent appraisal and understanding of the businesses involved. In the process we analyze what people within a given industry or business are doing in the computer management of their operations versus what they possibly should be doing.

To optimize our contribution we try to point out problems, with their corresponding answers, that clients may not even be aware of to indicate to them how they should be handling aspects of their business. In short, we try to be creative businessmen who can devise the innovative technical solutions to maximize the utility of a client's computer hardware.

cgga professionals

CGA COMPUTER ASSOCIATES INC. (DEL.) AND SUBSIDIARIES

Consolidated Balance Sheets

April 30, 1978 and 1977

Assets

	April 30, 1978	April 30, 1977
Current Assets:		
Cash and Cash Equivalents	\$ 384,349	\$ 370,106
Short-Term Securities [Note 1B]	—	50,136
Receivables:		
Trade Accounts [Note 1C]	\$ 1,099,127	\$ 814,081
Other	17,657	12,934
Prepaid Expenses	51,181	44,370
Total Current Assets	1,552,314	1,291,627
 Equipment and Improvements [Notes 1D and 4]:		
Furniture and Equipment	109,444	44,262
Leasehold Improvements	675	675
Total Equipment and Improvements	110,119	44,937
Less: Accumulated Depreciation and Amortization	27,659	20,024
Net Value—Equipment and Improvements	82,460	24,913
 Other Assets:		
Deferred Costs [Notes 1E, 3 and 4]	89,488	123,509
Deposits and Other Assets	14,209	7,711
Total Other Assets	103,697	131,220
 Total Assets	\$ 1,738,471	\$ 1,447,760

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

Consolidated Balance Sheets

April 30, 1978 and 1977

Liabilities and Stockholders' Equity

	April 30, 1978	April 30, 1977
Current Liabilities:		
Debentures Payable [Note 7]	\$ 40,000	\$ —
Accounts Payable	158,068	202,334
Income Taxes Payable [Notes 1F and 6]	44,687	84,076
Accrued Liabilities [Notes 1G and 5]	340,843	332,811
Obligation Under Capital Lease [Note 9]	4,143	—
Total Current Liabilities	<u>587,741</u>	<u>619,221</u>
Deferred income Taxes [Notes 1F and 6]	4,297	10,880
7% Convertible Subordinated Debentures [Note 7]	—	103,000
Obligation Under Capital Lease [Note 9]	33,356	—
Commitments and Contingencies [Notes 9 and 10]	—	—
Stockholders' Equity [Notes 7 and 8]:		
Common Stock, Par Value \$.10 Per Share; Authorized 1,000,000 Shares; Issued and Outstanding 447,000 Shares in 1978 and 347,700 Shares in 1977	\$ 44,700	\$ 34,770
Amount Contributed in Excess of Par Value	205,327	137,069
Retained Earnings	863,050	542,820
Total Stockholders' Equity	<u>1,113,077</u>	<u>714,659</u>
Total Liabilities and Stockholders' Equity	<u>\$ 1,738,471</u>	<u>\$ 1,447,760</u>

0,106
0,136
7,015
4,370
1,627

4,913

1,220

7,760

CGA COMPUTER ASSOCIATES INC. (DEL.) AND SUBSIDIARIES

Consolidated Statements of Income

For the Years Ended April 30, 1978 and 1977

	Year Ended April 30, 1978	Year Ended April 30, 1977
Operating Revenues [Note 1C]	\$ 5,776,414	\$ 3,164,961
Operating Costs and Expenses:		
Direct Cost of Revenues	\$ 3,586,284	\$ 1,799,928
Selling, General and Administrative Expenses	<u>1,672,324</u>	<u>1,005,177</u>
	5,258,608	2,805,105
Operating Income	517,806	359,856
Interest Income or (Expense):		
Interest Income	15,613	18,784
Interest Expense	<u>(5,289)</u>	<u>(7,312)</u>
	10,324	11,472
Income Before Income Taxes	528,130	371,328
Provision for Income Taxes [Notes 1F and 6]	<u>207,900</u>	<u>179,700</u>
Net Income	<u>\$ 320,230</u>	<u>\$ 191,628</u>
Earnings Per Common Share [Note 11]:		
Primary	\$.82	\$.64
Fully Diluted	.74	.51

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

CGA COMPUTER ASSOCIATES INC. (DEL.) AND SUBSIDIARIES

Consolidated Statements of Stockholders' Equity

For the Years Ended April 30, 1978 and 1977

	Common Stock	Amount Contributed In Excess Of Par Value	Retained Earnings	Total Stockholders' Equity
Balances at May 1, 1976	\$ 30,020	\$ 137,007	\$ 351,192	\$ 518,219
Redemption of Stock Options	—	(13,000)	—	(13,000)
Stock Issued Under Incentive Plan	4,750	13,062		17,812
Net Income for the Year Ended April 30, 1977			191,628	191,628
Balances at April 30, 1977	34,770	137,069	542,820	714,659
Stock Issued Under Incentive Plan	5,250	14,438		19,688
Conversion of 7% Convertible Debentures	4,680	53,820		58,500
Net Income for the Year Ended April 30, 1978			320,230	320,230
Balances at April 30, 1978	<u>\$ 44,700</u>	<u>\$ 205,327</u>	<u>\$ 863,050</u>	<u>\$ 1,113,077</u>

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

equity

CGA COMPUTER ASSOCIATES INC. (DEL.) AND SUBSIDIARIES

Consolidated Statements of Changes in Financial Position

For the Years Ended April 30, 1978 and 1977

	Year Ended April 30, 1978	Year Ended April 30, 1977
Working Capital Was Provided By:		
Operations —		
Net Income for the Year	\$ 320,230	\$ 191,628
Add (Deduct) Items Not Affecting Working Capital:		
Depreciation and Amortization	42,656	30,571
Deferred Income Taxes	(6,583)	(13,354)
Total from Operations	\$ 356,303	\$ 208,845
Sale of Equipment	1,180	—
Issuance of Stock Under Incentive Plan	19,688	17,812
Conversion of 7% Convertible Debentures	58,500	—
Obligation under Capital Lease	37,821	—
Total	473,492	226,657
Working Capital Was Used For:		
Increase in Equipment and Improvements	66,362	18,247
Purchase of Computer Software Products	1,000	96,000
Increase in Other Deferred Costs	—	3,900
Increase in Deposits and Other Assets	6,498	2,385
Redemption of Stock Options	—	13,000
Redemption of 7% Convertible Debentures	103,000	—
Reduction of Long-Term Capital Lease Obligation (including portion becoming currently payable)	4,465	—
Total	181,325	133,532
Net Increase in Working Capital	\$ 292,167	\$ 93,125

DETAIL OF CHANGES IN ELEMENTS OF WORKING CAPITAL

	INCREASE OR (DECREASE)	
Current Assets:		
Cash and Cash Equivalents	\$ 14,243	\$ 31,534
Short-Term Securities	(50,136)	(49,864)
Receivables	289,769	566,439
Prepaid Expenses	6,811	9,950
Total	\$ 260,687	\$ 558,059
Current Liabilities:		
Debentures Payable	40,000	—
Accounts Payable	(44,266)	161,829
Income Taxes Payable	(39,389)	74,888
Accrued Liabilities	8,032	228,217
Obligation Under Capital Lease	4,143	—
Total	(31,480)	464,934
Net Increase in Working Capital	\$ 292,167	\$ 93,125

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

CGA COMPUTER ASSOCIATES INC. (DEL.) AND SUBSIDIARIES

Notes to Consolidated Financial Statements

April 30, 1978 and 1977

Note 1 — Summary of Significant Accounting Policies:

A. Principles of Consolidation—The consolidated financial statements include the accounts of CGA Computer Associates Inc. (Del.) and its wholly owned subsidiaries; Psi-Tran Corp., as of March 7, 1977, and CGA Computer Associates of Maryland, Inc., since its formation on January 1, 1978. All significant intercompany accounts and transactions have been eliminated.

B. Short-Term Securities—Short-term securities are stated at cost, which approximates market.

C. Revenue Recognition and Receivables—Revenue from contract services, performed principally on a time and material basis, is recognized as the work is performed, at agreed upon billing rates. Reimbursable costs are included in revenues. Revenue from proprietary software products, marketed to customers under permanent license arrangements, is recognized at the time the product is installed and accepted by the customer.

It is the Company's policy to reserve for accounts considered to be uncollectible. Reserves were not required at April 30, 1978 and 1977.

D. Equipment, Improvements and Depreciation—Purchased equipment and improvements are stated at cost. Property leased under capital leases are capitalized in accordance with Statement of Financial Accounting Standards No. 13.

Depreciation is provided on the straight-line method over estimated useful lives of 5 to 7 years for furniture and equipment and over the shorter of the useful life or the lease period for leasehold improvements.

Upon sale or other disposition of property, the cost and related accumulated depreciation are eliminated from the accounts and the gains or losses thereon are reflected in income.

E. Deferred Costs and Amortization—Purchased computer software product costs and certain costs to develop marketing material for acquired software products are capitalized and amortized on a straight-line basis over estimated useful lives of 3 to 5 years.

Expenses incurred in connection with the original issuance of 7% convertible subordinated debentures are being amortized over the period in which the debentures remain outstanding.

Organizational expenses are being amortized over five years.

F. Income Taxes and Investment Credit—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.

G. Profit Sharing Plan—The Company has a profit sharing plan in effect, covering substantially all of its employees. The amount of the profit sharing plan contributions are discretionary with the Company. The Company's policy is to fund profit sharing contributions accrued.

Note 2 — Acquisitions and Segregation of Proprietary Software Product Business:

In March, 1977, a subsidiary was formed to acquire certain assets and liabilities and the entire operating business (including name) of Psi-Tran Corp., a company engaged in the computer software business. The cost of the acquisition was \$225,000. As of April 30, 1978, the Company has withheld payment to the seller of approximately \$34,000, for liabilities which were not disclosed by the seller.

On January 1, 1978, the proprietary software product business of CGA Computer Associates Inc. and Psi-Tran Corp., including certain assets related thereto, was transferred to a newly formed subsidiary, CGA Computer Associates of Maryland, Inc., for the purpose of segregating the proprietary software product business from the software consulting business.

Note 3 — Deferred Costs:

Deferred costs consisted of the following:

	April 30	
	1978	1977
Purchased Computer Software Products	\$ 107,500	\$ 106,500
Product Market Development Costs	36,193	36,193
Debt Issuance Costs	—	7,572
Organizational Costs of Subsidiary	3,900	3,900
	<u>147,593</u>	<u>154,165</u>
Less: Accumulated Amortization	58,105	30,656
Total	<u>\$ 89,488</u>	<u>\$ 123,509</u>

During the year ended April 30, 1978, the deferred debt issuance costs became fully amortized. The deferred costs of \$7,572 and related accumulated amortization have been eliminated from the accounts.

notes

Note 4 — Depreciation and Amortization:

Depreciation and amortization expense of equipment and improvements for the years ended April 30, 1978 and 1977 amounted to \$7,635 and \$3,713, respectively. Amortization of deferred costs amounted to \$35,021 in 1978 and \$26,858 in 1977.

Note 5 — 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 \$90,000 for the year ended in 1978 and \$68,000 for the year ended in 1977.

Note 7 — 7% Convertible Subordinated Debentures:

During the year ended April 30, 1978, the Company called all of its outstanding 7% convertible subordinated debentures for redemption. By the redemption date of January 15, 1978, \$58,500 principal amount of debentures were tendered for conversion into common stock at a rate of \$1.25 per share, resulting in the issuance of 46,800 shares of common stock. The remaining \$44,500 of debentures were redeemed by the Company.

Note 8 — Redemption of Option Agreement:

An option agreement, reserving 20,000 shares of common stock through June 25, 1983, was redeemed by the

Note 6 — Income Taxes:

Income tax expense includes the following:

	Year Ended April 30	
	1978	1977
Taxes Currently Payable:		
Federal	\$ 147,100	\$ 142,700
State	60,800	37,000
Total Income Tax Expense	<u>\$ 207,900</u>	<u>\$ 179,700</u>

For the years ended in 1978 and 1977, income tax expense amounted to \$207,900 and \$179,700, respectively, as compared with \$253,502 and \$178,237, respectively,

computed by applying the statutory federal income tax rate to income before income taxes. The reasons for the differences are as follows:

	Year Ended April 30			
	1978		1977	
	Amount	% of Pre-Tax Income	Amount	% of Pre-Tax Income
Computed "expected" tax expense	\$ 253,502	48.0%	\$ 178,237	48.0%
Increase or (Decrease) in taxes resulting from:				
State taxes net of Federal income tax benefit	31,616	6.0	19,240	5.2
Utilization of tax credits	(59,994)	(11.4)	(1,648)	(0.4)
Surtax exemption	(13,500)	(2.5)	(13,500)	(3.6)
Non-taxable income	(4,979)	(0.9)	(3,558)	(1.0)
Other — Net Totals	1,255	0.2	929	0.2
Totals	<u>\$ 207,900</u>	<u>39.4%</u>	<u>\$ 179,700</u>	<u>48.4%</u>

Company during the year ended April 30, 1977, for \$13,000, and was subsequently cancelled. The redemption amount was charged to amount contributed in excess of par value.

Note 9 — Leases:

Capital Lease:

During the year ended April 30, 1978, the Company entered into a lease which meets the capitalization criteria of Statement of Financial Accounting Standards No. 13. Leased equipment amounting to \$37,821 has been capitalized and is included in furniture and equipment.

At April 30, 1978, the future minimum lease payments related to this capitalized lease obligation were:

<u>Year Ending April 30</u>	<u>Amount</u>
1979	\$ 8,249
1980	8,249
1981	8,249
1982	8,249
1983	8,249
1984	<u>11,001</u>
Total minimum lease payments	52,246
Less amount representing interest	<u>14,747</u>
Obligation under capital lease	37,499
Less current portion of obligation under capital lease	<u>4,143</u>
Long-term obligation under capital lease	\$ 33,356

Operating Leases:

The Company has non-cancellable lease commitments on various office facilities requiring minimum annual rentals as follows:

<u>Year Ending April 30</u>	<u>Amount</u>
1979	\$ 131,795
1980	\$ 55,881
1981	\$ 12,100
1982	\$ 12,100
1983	\$ 10,050

Some of the leases require additional payments for increases in maintenance and real estate taxes.

The Company also has short-term or cancellable leases on other facilities and equipment. The total rental expense on operating leases for the years ending in 1978 and 1977 was \$174,018 and \$74,535, respectively.

Note 10 — Litigation:

During the year ended April 30, 1978, three separate actions were brought against the Company in the Circuit Court of Arlington, Virginia, all arising from the acquisition of the assets and business of Psi-Tran Corp. One action results from a claim by the seller for approximately \$34,000, the balance of the purchase price which has been withheld by the Company. The amount withheld, which is included in current liabilities, represents the Company's claim for liabilities which were not disclosed by the seller. The other actions result from the termination of an employment contract and a claim for royalties.

The Company's management is of the opinion that these actions are without merit and there will be no additional liability to the Company.

Note 11 — Earnings Per Common Share:

Primary earnings per share was computed on the basis of the weighted average number of shares outstanding during each year.

Fully diluted earnings per share was computed on the assumption that the 7% convertible debentures were converted as of May 1, 1976 into 82,400 shares, and as of May 1, 1977, into 46,800 shares, the number of shares actually converted during the year ended April 30, 1978. The computation also takes into consideration the elimination of the related bond interest expense, net of taxes thereon.

Note 12 — Subsequent event:

On May 11, 1978, the Company entered into an agreement for the sale of a software program known and marketed under the name "IN?UIRY/IMS", including the Company's rights under the license agreements in effect. The agreement provides for the Company to receive a percentage of the revenues realized by the purchaser over a three year period, with a minimum guarantee of \$200,000.

Report of Independent Certified Public Accountants

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

We have examined the consolidated balance sheets of CGA Computer Associates Inc. (Del.) and its subsidiaries as of April 30, 1978 and 1977 and the related consolidated statements of income, stockholders' equity and changes in financial position for the years then ended. Our examinations were 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 consolidated financial statements present fairly the financial position of CGA Computer Associates Inc. (Del.) and its subsidiaries at April 30, 1978 and 1977, and the results of their operations and the changes in their 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 21, 1978.

CGA COMPUTER ASSOCIATES INC. (DEL.) AND SUBSIDIARIES

Five Year Summary of Operations
NOT COVERED BY AUDITORS' REPORT

For the Years Ended April 30

	1978	1977	1976	1975	1974
OPERATING REVENUES	\$ 5,776,414	\$ 3,164,961	\$ 2,093,267	\$ 1,921,791	\$ 1,445,013
OPERATING COSTS AND EXPENSES:					
Direct Cost of Revenues	3,586,284	1,799,928	1,260,198	1,110,512	940,559
Selling, General and Administrative Expenses	1,672,324	1,005,177	539,032	520,460	390,769
Expenses of Distribution to Stockholders	—	—	—	—	25,721
	<u>5,258,608</u>	<u>2,805,105</u>	<u>1,799,230</u>	<u>1,630,972</u>	<u>1,357,049</u>
OPERATING INCOME	517,806	359,856	294,037	290,819	87,964
OTHER INCOME OR (EXPENSE):					
Interest Income	15,613	18,784	20,792	20,722	938
Interest Expense	(5,289)	(7,312)	(7,296)	(7,256)	(7,468)
Other—Net	—	—	—	—	(602)
	<u>10,324</u>	<u>11,472</u>	<u>13,496</u>	<u>13,466</u>	<u>(7,132)</u>
INCOME FROM CONTINUING OPERATIONS BEFORE TAXES	528,130	371,328	307,533	304,285	80,832
INCOME TAXES	207,900	179,700	143,400	143,800	32,700
INCOME FROM CONTINUING OPERATIONS	320,230	191,628	164,133	160,485	48,132
OPERATING LOSS ON DISCONTINUED SUBSIDIARY [Net of Income Tax Effect of \$16,100]	—	—	—	—	(21,558)
NET INCOME	<u>\$ 320,230</u>	<u>\$ 191,628</u>	<u>\$ 164,133</u>	<u>\$ 160,485</u>	<u>\$ 26,574</u>
EARNINGS PER COMMON SHARE:					
Primary—					
Income from Continuing Operations	\$.82	\$.64	\$.55	\$.53	\$.16
Loss from Discontinued Subsidiary	—	—	—	—	(.07)
Net Income	<u>\$.82</u>	<u>\$.64</u>	<u>\$.55</u>	<u>\$.53</u>	<u>\$.09</u>
Fully Diluted—					
Income from Continuing Operations	\$.74	\$.51	\$.44	\$.43	\$.14
Loss from Discontinued Subsidiary	—	—	—	—	(.06)
Net Income	<u>\$.74</u>	<u>\$.51</u>	<u>\$.44</u>	<u>\$.43</u>	<u>\$.08</u>
Weighted average number of common shares outstanding	390,813	300,460	300,200	300,200	300,200

Fully diluted earnings per share, assumes conversion of the 7% convertible debentures at the beginning of the year. Consequently 84,200 shares were assumed to have been converted as of the beginning of each of the years through 1977 and 46,800 shares, the

number actually converted upon redemption of the debentures, was assumed to have been converted as of May 1, 1978. The computation of fully diluted earnings per share also assumes the elimination of bond interest, net of taxes thereon.

five year record

**Consulting and Software
Product Offices**

CGA COMPUTER ASSOCIATES INC.

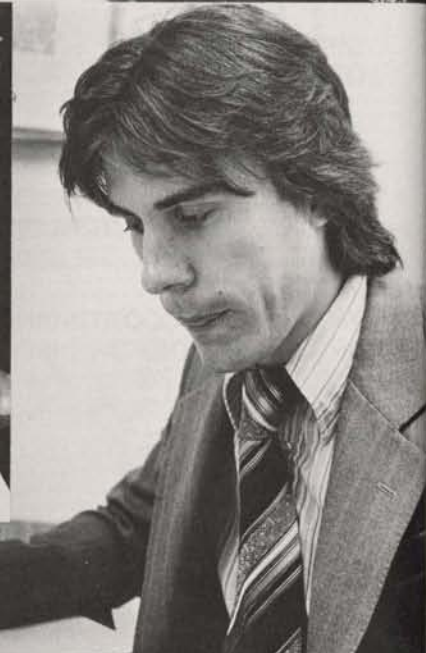
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