cga

Annual Report April 30, 1982

Cover

Stonehenge,
Wiltshire, England

CGA is a company of software builders. We are the descendants and beneficiaries of an ancient race of people who first used information intelligence and technology to answer questions, solve problems and, ultimately, advance civilization.

On the Salisbury Plain in Wiltshire, England, Stonehenge stands as a monument to our prehistoric ancestors who saw the light that was to dawn in the Information Age of the twentieth century. Constructed some 4000 years ago, Stonehenge is believed to have been built as a computer: a central filing system and repository of data that was used to calculate the phases of the moon, predict the month of the year in which eclipses would take place, indicate the solstices and mark the beginnings of the seasons.

As CGA rises as a leader in the software industry to meet the new challenges of our future, we are inspired by the people who once searched the darkness of an ancient past and recognize in them the qualities of spirit and intelligence still present in the software builders of today. Stonehenge is our symbol of a continuity into the future built on events in the past.

Contents

1 Selected Financial Data and Market Information

3 Letter to Stockholders

6 Systems, Utility and Application Software

8 Custom Software and Consulting Services

10 Index to Financial Information

36 Directors and Officers

37 Corporate Directory

A copy of the Company's Annual Report on Form 10-K to the Securities and Exchange Commission will be furnished free of charge (except for exhibits) to any shareholder upon written request to Leonard S. Ostfeld, Vice President-Controller, CGA Computer Associates Inc., 255 Route 520 East, Marlboro, New Jersey 07746.

Selected Financial Data

(Dollars in thousands except per share amounts)

POOLING OF INTERESTS ACCOUNTING METHOD*

	Years Ended April 30,				
	1978	1979	1980	1981	1982
Revenue	$10,336	$15,120	$19,227	$20,358	$25,854
Operating income	1,938	3,087	3,433	3,599	3,690
Net income	1,122	1,690	1,760	2,175	1,636
Primary earnings per share	.42	.59	.63	.70	.50
Total assets	3,085	5,144	6,594	11,578	15,680

PURCHASE ACCOUNTING METHOD*

	Years Ended April 30,				
	1978	1979	1980	1981	1982
Revenue	$ 5,776	$ 8,790	$11,813	$15,510	$25,854
Operating income	518	1,020	1,568	1,638	1,336
Net income (loss)	320	615	801	815	(1,099)
Primary earnings (loss) per share	.25	.42	.56	.42	(.33)
Total assets	1,738	2,786	3,805	29,299	29,735

*See Notes A and B to the consolidated financial statements.

MARKET INFORMATION

The Company's common stock is traded over-the-counter, NASDAQ symbol CGAC. The range of high and low bid quotations as reported by NASDAQ are as follows:

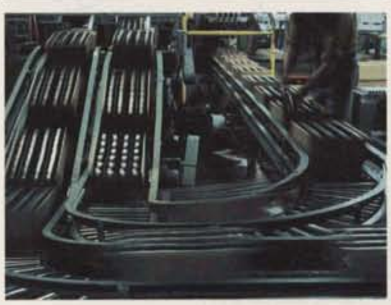
	Bid Prices					
	1980		1981		1982	
Calendar Quarter	High	Low	High	Low	High	Low
First	$ 6.67	$ 3.67	$16.50	$ 9.75	$6.50	$4.75
Second	6.17	4.67	14.25	10.00	6.50*	5.25*
Third	14.67	5.17	11.25	4.00		
Fourth	17.00	11.50	7.50	4.75		

*Through April 30, 1982.

Company Operations








CGA operations serve businesses throughout the world with quality computer software products and consulting services.

Our software products division develops and markets proprietary systems software packages and a broad-based line of applications software for small computers including financial, distribution, construction and manufacturing systems. CGA software products are marketed internationally and backed by comprehensive technical support capabilities.

CGA provides custom software and consulting services to help solve the complex information management problems of companies in diversified industries. Our consultants have completed thousands of projects for a client list of mostly Fortune 1000 companies in insurance, banking, finance, manufacturing, communications, petrochemicals and pharmaceuticals. They provide comprehensive technical expertise and a full range of professional services on a quality level sufficient to earn CGA a 99% rate of repeat customers, a high percentage of referral business and an outstanding reputation for quality.

CGA is a well-managed dynamic company, financially stable and committed to programs that serve to insure our continued growth and development.

To Our Stockholders:

Fiscal 1982 was a most significant year for our Company as we made a number of major moves designed to further establish CGA as a diversified software supplier.

The past year saw CGA expanding our management structure, adopting new methods to improve our own productivity and performance, entering new markets, adding to our product line and base of operations, and realizing overall business growth and development. Considering that these efforts were successfully carried out under the burdens of a slowing economy, intensifying competition and the complexities of reaching a Settlement Agreement with the SEC makes them even more remarkable.

We feel CGA's success today is, once again, testimony to the high level of expertise and the continuous commitment to quality found in the men and women who make up our organization.

Financial Accomplishments

Fiscal 1982 was a good year financially for CGA.

On a pooling of interests basis, revenues reached record levels, up 27% from 1981 to \$25,854,000. Operating income increased 3% from \$3,599,000 in 1981 to \$3,690,000 in 1982. Income before taxes declined from \$4,239,000 in 1981 to \$2,811,000 in 1982, due to \$1,900,000 of costs and provision for settlement associated with the SEC proceedings and class action suits.

On the purchase method of accounting, revenues reached record levels, up 67% from 1981 to \$25,854,000. Operating income, which includes a full year's amortization of software packages amounting to \$2,354,000, declined to \$1,336,000 in 1982 from \$1,638,000 in 1981. 1982 reflected an \$855,000 loss before taxes while 1981 showed income before taxes of \$1,955,000. The loss before taxes in 1982 is after \$1,900,000 of costs and provision for settlement associated with the SEC proceedings and class action suits and a full year's amortization of goodwill amounting to \$1,312,000.

Demand for our software products increased significantly, resulting in revenues of \$6,210,000, up 57% on the pooling basis and 249% under the purchase method. A major portion of our growth was generated from a recurring lease base, which we anticipate will exceed \$3,000,000 in fiscal 1983.

Software is a \$4 billion industry with a projected annual growth rate of 27%. CGA anticipates our future growth in the software market will include increasing our market share in utility software and expanding the international penetration of our products, as well as adding new products to our current offerings. We will expand our business software operations by migrating our software to other computers, by increasing our software support to small business and by expanding our marketing channels for our products.

Requirements for CGA's consulting services were at record high levels. On a pooling basis, sales were up 20% to \$19,644,000 in 1982, despite an expected \$1,553,000 revenue drop in the Allen consulting division. Under the purchase method, sales were up 43% to \$19,644,000 in 1982.

The market for professional consulting services is currently estimated at \$4 billion and expected to grow annually at a compound rate of 22% over the next five years. CGA's corporate growth strategies take advantage of our leadership position in the consulting segment of the software services industry. We will continue with the expanded geographic penetration of our consulting services, as well as the development of more industry and technical specializations.

Management Expansion

An important aspect of CGA's business strategy is to develop a broader based management team for our growing operations.

In August 1981, Robert J. Sywolski joined CGA, bringing a diversity of management experience and a keen understanding of business development and corporate planning to our organization. He is a member of CGA's Board of Directors and an Executive Vice President of the Company in charge of all of CGA's software product activities. Joining CGA in January 1982 was Leonard S. Ostfeld who is responsible for the financial affairs of the Company as Financial Vice President and Controller.

We welcome the talent, knowledge and experience of these gentlemen. They significantly broaden the capabilities of our Company so that we may expand our role in the business of providing quality software products and services to more and more industries.

Competitive Strengths

CGA is a company with a strong, well-balanced portfolio of offerings. The financial characteristics of our products and services are complimentary. Overlaid with the standards of quality, performance and reliability that have come to be associated with CGA, they allow us to compete with and grow in the information industry.

High-Performance Software Products

The large and growing demand for software products has caused CGA to increase our capacity to produce and market proprietary software packages.

In September 1981, CGA Software Products Group released TOP SECRET, a resource protection package that provides data security in an MVS computer environment. Security is of major concern to data centers around the world and TOP SECRET has been met with outstanding acceptance as the answer to total resource protection.

CGA continues to market our software products aggressively in the United States and has substantially increased our international marketing capabilities. CGA systems software is now sold through representatives in Japan, Italy, Israel and the Scandinavian countries as well as through our domestic sales force.

CGA has recently entered a new product marketing area with the acquisition of the Software Shop Systems, Inc., an Atlanta based company that develops and markets business software for smaller computers like the IBM S/23. Through dealers across the country, Software Shop Systems sells application software and provides software support to one of the fastest growing segments of the information processing market. James Anderson will continue in his position as President of Software Shop Systems operations. We welcome him and his staff to CGA.

Quality Consulting Services

In our consulting division, geographic expansion continued as anticipated in 1982. New branch offices were opened in three of our consulting regions: Philadelphia in the Mid-Atlantic Region, Minneapolis in the Mid-West Region and Houston in the Southwest Region. Our Tarrytown office was consolidated with the New York Region to improve operational efficiency. We have expanded our Cranford, New Jersey facility. In Dallas, the office which was opened in January 1981 became profitable after only seventeen months.

During fiscal 1982 we added to our professional consulting staff and to our client list that represents a broad cross-section of American business. We continue to apply exacting standards in our hiring process in order to provide our customers with outstanding professional services that guarantee their satisfaction and allow CGA to realize our growth potential.

Settlement with Securities and Exchange Commission

The Company has successfully settled the administrative proceedings against CGA initiated by the Securities and Exchange Commission in July 1981. Additionally, we have reached an agreement in principle for the settlement of all class action suits resulting from the SEC proceedings. Although it was a trying episode in our Company's history, the settlement proceedings served to strengthen CGA and substantiates the health and character of our Company.

For the Future

In the years ahead, we project the same positive, rapid and well-managed growth that has characterized CGA in the past. We will continue to respond to the opportunities of the Information Age with quality software products and services.

Expanded international operations will substantially increase our market potential, as will continued, well-considered entry into new marketing areas. A high priority will always be placed on quality, the constant high standard applied in every aspect of our current and future business.

CGA People

All the successful efforts realized by CGA are the result of the dedication and hard work of our people. We are ever grateful for their direction and support. The creativity, intelligence and spirit they bring to CGA give us the confidence to take full advantage of the opportunities offered in the information processing industry.

B Goldsmith

Bernard M. Goldsmith III
President and Chief Executive Officer

Systems, Utility and Application Software

Each year CGA has been in the computer services industry, software products have become more and more critical to the successful functioning of any company dependent on information processing systems. Ten years ago there was virtually no packaged software market. By 1985 annual revenues generated by the sale of software products are expected to exceed $11 billion.

Many factors have positioned software as the fastest growing segment of the information processing industry. There are more computers in the world—over 8 million will be installed in the United States alone by 1986—and the decreasing cost of computer hardware spurs the proliferation. Add to that increased demand for new applications, the high cost of software development and the low number of qualified technical personnel and one begins to see why there is a dramatic turn to prepackaged software products as the answer to data processing requirements.

CGA software products provide the best solutions to companies around the world. With no modification TOP SECRET™, Super-MSI™, MSM®, GCD®, DCD II™ or PAC/MASTER™ software can be implemented in a system to facilitate operations as well as provide essential functions. CGA products are installed in computer centers worldwide and have received tremendous user acceptance. Our strong line of high performance proprietary systems software packages are aggressively marketed through an international sales network.

Robert J. Sywolski
Executive Vice President
Software Products Group

CGA supports our users with an expert technical staff and close, continuing contact. Our customers always have the knowledge and comfort that a call to CGA can satisfy their needs.

As we look to broaden our marketing channels, we are also finding new ways to provide software solutions to data processing problems. CGA's Software Shop Systems, Inc. is keyed to the special requirements of smaller businesses and represents our entry into another strategic software area.

Software Shop Systems™ targets our applications software to businesses running mini-micro computers such as the IBM S/23. CGA's applications software allows smaller businesses to get a competitive edge with programs designed to perform vital tasks in such areas as costing, inventory, accounting and distribution. The programs are designed for use by non-technical personnel and come with MASTER MIND™ which provides simple, self-paced, step-by-step instruction and installation training for the use of CGA business software.

Our marketing strength, excellent technical support capabilities and diversified, results-oriented product line assure CGA's success in increasing our share of the burgeoning software products market.

Software Shop SYSTEMS

Software Shop Systems™ provides quality application software to companies running desk top computers like the IBM SYSTEM/23. Each system—Manufacturing, Construction, Distribution and Financial—is keyed to satisfy special industry requirements. All systems are very easy to install, extremely user friendly and designed to be operated by non-technical personnel.

Security for the Eighties™

TOP SECRET™ software is CGA's newest product release designed to protect data resources in an MVS computer environment. TOP SECRET™ software provides data security, protecting a wide range of valuable data resources from unauthorized usage. Security is a priority concern in data centers today and TOP SECRET™ software has met with wide user acceptance as the answer to that critical problem.

Multiple System Integrity Facility™

Super-MSI™ software is designed to provide data integrity in a multiple systems computer environment. Super-MSI™ software provides a sophisticated means to regulate access to information stored on computer disks, at the same time preventing users of one system in a multi-systems complex from altering or destroying shared data.

Multiple Systems Manager®

MSM® software works for multiple systems users to manage the allocation of tape and mountable disk devices across all systems in a complex. MSM® software maximizes the speed and accuracy with which information may be retrived and used, allowing truly natural and transparent shared device management.

Global Console Director®

GCD® software permits consoles physically attached to any system in a multi-CPU environment to be logically connected to any other system in the complex, allowing the entire computer complex to be treated as if it were a single system. Console messages with GCD® software may be routed to multiple consoles or to a single operator, thereby simplifying the jobs of operators on a multiple console system.

Transparent Single System Image™

TSSI™ software is a combination of the Super-MSI™, the MSM® and the GCD® software systems. TSSI™, an acronym for the Transparent Single System Image, allows a multi-systems complex to be treated almost as though it were one single unified system, simplifying operations, saving time and saving money.

Automatic Cobol Documentation System™

DCD II™ software automatically documents COBOL programs and systems of programs utilized on IBM and Univac computer equipment. DCD II™ software simplifies maintenance and eliminates manual documentation, cutting program maintenance costs and increasing programmer productivity.

DASD Management System™

PAC/MASTER™ software assists the medium to large scale data processing user in implementing a complete disk storage resource control system. PAC/MASTER™ software works to monitor and control usage of storage devices on IBM equipment, increasing the operational efficiency and capability of the computer and reducing the need to purchase additional disk hardware storage equipment.

Custom Software and Consulting Services

In 1968, CGA was founded as one of the first companies to offer independent consulting services to the data processing community. Today, we are one of the largest suppliers of custom software and professional information management services in the United States.

Hundreds of CGA consultants are spread out across the country through regional offices. Working directly at client sites, they provide the skills, training, and experience needed for the successful completion of short and long-term assignments.

CGA consultants rank among the best qualified in the country. Through a highly selective screening process, we choose only those individuals whose qualifications meet the high quality standards we offer our clients. They are data processing professionals who meld business acumen with excellent technical skills to satisfy our clients' information processing requirements.

Our consultants are good communicators who work effectively with our clients in their data processing environments to understand their needs and quickly implement them. They have a bottom-line orientation as well as the technical know-how that brings CGA projects in on time and within budget.

Lawrence S. Robinson
Executive Vice President
Consulting Services

CGA takes total project responsibility. We provide a management framework that allows for close supervision and contact with our clients and our consultants throughout an assignment. Project teams are led by project managers responsible for directing the teams in meeting set goals. Costs are kept as low as possible through constant monitoring of projects and efficient use of time.

CGA works with clients in many industries to solve their complex data processing problems and meet their information management needs. We have established continuing, long-term relationships with clients all over the country. The highest recommendation we can give for our services is the amount of repeat business we do with our customers in insurance, banking and finance, manufacturing and communications, utilities, petrochemicals and pharmaceuticals. Whatever the industry, CGA can be counted on to meet the requirement with quality service.

Over the years CGA has always kept on the leading edge of information technology to better serve our clients. Our consultants take in-house classes as well as external courses on technical and industry related subjects. Learner-paced, self-study programs are available to all employees for independent study. Exposure to the latest systems in a variety of computer environments provides valuable learning experience under the direct tutelage of the most knowledgeable computer professionals.

Information technology and the dynamic nature of the data processing industry continue to offer exciting challenges which we perceive as opportunities for growth and expansion. CGA has a long-standing commitment to companies needing information management services. We will work with them to create the systems that will help their businesses run better.

CGA Consulting Coast to Coast

Index to Financial Information

Management's Discussion and Analysis
of Financial Condition and Results of Operations:
11 Pooling of Interests Accounting Method
12 Purchase Accounting Method
14 Consolidated Statements of Income
Pooling of Interests Accounting Method
15 Consolidated Statements of Operations
Purchase Accounting Method
Consolidated Balance Sheets:
16 Pooling of Interests Accounting Method
17 Purchase Accounting Method
Consolidated Statements of Changes in Financial Position:
18 Pooling of Interests Accounting Method
19 Purchase Accounting Method
Consolidated Statements of Changes in Stockholders' Equity:
20 Pooling of Interests Accounting Method
21 Purchase Accounting Method
22 Notes to Consolidated Financial Statements
35 Report of Independent Accountants

Management's Discussion and Analysis of Financial Condition and Results of Operations (Pooling of Interests Accounting Method)

(a) Results of Operations

Fiscal Year 1982 Compared to Fiscal Year 1981

Revenue for fiscal 1982 increased by $5,496,000 over revenue for fiscal 1981, a gain of 27%, primarily attributable to expansion in the software products business and rate increases and additional billable staff of CGA's consulting services. This increase is after a revenue drop of $1,553,000 in the consulting business of the Allen Services division which was heavily concentrated in the depressed automobile and heavy manufacturing industries. Direct costs increased by $2,179,000 or 22%. Direct costs, which are the costs of furnishing consulting services, were approximately 62% of consulting revenues for the periods. Selling, general and administrative expenses increased by $3,226,000 or 48%. As a percentage of revenue, selling, general and administrative expenses increased to 38% from 33% due to the increase in corporate expenses required to support the increased revenue and business, and the increased costs required to support the consulting, software products, and turnkey products businesses.

Operating income for fiscal 1982 increased by $91,000, a 3% increase over operating income for fiscal 1981, reflecting the significant increase in profits in the software products business and offset by increases in corporate expenses.

Interest income increased by $381,000 over fiscal 1981 due to additional funds available for investment. Special legal and accounting fees of $1,150,000 represent those costs incurred in connection with the SEC proceeding and the class action suits. In 1982, the Company recorded $750,000 to cover the anticipated cost of settling the class action claims.

Due to the costs associated with the SEC proceedings and the class action suits and the provision for settlement of the litigation, the Company reported a decrease in income before taxes as compared with fiscal 1981.

The lower effective tax rate in fiscal 1982 as compared to fiscal 1981 is primarily attributable to increased investment tax and research and development credits.

Fiscal Year 1981 Compared to Fiscal Year 1980

During fiscal 1981 revenue increased $1,131,000 or 5.9% over revenue for fiscal 1980. The increase was less than in prior years primarily due to a decrease in the consulting revenues of Allen Services Corporation of $1,831,000 or a 37.6% decrease from fiscal 1980. To a lesser extent, revenue was adversely affected due to a slower growth of the Allen Services Software revenue caused by a change in their marketing philosophy which resulted in an increase in the renting of software products and a corresponding decrease in software product sales.

Direct costs increased by $596,000, or 6.3%, over fiscal 1980 due to the increase in the Company's professional staff required to meet the increased demand for consulting services. Direct costs in the consulting services segment have increased only slightly to 61.5% of revenue in fiscal 1981 from 61.3% of revenue in fiscal 1980. Selling, general and administrative costs increased by $369,000 reflecting increased costs to support the consulting business, the increased costs of new consulting offices and the costs associated with the start-up of the Company's new turnkey products business.

Total operating costs and expenses as a percentage of revenue were 82.3% in fiscal 1981 as compared to 82.1% in fiscal 1980. Operating income increased by $166,000, a 4.8% increase, due to the increase in the profits of the software products business, which offset reduced profits in the consulting business.

Interest and other income (net of other deductions) increased $497,000 over fiscal 1980 due to the additional funds available for investment, primarily those which were received from the public offering of 300,000 shares of Common Stock on September 5, 1980.

The Company's increased operating income and interest income resulted in increased income before taxes of $663,000 or an 18.5% increase over fiscal 1980. Net income per share of common and common equivalent shares increased from $.63 to $.70, or an 11.1% increase, reflecting such additional earnings.

(b) Liquidity and Capital Resources

The Company believes that it will generate cash from operations sufficient to meet its working capital needs. In addition, the Company has a $3,000,000 line of credit and has no long-term debt. The Company is not aware of any demands, commitments, events or uncertainties which will result in or which are reasonably likely to result in the Company's liquidity increasing or decreasing in any material way; however, see Note C to the consolidated financial statements.

The Company's operations require little capital equipment and, therefore, the Company does not have any material commitments for capital expenditures.

(c) Inflation

The Company's consulting services are labor dependent and the Company operates in a field where there is a shortage of qualified professionals. Consequently, inflation and the competition for qualified individuals cause salaries to increase rapidly. The Company believes that it can pass much of these increased costs on to the clients who use the Company's services. The software products segment of the Company's business has not been significantly affected by inflation, principally because this segment of the business is not labor intensive.

(a) Results of Operations

Fiscal Year 1982 Compared to Fiscal Year 1981

On February 27, 1981, the Company acquired Allen Services Corporation. Accordingly, fiscal 1982 includes a full year's results from Allen while fiscal 1981 includes two months.

Revenue for fiscal 1982, increased by $10,344,000 over revenue for fiscal 1981, a gain of 67%, primarily attributable to the inclusion of the Allen Services division for a full year in fiscal 1982, expansion in the software products business, rate increases and additional billable staff of CGA's consulting services. Direct costs increased by $3,683,000 or 43%. Direct costs, which are the costs of furnishing consulting services, were approximately 62% of consulting revenues for both periods. Selling, general and administrative expenses increased by $5,001,000 or 102%. As a percentage of revenue, selling, general and administrative expenses increased to 38% from 32% due to the increase in corporate expenses required to support the increased revenue and business, increased costs required to support consulting (including Allen), software products, and turnkey products businesses.

Operating income, which is inclusive of the amortization of $2,354,000 of software packages from the Allen acquisition, decreased $302,000. The significant increases in the software products and consulting businesses were more than offset by the amortization of software packages and increased corporate expenses.

Interest income increased by $485,000 over fiscal 1981 due to additional funds available for investment. Special legal and accounting fees of $1,150,000 represent those costs incurred in connection with the SEC proceedings and the class action suits. In 1982, the Company recorded $750,000 to cover the anticipated cost of settling the class action claims.

As a result of the amortization of software packages, special legal and accounting fees, the provision for settlement of litigation and the amortization of $1,312,000 of goodwill (not deductible for tax purposes) from the Allen acquisition, the Company incurred a loss in 1982 as compared to net income of $815,000 in 1981. Although the Company recorded a pretax loss, a provision for income taxes was recorded as certain expenses, goodwill amortization and a portion of software amortization, are not tax deductible.

Fiscal Year 1981 Compared to Fiscal Year 1980

Fiscal 1981 results include Allen Services Corporation for two months while fiscal 1980 results exclude Allen Services Corporation.

During fiscal 1981 revenue increased $3,697,000 or 31.3% over revenue for fiscal 1980. The increase was primarily attributable to increased demand for the Company's consulting services and, to a lesser extent, increased sales of software products and increased prices for consulting services.

Direct costs increased by $2,247,000 or 35.4% over fiscal 1980 due to the increase in the Company's professional staff required to meet the increased demand for consulting services. Direct costs in the consulting services segment have increased slightly to 62.5% of revenues in fiscal 1981 from 59.6% of revenues in fiscal 1980. Selling, general and administrative costs increased by $988,000 reflecting increased costs to support the consulting business, the increased costs of new consulting offices and the costs associated with the start-up of the Company's new turnkey products business.

Total operating costs and expenses as a percentage of revenue were 89.4% in fiscal 1981 as compared to 86.7% in fiscal 1980. Fiscal 1981 includes $392,000 for the amortization of software packages from the Allen acquisition of February 27, 1981. Operating income increased by $70,000, a 4.5% increase, due to the increases in the profits of the consulting and software products businesses which more than offset the amortization of software packages.

Interest and other income (net of other deductions) increased $244,000 over fiscal 1980 due to the additional funds available for investment, primarily those which were received from the public offering of 300,000 shares of Common Stock on September 5, 1980. This increase is net of the amortization of $219,000 of goodwill arising from the Allen acquisition of February 27, 1981.

The Company's increased operating income and interest income resulted in increased income before taxes of $314,000, or a 19.1% increase over fiscal 1980. The effective tax rate increased to 58.3% for fiscal 1981 from 51.2% for fiscal 1980 resulting primarily from the amortization of goodwill which is not deductible for tax purposes. Net income per share of common and common equivalent shares decreased from $.56 to $.42 or a 25% decrease, primarily due to the additional shares issued in fiscal 1981.

(b) Liquidity and Capital Resources

The Company believes that it will generate cash from operations sufficient to meet its working capital needs. In addition, the Company has a $3,000,000 line of credit and has no long term debt. The Company is not aware of any demands, commitments, events or uncertainties which will result in or which are reasonably likely to result in the Company's liquidity increasing or decreasing in any material way; however, see Note C to the consolidated financial statements.

The Company's operations require little capital equipment and, therefore, the Company does not have any material commitments for capital expenditures.

(c) Inflation

The Company's consulting services are labor dependent and the Company operates in a field where there is a shortage of qualified professionals. Consequently, inflation and the competition for qualified individuals cause salaries to increase rapidly. The Company believes that it can pass much of these increased costs on to the clients who use the Company's services. The software products segment of the Company's business has not been significantly affected by inflation, principally because this segment of the business is not labor intensive.

CGA Computer Associates Inc.

Consolidated Statements of Income Pooling of Interests Accounting Method (Notes A and B)

(Dollars in thousands except per share amounts)

	Years Ended April 30,		
	1980*	1981	1982
Revenue (Notes A and J)	$19,227	$20,358	$25,854
Operating costs and expenses			
Direct costs	9,495	10,091	12,270
Selling, general and administrative	6,299	6,668	9,894
	15,794	16,759	22,164
Operating income	3,433	3,599	3,690
Other income (deductions)			
Interest income—net	143	640	1,021
Special professional fees	—	—	(1,150)
Provision for settlement of litigation (Note C)	—	—	(750)
	143	640	(879)
Income before taxes	3,576	4,239	2,811
Income tax provision (Notes A and G)	1,816	2,064	1,175
Net income before distributions to stockholders of Allen Services Corporation in 1980 and 1981 and after related tax provision	$ 1,760	$ 2,175	$ 1,636
Net income per share of common and common equivalent shares (Note A)	$ .63	$ .70	$ .50

*Reclassified for comparative purposes.

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

Consolidated Statements of Operations
Purchase Accounting Method
(Notes A and B)

(Dollars in thousands except per share amounts)

	Years Ended April 30,		
	1980*	1981	1982
Revenue (Notes A and J)	$11,813	$15,510	$25,854
Operating costs and expenses			
Direct costs	6,340	8,587	12,270
Selling, general and administrative	3,905	4,893	9,894
Amortization of software packages (Note A)	—	392	2,354
	10,245	13,872	24,518
Operating income	1,568	1,638	1,336
Other income (deductions)			
Interest income—net	73	536	1,021
Special professional fees	—	—	(1,150)
Provision for settlement of litigation (Note C)	—	—	(750)
Amortization of goodwill (Note A)	—	(219)	(1,312)
	73	317	(2,191)
Income (loss) before taxes	1,641	1,955	(855)
Income tax provision (Notes A and G)	840	1,140	244
Net income (loss)	$ 801	$ 815	$(1,099)
Net income (loss) per share of common and common equivalent shares (Note A)	$ .56	$ .42	$ (.33)

*Reclassified for comparative purposes.

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

CGA Computer Associates Inc.

Consolidated Balance Sheets
Pooling of Interests Accounting Method
(Notes A and B)

(Dollars in thousands)

	April 30, 1981	April 30, 1982
ASSETS		
Current Assets		
Cash and interest bearing deposits (including time deposits of $4,700 and $7,755) (Note I)	$ 5,522	$ 7,880
Short-term investments, at lower of cost or market value	205	97
Receivables		
Trade	4,199	5,498
Other (Note H)	540	556
Prepaid taxes and other	568	439
Total current assets	11,034	14,470
Equipment and Leasehold Improvements, at cost (Note A)		
Furniture and equipment	657	1,402
Leasehold improvements	44	129
	701	1,531
Less—Accumulated depreciation	232	395
	469	1,136
Other Assets	75	74
	$11,578	$15,680
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Accounts payable	$ 228	$ 268
Accrued liabilities (Note E)	796	2,426
Deferred income taxes (Notes A and G)	1,687	1,543
Total current liabilities	2,711	4,237
Stockholders' Equity (Notes B and D)		
Common stock, par value $.10, authorized 5,000,000 shares; issued and outstanding 3,264,340 and 3,265,873 shares	326	327
Capital in excess of par value	4,024	4,963
	4,350	5,290
Retained earnings	4,517	6,153
	8,867	11,443
Commitments and Contingent Liabilities (Notes C and I)		
	$11,578	$15,680

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

CGA Computer Associates Inc.

Consolidated Balance Sheets
Purchase Accounting Method
(Notes A and B)

(Dollars in thousands)

	April 30, 1981	April 30, 1982
ASSETS		
Current Assets		
Cash and interest bearing deposits (including time deposits of $4,700 and $7,755) (Note I)	$ 5,522	$ 7,880
Short-term investments, at lower of cost or market value	205	97
Receivables		
Trade	4,199	5,498
Other (Note H)	540	556
Prepaid taxes and other	568	439
Total current assets	11,034	14,470
Equipment and Leasehold Improvements, at cost (Note A)		
Furniture and equipment	565	1,310
Leasehold improvements	38	123
	603	1,433
Less—Accumulated depreciation	134	297
	469	1,136
Other Assets		
Software packages acquired, at fair value less accumulated amortization of $392 and $2,746 (Note A)	11,378	9,024
Goodwill, less accumulated amortization of $219 and $1,531 (Note A)	6,343	5,031
Other	75	74
	$29,299	$29,735
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Accounts payable	$ 228	$ 268
Accrued liabilities (Note E)	796	2,426
Deferred income taxes (Notes A and G)	1,687	1,543
Total current liabilities	2,711	4,237
Stockholders' Equity (Notes B and D)		
Common stock, par value $.10, authorized 5,000,000 shares; issued and outstanding 3,264,340 and 3,265,873 shares	326	327
Capital in excess of par value	23,373	23,381
	23,699	23,708
Retained earnings	2,889	1,790
	26,588	25,498
Commitments and Contingent Liabilities (Notes C and I)		
	$29,299	$29,735

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

Consolidated Statements of Changes in Financial Position
Pooling of Interests Accounting Method
(Notes A and B)

(Dollars in thousands)

	Years Ended April 30,		
	1980	*1981*	*1982*
Sources of working capital			
From operations			
Net income	$1,760	$2,175	$1,636
Charges to income not affecting working capital			
Depreciation and amortization of equipment and leasehold improvements	100	89	163
Tax effect related to distributions to stockholders of ASC	617	900	—
Other	59	12	24
	2,536	3,176	1,823
Other sources of working capital			
Proceeds from sale of common stock	—	3,731	—
Tax effect relating to taxable pooling credited to capital in excess of par value	—	150	931
Other	—	106	9
	—	3,987	940
Total sources of working capital	2,536	7,163	2,763
Applications of working capital			
Distributions to stockholders of ASC	1,411	1,817	—
Additions to fixed assets	250	172	830
Other	23	25	23
Total applications of working capital	1,684	2,014	853
Net increase in working capital	$ 852	$5,149	$1,910
Changes in components of working capital			
Increase (decrease) in current assets			
Cash and interest bearing deposits	$ 754	$3,200	$2,358
Short-term investments	76	(36)	(108)
Receivables—trade	538	899	1,299
Receivables—other	—	380	16
Prepaid taxes and other	(70)	528	(129)
Net increase	1,298	4,971	3,436
(Increase) decrease in current liabilities			
Accounts payable	9	86	(40)
Accrued liabilities	(156)	312	(1,630)
Income taxes	(299)	(220)	144
Net (increase) decrease	(446)	178	(1,526)
Net increase in working capital	$ 852	$5,149	$1,910

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

CGA Computer Associates Inc.

Consolidated Statements of Changes in Financial Position
Purchase Accounting Method
(Notes A and B)

(Dollars in thousands)

	Years Ended April 30,		
	1980	1981	1982
Sources of working capital			
From operations			
Net income (loss)	$801	$ 815	$(1,099)
Charges to income not affecting working capital			
Depreciation and amortization of equipment and leasehold improvements	52	45	163
Amortization of software packages and goodwill	—	611	3,666
Other	59	21	24
	912	1,492	2,754
Other sources of working capital			
Increase in common stock and capital in excess of par value for value ascribed to stock issued in the ASC acquisition	—	19,500	—
Proceeds from sale of common stock	—	3,731	—
Other	—	26	9
	—	23,257	9
Total sources of working capital	912	24,749	2,763
Applications of working capital			
Acquisition of fixed assets ($223), software packages ($11,770) and value ascribed to goodwill ($6,562) relating to the ASC acquisition	—	18,555	—
Additions to fixed assets	118	147	830
Other	14	27	23
Total applications of working capital	132	18,729	853
Net increase in working capital	$780	$ 6,020	$ 1,910
Changes in components of working capital			
Increase (decrease) in current assets			
Cash and interest bearing deposits	$461	$ 4,098	$ 2,358
Short-term investments	76	(36)	(108)
Receivables—trade	487	2,301	1,299
Receivables—other	—	530	16
Prepaid taxes and other	(66)	552	(129)
Net increase	958	7,445	3,436
(Increase) decrease in current liabilities			
Accounts payable	97	(24)	(40)
Accrued liabilities	(218)	(54)	(1,630)
Income taxes	(57)	(1,347)	144
Net (increase)	(178)	(1,425)	(1,526)
Net increase in working capital	$780	$ 6,020	$ 1,910

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

Consolidated Statements of Changes in Stockholders' Equity
Years Ended April 30, 1980, 1981 and 1982
Pooling of Interests Accounting Method
(Notes A and B)

(Dollars in thousands)

	Common Stock $.10 Par Value		*Capital in Excess of Par Value*	*Retained Earnings*	*Total*
	Shares	*Amount*			
Balances at April 30, 1979	464,638	$ 46	$ 360	$2,293	$ 2,699
Stock bonus to officers	10,000	1	39	—	40
2-for-1 stock split	474,638	48	(48)	—	—
Distributions to stockholders of Allen Services Corporation	—	—	—	(1,411)	(1,411)
Tax effect related to distributions to stockholders of Allen Services Corporation	—	—	—	617	617
Net income	—	—	—	1,760	1,760
Balances at April 30, 1980	949,276	95	351	3,259	3,705
Stock bonus to officers and employees	3,389	—	23	—	23
Public offering	300,000	30	3,701	—	3,731
3-for-2 stock split	626,319	62	(62)	—	—
Shares issued in pooling	1,385,356	139	(139)	—	—
Tax effect relating to taxable pooling	—	—	150	—	150
Distributions to stockholders of Allen Services Corporation	—	—	—	(1,817)	(1,817)
Tax effect related to distributions to stockholders of Allen Services Corporation	—	—	—	900	900
Net income	—	—	—	2,175	2,175
Balances at April 30, 1981	3,264,340	326	4,024	4,517	8,867
Tax effect relating to taxable pooling	—	—	931	—	931
Stock bonus to employees	1,533	1	8	—	9
Net income	—	—	—	1,636	1,636
Balances at April 30, 1982	3,265,873	$327	$4,963	$6,153	$11,443

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

Consolidated Statements of Changes in Stockholders' Equity
Years Ended April 30, 1980, 1981 and 1982
Purchase Accounting Method
(Notes A and B)

(Dollars in thousands)

	Common Stock $.10 Par Value		Capital in Excess of Par Value	Retained Earnings	Total
	Shares	Amount			
Balances at April 30, 1979	464,638	$ 46	$ 359	$1,273	$ 1,678
Stock bonus to officers	10,000	1	39	—	40
2-for-1 stock split	474,638	48	(48)	—	—
Net income	—	—	—	801	801
Balances at April 30, 1980	949,276	95	350	2,074	2,519
Stock bonus to officers and employees	3,389	—	23	—	23
Public offering	300,000	30	3,701	—	3,731
3-for-2 stock split	626,319	62	(62)	—	—
Shares issued in purchase	1,385,356	139	19,361	—	19,500
Net income	—	—	—	815	815
Balances at April 30, 1981	3,264,340	326	23,373	2,889	26,588
Stock bonus to employees	1,533	1	8	—	9
Net loss	—	—	—	(1,099)	(1,099)
Balances at April 30, 1982	3,265,873	$327	$23,381	$1,790	$25,498

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

Note A—Summary of Accounting Policies:

A summary of the significant accounting policies consistently applied in the preparation of the accompanying consolidated financial statements of CGA Computer Associates Inc. (Company) follows:

1. Basis of Presentation:

As more fully described in Note B, on January 27, 1982 the Company and the Securities and Exchange Commission (Commission) reached a settlement relative to the reporting of the Company's February 27, 1981 acquisition of Allen Services Corporation (ASC). The Company accounted for the ASC acquisition on the pooling of interests method of accounting and pursuant to the terms of the settlement with the Commission the Company is required, among other things, to also present audited financial statements which account for the ASC acquisition on the purchase method of accounting. Accordingly, the accompanying consolidated financial statements and notes thereto report the ASC acquisition on both the pooling of interests and purchase methods of accounting without either designated as supplemental.

The more significant differences between the two methods of accounting are the recording of certain assets, the amortization of those assets, the recording of the tax effects of such amortization and the time period relative to the inclusion of the results of operations of ASC in the consolidated statements of income of CGA. When measured against the fair value of CGA shares exchanged, which were independently appraised at $19,500,000, the application of the purchase method of accounting to the ASC combination results in the recording of software packages and goodwill, which are being amortized over a five year period commencing with the date of acquisition. Amortization of the software packages is deductible for income tax purposes; however, the accounting for such tax deduction is different under the purchase and pooling methods of accounting as described in Note G.

The application of the purchase method of accounting as compared to the pooling of interests method of accounting for the ASC combination resulted in an increase in total assets and stockholders' equity as of April 30, 1981 of $17,721,000 and a decrease in net income of $1,360,000 for the year ended April 30, 1981. The difference in net income is due to reporting only two months of ASC's operations in the purchase income statement compared to a full year in the pooling of interests income statement (see Note E for pro forma results of operations under the purchase method of accounting).

As a result of the amortization of software packages and goodwill and the related tax effect, net income under the pooling of interests method of accounting would exceed the purchase method of accounting by approximately $2,700,000 per year over the five year amortization period. After five years, the Company's reportable net income under either method would be the same. Further, the Company's cash flow during the five year amortization period would be identical under both methods of accounting. The Company's balance sheet at the end of the five year period would be the same except that two of the components of stockholders' equity, capital in excess of par value and retained earnings, would differ in offsetting equal amounts.

Prior to its acquisition by the Company, ASC made significant distributions to its stockholders which, for the pooling of interests accounting presentation, have been reflected as charges to retained earnings and the tax effects computed on these distributions have been reflected in the consolidated income statements. Such distributions, amounting to $1,341,000 and $1,817,000 for the years ended April 30, 1980 and 1981, respectively, representing commissions and other distributions in excess of initial aggregate compensation of $200,000 by the Company to the former stockholders of ASC, are not reflected in the accompanying consolidated income statements. Pursuant to an agreement, the income tax liabilities on such distributions will be the responsibility of the stockholders of ASC and, accordingly, the amounts that otherwise would have been provided for such liabilities have been credited to retained earnings in the accompanying consolidated balance sheets prepared on the pooling of interests accounting method.

2. Principles of Consolidation:

The consolidated financial statements prepared under the pooling of interests accounting method for the years ended April 30, 1980, 1981 and 1982 include the accounts of the Company (including ASC) and its wholly-owned subsidiary, CGA Software Products Group, Inc. The consolidated financial statements prepared under the purchase method of accounting for the years ended April 30, 1980, 1981 and 1982 include the accounts of the Company and its wholly-owned subsidiary and ASC from February 28, 1981. All significant intercompany accounts and transactions have been eliminated.

3. Basis of Revenue Recognition:

Revenue from consulting services, performed principally on a time and material basis, is recognized as the work is performed, at agreed upon billing rates. Revenue from proprietary software products, which are marketed to customers primarily under annual and perpetual license arrangements, is recognized at the time the product is installed and unconditionally accepted by the customer.

4. Equipment and Leasehold Improvements:

Depreciation is principally provided on the straight-line method over estimated useful lives of 3 to 10 years, inclusive of computer hardware which is depreciated over 5 years. Leasehold improvements are amortized over the lives of the respective leases or the service lives of the improvements, whichever is shorter.

Maintenance and repairs are charged to costs and expenses as incurred. Major renewals and betterments are capitalized. Any gains or losses resulting from the sale or disposal of assets are included in income.

5. Amortization of Software Packages and Goodwill:

The application of the purchase method of accounting to the ASC combination results in the recording of software packages and goodwill. The fair value of software packages, $11,770,000, which is based upon an independent appraisal, and goodwill in the amount of $6,562,000, are being amortized on a straight-line basis over their estimated useful lives, a five-year period.

6. Income Taxes and Investment Credit:

Deferred income taxes are provided for transactions reported in different periods for financial statement and income tax purposes and principally relate to the cash basis of reporting for tax purposes.

Investment tax credits are accounted for by the "flow-through" method, which recognizes the credits as reductions of income tax expense in the year utilized.

7. Earnings Per Share:

Earnings per share of common and common equivalent shares has been computed based on the weighted average number of shares outstanding during each year including the dilutive effect of stock options and has been retroactively restated for stock splits, stock dividends and, under the pooling of interests accounting method, for shares issued in connection with the ASC combination. The number of shares used in the computation under the pooling of interests accounting method was 2,806,770 in 1980, 3,107,907 in 1981 and 3,281,714 in 1982. The number of shares used in the computation under the purchase accounting method was 1,421,414 in 1980, 1,961,667 in 1981 and 3,281,714 in 1982.

Note B—Securities and Exchange Commission Administrative Proceeding:

The Company acquired all the assets and business and assumed the liabilities of ASC on February 27, 1981 (Acquisition Transaction). As part of this transaction, the Company acquired from Arthur Allen and Addison Fischer, the sole stockholders of ASC, all of the computer software program packages that had been marketed by ASC under license from Allen and Fischer. In consideration for the software, net assets and business acquired, the Company issued an aggregate of 1,385,356 shares of common stock to ASC and to Allen and Fischer and on April 7, 1981 filed a registration statement which covered the secondary public offering and sale of 1,050,000 shares, of which 1,033,930 shares were owned by the two stockholders of ASC.

On July 16, 1981 the Securities and Exchange Commission (SEC) instituted proceedings under Section 8(d) of The Securities Act of 1933 with respect to the accounting treatment of the Company's acquisition of ASC in the registration statement filed with the SEC which became effective on April 7, 1981. The SEC alleged that the Company's accounting treatment for the acquisition on a pooling of interests basis rather than as a purchase was inconsistent with generally accepted accounting principles and had a materially misleading effect on the financial statements contained in the registration statement.

An Offer of Settlement was made by the Company on December 15, 1981 solely for the purpose of resolving the administrative proceeding and without the Company admitting or denying the allegations of the SEC in the proceeding, without trial or adjudication of any issue of fact or law and without anything contained in the settlement or disposition of the proceeding constituting an adjudication, admission or evidence with respect to any matter referred to therein.

The Commission's Order dated January 27, 1982, accepting the Company's Offer of Settlement, ordered the Company to comply with the undertakings and did not object to the provisions contained in the Offer of Settlement. Pursuant to the undertakings and provisions in the Offer of Settlement, the Company will report in all financial statements and selected financial data required under registration statements filed pursuant to the Securities Act of 1933, and periodic reports and proxy reports filed pursuant to the Securities Exchange Act of 1934, and in its annual report and all other written communications to shareholders and press releases the Acquisition Transaction on both a pooling of interests and purchase method of accounting, both in equal prominence. The term "equal prominence" means that the Company will not designate either the pooling of interests or purchase method of accounting financial statements as supplemental. This method of presentation will continue during the time period that such financial statements reflect a material difference in net income or trend in net income as a result of using the pooling of interests method as distinguished from the purchase method of accounting.

Note C—Litigation:

On July 28, 1981, September 15, 1981, October 29, 1981, and December 24, 1981, class action suits were filed against various parties, including the Company, its directors, certain officers, and Allen and Fischer, alleging among other things, that the Prospectus issued in connection with the April 7, 1981 sale by Allen and Fischer of the Company's common stock contained materially false and misleading statements. All of such suits have been consolidated in the United States District Court for the District of New Jersey. The parties are engaged in pretrial discovery and motions have been made addressed to various parts of the complaint. Although the Company and its counsel believe that they have substantial defenses to all claims which are being asserted and that ultimately, if the litigation continues, the claims will be disposed of with no material charge against the operations of the Company, the Company has undertaken settlement negotiations of the claims in an attempt to terminate the litigation and avoid the further significant expenses which would be incurred in connection therewith. In July 1982 the Company reached an agreement in principle with all parties for disposition of the claims subject to the approval by the parties of appropriate written documentation and approval of the District Court. Based on the agreement in principle, the Company has recorded a provision of $750,000, which management believes is a reasonable estimate of all costs involved in settling the claims. However, the ultimate outcome of this matter is not presently determinable.

Note D—Common Stock:

During January, 1981 the Company adopted a stock option plan under which a maximum of options for 500,000 shares may be granted to directors, officers and employees. Pursuant to this plan, in January the Company granted options to purchase 129,000 shares of common stock at $12 per share (market value on the date of grant) and the options became exercisable at a cumulative rate of 25% per year commencing one year after the date of grant. In September 1981, this plan was terminated and a new Non-Qualified Stock Option Plan and an Incentive Stock Option Plan were adopted, which require stockholder approval, under which an aggregate maximum of options for 500,000 shares may be granted. The exercise price is equal to the market value on the date of grant, provided, however, that under the Incentive Stock Option Plan the option price for an employee who owns more than 10% of the total combined voting power of all classes of stock of the Company is equal to 110% of the market value on the date of grant. Options granted pursuant to these plans may be exercised up to ten years after the date granted. Options have been granted to purchase 333,000 shares of common stock at approximately $5.25 to $6.25 per share. These options are exercisable at a cumulative rate of between 20% and 25% per year commencing one year from the date of grant, and expire five to six years following the date granted. At April 30, 1982 no outstanding options were exercisable.

In August, 1980, the authorized capital was increased from 2,000,000 to 5,000,000 shares of common stock.

Note E—Other Financial Data:

The following expenses were charged to costs and expenses in the periods indicated:

	Pooling of Interests Accounting Method Years Ended April 30,			*Purchase Accounting Method Years Ended April 30,*		
	1980	*1981*	*1982*	*1980*	*1981*	*1982*
	(Dollars in thousands)					
Advertising	$322	$328	$537	$164	$195	$ 537
Amortization of intangible assets	$—	$—	$—	$—	$219	$1,312

Maintenance and repairs, royalties and taxes, other than payroll and income taxes were each less than one percent of revenue.

Accrued liabilities under the pooling of interests and purchase methods of accounting consist of the following items:

	April 30, 1981	April 30, 1982
	(Dollars in thousands)	
Payroll	$101	$ 175
Payroll taxes	198	191
Commissions and bonuses	181	645
Profit sharing	164	224
Reserve for settlement of litigation	—	750
Other accrued liabilities, individually less than 5% of current liabilities	152	441
	$796	$2,426

Revenue and net income of the separate companies under the pooling of interests accounting method for the year ended April 30, 1980 and the unaudited nine month period ended January 31, 1981 (the end of the interim period nearest the date of combination) are:

	Year Ended April 30, 1980	Nine Months Ended January 31, 1981
	(Dollars in thousands)	
Revenue		
CGA Computer Associates Inc.	$11,813	$10,672
Allen Services Corporation	7,414	4,553
Combined	$19,227	$15,225
Net income		
CGA Computer Associates Inc.	$ 801	$ 817
Allen Services Corporation*	959	866
Combined	$ 1,760	$ 1,683

*Represents net income before distributions to stockholders of Allen Services Corporation and after tax provision related thereto.

The unaudited pro forma results of operations under the purchase accounting method, which follow, assume that the ASC acquisition had occurred at the beginning of each year presented. In addition to combining the historical results of operations, certain adjustments giving effect to the amortization of software packages, goodwill and tax effects related thereto have been made.

	Years Ended April 30,	
	1980	*1981*
	(Dollars in thousands, except per share amounts)	
Revenue	$19,227	$20,358
Net (loss)	(932)	(517)
Net (loss) per share*	(.33)	(.17)

*Reflects retroactive adjustment for stock splits, stock dividends and the shares issued in connection with the purchase of ASC.

Note F—Profit-Sharing Plan:

The Company maintains a profit-sharing plan for its employees. The Company contributions are at the discretion of the Board of Directors, but are limited to the maximum amount that will constitute an allowable deduction for federal income tax purposes. Under the pooling of interests accounting method profit-sharing expense amounted to $275,000, $250,000 and $224,000 for the years ended April 30, 1980, 1981 and 1982, respectively. Under the purchase accounting method profit sharing expense amounted to $200,000, $200,000 and $224,000 for the years ended April 30, 1980, 1981 and 1982, respectively.

Note G—Income Taxes:

The Company and its subsidiary file a consolidated federal income tax return. Income tax expense is as follows:

	Pooling of Interests Accounting Method Years Ended April 30,			*Purchase Accounting Method Years Ended April 30,*		
	1980	*1981*	*1982*	*1980*	*1981*	*1982*
			(Dollars in thousands)			
Current payable						
Federal	$ 948	$ 128	$1,107	$662	$ 214	$236
State	210	35	79	178	42	19
	1,158	163	1,186	840	256	255
Current deferred						
Federal	37	842	(11)	—	744	(11)
State	4	159	—	—	140	—
	41	1,001	(11)	—	884	(11)
	1,199	1,164	1,175	840	1,140	244
Tax effect related to distributions to stockholders of ASC (Note A)	617	900	—	—	—	—
	$1,816	$2,064	$1,175	$840	$1,140	$244

Components of deferred income tax expense are as follows:

	Pooling of Interests Accounting Method Years Ended April 30,			*Purchase Accounting Method Years Ended April 30,*		
	1980	*1981*	*1982*	*1980*	*1981*	*1982*
Cash/Accrual	$32	$ 995	$(30)	$—	$883	$(30)
Other item	9	6	19	—	1	19
	$41	$1,001	$(11)	$—	$884	$(11)

A reconciliation of income tax expense follows:

	Pooling of Interests Accounting Method Years Ended April 30,			Purchase Accounting Method Years Ended April 30,		
	1980	*1981*	*1982*	*1980*	*1981*	*1982**
Federal income taxes at the statutory rate	46.0%	46.0%	46.0%	46.0%	46.0%	
State income taxes, net of federal tax benefit	3.2	4.0	1.5	6.0	5.6	
Investment and research and development tax credits utilized	(.3)	(.3)	(4.4)	(.4)	(.8)	
Amortization of goodwill	—	—	—	—	5.2	
Other items, individually less than 5% of the statutory amount—net	1.9	(1.0)	(1.3)	(.4)	2.3	
	50.8%	48.7%	41.8%	51.2%	58.3%	

*Under the purchase method for fiscal 1982, the statement of operations reflects a pretax loss, however, a provision for income taxes was recorded as certain expenses, $1,312,000 of goodwill amortization and a part of the software amortization amounting to $399,000, are not tax deductible. Furthermore, $123,000 of investment and research and development tax credits were utilized in calculating the provision.

Pursuant to the acquisition of ASC, the Company acquired the software packages licensed by ASC. These software packages have a value for income tax reporting purposes and therefore reduce income taxes payable over the period of amortization. Under the pooling of interests method of accounting the reduction in income taxes payable is reflected in capital in excess of par value whereas under the purchase method of accounting, the tax deduction is reported as a reduction of the provision for income taxes.

Note H—Related Party Transactions:

In January 1981, the Company entered into a ten-year lease of its principal offices in Marlboro, New Jersey from the wife of Bernard M. Goldsmith, III, President of the Company. The lease was unanimously approved by all disinterested directors. Rental payments pursuant to the lease are $46,000 per year adjusted annually by the lesser of the increase in the cost of living index or 10%. During fiscal 1982, the Company paid approximately $296,000 to an advertising firm, of which Ms. Goldsmith is a co-owner/principal, for advertising materials and services rendered. It is the opinion of the Company's management that the lease and the advertising transactions contain terms and conditions no less favorable to the Company than could be obtained from an unaffiliated party.

During fiscal 1982 the Company paid approximately $357,000 to Baer Marks & Upham, the Company's general counsel, of which Joel M. Handel, a director and assistant secretary of the Company, is a partner, for legal services rendered. During fiscal 1980 and 1981 the Company paid approximately $53,000 and $161,000, respectively to Baer Marks & Upham for legal services rendered. In September 1981, the Company granted Handel stock options for 10,000 shares exercisable at $5.50 per share.

Thomas F. Kearns, a director of the Company, is a general partner of Bear, Stearns & Co., the managing underwriter for the Company's April 1981 and September 1980 offerings of common stock. In the April 1981 and September 1980 offerings, the underwriters received shares at a discount of approximately 7.2% and 6.7%, respectively, from the public offering price. In September 1981, the Company granted Kearns stock options for 5,000 shares exercisable at $5.50 per share.

Included in other receivables in the accompanying consolidated balance sheet at April 30, 1982 is approximately $264,000 due from ASC or its stockholders. This amount principally consists of expenses paid by the Company on behalf of ASC or its stockholders.

Note I—Commitments and Other Information:

The Company conducts its operations in leased facilities. The leases expire on various dates through 1994. Certain leases require additional payments for increases in maintenance and real estate taxes. The following is a schedule of future minimum rental payments required under operating leases that have initial or remaining noncancellable lease terms in excess of one year as of April 30, 1982:

Years Ending April 30,	*(In thousands)*
1983	$ 513
1984	374
1985	288
1986	281
1987	203
Succeeding years	769
Total minimum payments required	$2,428

The Company also has short-term or cancellable leases on other facilities and equipment. The total rental expense charged to operations under the pooling of interests accounting method for the years ended April 30, 1980, 1981 and 1982, was \$280,000, \$500,000, and \$700,000, respectively. Under the purchase accounting method rental expense was \$136,000, \$325,000 and \$700,000 for the years ended April 30, 1980, 1981 and 1982, respectively.

In February 1981, the Company entered into an employment agreement with Bernard M. Goldsmith which provides for payment of a salary of \$100,000, together with additional amounts payable in accordance with a cost of living increase. The contract is for a five year term and is renewed automatically in the absence of notice from either party of a desire to terminate. If the Company gives notice of termination of employment, the employment terminates five years following the end of the fiscal year immediately following such notice. Subject to certain conditions, if the Company attempts to breach the terms of the agreement, it must pay Goldsmith a lump sum equal to five years salary as adjusted for inflation together with 2% of its gross sales in the preceding year, and each year for four successive years must pay an amount equal to 2% of its gross sales in the preceding year.

In connection with the ASC acquisition, the Company entered into a consulting agreement with Arthur Allen for a period of six months and part-time for forty months thereafter and a two year employment agreement with Addison Fischer and part-time for three years thereafter. Allen's compensation, on an annualized basis, approximated \$100,000 to September 1, 1981 and, as subsequently agreed, \$145,000 thereafter until the expiration date of the agreement. During the two year employment period, Fischer will receive annual compensation equal to the greater of \$100,000 or 3.5% of the amount of cash proceeds received from the marketing of ASC software packages. Compensation for Fischer during his part-time employment will be determined by mutual agreement with the Company at that time. A subsequent agreement in December 1981 with Fischer provides additional compensation of 6.5% from the marketing of existing and new software products developed by him during the two year period ending May 1, 1983.

In February 1981, the Company obtained a \$3,000,000 unsecured line of credit from Fidelity Union Bank. Borrowings will bear interest at the Bank's prime lending rate subject to an informal compensating balance arrangement of 5% of the amount of the line plus 10% of average borrowings. There were no outstanding borrowings in 1981 or 1982.

Note J—Business Segment Information:

The Company operates in the data processing industry and provides computer consulting services and licenses proprietary computer software packages. Although its customer base consists of organizations from diversified industries, services to the insurance industry accounted for 26%, 27% and 21% of total revenue under the pooling of interests accounting method for the years ended April 30, 1980, 1981 and 1982, respectively, and 42%, 35% and 21% of total revenue under the purchase accounting method for the years ended April 30, 1980, 1981 and 1982, respectively. One customer for whom computer consulting services are rendered and who operates within the health insurance industry accounted for 14% and 7% and 18% and 7% of total revenue under the pooling of interests and purchase accounting methods, respectively, during the fiscal years ended April 30, 1981 and 1982.

The following table summarizes financial information relating to the Company's computer consulting and software package licensing operations:

	Pooling of Interests Accounting Method Years Ended April 30,			*Purchase Accounting Method Years Ended April 30,*		
	1980	*1981*	*1982*	*1980*	*1981*	*1982*
	(Dollars in thousands)					
Revenue						
Computer consulting	$15,500	$16,400	$19,644	$10,638	$13,733	$19,644
Software packages	3,727	3,958	6,210	1,175	1,777	6,210
	$19,227	$20,358	$25,854	$11,813	$15,510	$25,854
Operating income (a)						
Computer consulting	$ 3,228	$ 3,053	$ 3,128	$ 1,966	$ 2,104	$ 3,128
Software packages	1,230	1,584	2,667	234	258	313
	4,458	4,637	5,795	2,200	2,362	3,441
Unallocated corporate expenses	(1,025)	(1,038)	(2,105)	(632)	(724)	(2,105)
	$ 3,433	$ 3,599	$ 3,690	$ 1,568	$ 1,638	$ 1,336
Identifiable assets (b)						
Computer consulting	$ 2,566	$ 2,902	$ 3,757	$ 1,853	$ 2,902	$ 3,757
Software packages	1,163	1,738	2,563	199	13,116	11,587
Corporate	2,865	6,938	9,360	1,753	13,281	14,391
	$ 6,594	$11,578	$15,680	$ 3,805	$29,299	$29,735
Depreciation and amortization						
Computer consulting	$ 51	$ 37	$ 69	$ 34	$ 23	$ 69
Software packages	52	57	81	22	415	2,435
Corporate	16	14	37	15	237	1,349
	$ 119	$ 108	$ 187	$ 71	$ 675	$ 3,853
Capital expenditures						
Computer consulting	$ 170	$ 107	$ 211	$ 101	$ 106	$ 211
Software packages	65	29	466	2	4	466
Corporate	15	36	153	15	37	153
	$ 250	$ 172	$ 830	$ 118	$ 147	$ 830

(a) Operating income represents revenue less operating expenses. Income earned at the corporate level and other income and deductions are excluded in computing operating income.

(b) Corporate assets are principally cash and interest bearing deposits, short-term investments, other receivables, prepaid taxes and other, other assets and, under the purchase accounting method, goodwill.

Note K—Interim Financial Data (Unaudited):

The quarterly results of operations under the pooling of interests and purchase methods of accounting for 1982 and 1981 are as follows (Dollars in thousands except per share amounts):

	Pooling of Interests Accounting Method			
1982	*First Quarter*	*Second Quarter*	*Third Quarter*	*Fourth Quarter*
Revenue	$5,817	$6,125	$7,035	$6,877
Operating income	$1,147	$ 850	$1,241	$ 452
Net income (loss)	$ 653	$ 403	$ 581	$ (1)(a)
Net income per share	$ .20	$ .12	$ .18	$ —
1981				
Revenue	$5,225	$4,987	$5,013	$5,133
Operating income	$1,142	$ 943	$ 836	$ 678
Net income	$ 619	$ 534	$ 530	$ 492
Net income per share (b)	$ .21	$ .17	$ .17	$ .15

1982	Purchase Accounting Method First Quarter (c)	Second Quarter (c)	Third Quarter	Fourth Quarter
Revenue	$5,817	$6,125	$7,035	$6,877
Operating income (loss)	$ 559	$ 261	$ 652	$ (136)
Net (loss)	$ (25)	$ (275)	$ (96)	$ (703)(a)
Net (loss) per share	$ (.01)	$ (.08)	$ (.03)	$ (.21)
1981				
Revenue	$3,583	$3,492	$3,597	$4,838
Operating income	$ 591	$ 436	$ 329	$ 282
Net income (loss)	$ 311	$ 256	$ 250	$ (2)
Net income per share (d) (e)	$ .22	$ .15	$ .13	$ —

(a) After a $750 provision for settlement of litigation and related tax effect.

(b) Reflects retroactive adjustment for the 3-for-2 stock split and, shares issued in connection with the ASC combination.

(c) Restated for independent appraisal of the fair value of the CGA shares exchanged to acquire the software and net assets of ASC.

(d) Reflects retroactive adjustment for the 3-for-2 stock split.

(e) As a consequence of issuing common stock in the fourth quarter to acquire ASC, the cumulative earnings per share for the four quarters do not equal the earnings per share for the year.

Note L—Subsequent Event:

On June 1, 1982, the Company purchased the net assets and business of the Software Shoppe for $1,045,000 in cash and 50,000 shares of common stock, which are redeemable at the holder's option five years from the acquisition date if the market value of CGA's stock is less than $10 per share. The Software Shoppe develops accounting application software programs, which it markets primarily to small and medium sized companies. Such packages have been independently appraised at approximately $1,200,000 and will be amortized over five years.

The Software Shoppe's unaudited results of operations for the fiscal year ended January 31, 1982 are not material to the Company's consolidated results.

Report of Independent Accountants

To the Board of Directors and Stockholders of CGA Computer Associates Inc.

We have examined the accompanying separate consolidated financial statements of CGA Computer Associates Inc. for the years ended April 30, 1982 and 1981 prepared on both the pooling of interests and purchase methods of accounting. This dual presentation has been made pursuant to undertakings and provisions contained in a Settlement Agreement with the Securities and Exchange Commission as summarized in the following paragraph. 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.

On July 16, 1981, the Securities and Exchange Commission commenced an administrative proceeding against the Company concerning the appropriate accounting accorded a business combination with Allen Services Corporation consummated in February 1981. As more fully described in Note B, on January 27, 1982 the Company entered into a Settlement Agreement with the Securities and Exchange Commission. Pursuant to the undertakings and provisions of such agreement, the Company is presenting dual financial statements which give effect to the business combination with Allen Services Corporation under both the pooling of interests and purchase methods of accounting without either designated as supplemental in relation to each other.

The dual presentation of financial statements is in conflict with the generally accepted reporting standard which requires that a business entity have only one set of primary financial statements presented in conformity with generally accepted accounting principles. Price Waterhouse was not appointed as the Company's independent accountants until May 28, 1981, and is not a party to the Settlement Agreement. Were it not for the undertakings and provisions contained in the Settlement Agreement, the reporting standard referred to above would require the Company to identify a primary set of financial statements. If we concurred that the primary set of financial statements so identified is in conformity with generally accepted accounting principles, we would be obligated under our professional standards to report on the primary financial statements and to render an adverse opinion on the other financial presentation. Accordingly, we are unable to report, and do not report, that either financial presentation presents fairly the consolidated financial position, results of operations or changes in financial position of the Company in conformity with generally accepted accounting principles.

As more fully discussed in Note C, class action suits were filed against the Company and various other parties, alleging, among other things, that the April 7, 1981 Prospectus used in connection with the secondary sale of the Company's common stock referred to in Note B contained materially false and misleading statements. In July 1982 the Company reached an agreement in principle with all parties to the suits for disposition of the claims subject to the approval by the parties of appropriate written documentation and approval of the District Court. Based on the agreement in principle, the Company has recorded a provision of $750,000, which management believes is a reasonable estimate of the cost of settling the claims. However, the ultimate outcome of this matter is not presently determinable.

In conformance with the Settlement Agreement, subject to the effect on both consolidated financial statements of such adjustments, if any, as might have been required had the ultimate outcome of the above-mentioned class action litigation been known, we report, based on our examinations, that the accompanying consolidated financial statements present fairly the financial position of CGA Computer Associates Inc. and subsidiary at April 30, 1982 and 1981 and the results of their operations and changes in their financial position for the years then ended in conformity with the two accounting methods described in the undertakings and provisions of the Settlement Agreement, applied on a basis consistent with the prior year.

The accompanying separate consolidated statements of income, operations, changes in financial position and changes in stockholders' equity for the year ended April 30, 1980 were examined by other auditors whose opinion, dated June 20, 1980 as to CGA Computer Associates Inc. and January 23, 1981 as to Allen Services Corporation, except for Note B which is as of January 27, 1982, on those statements was disclaimed due to the terms of the Settlement Agreement with the Securities and Exchange Commission as described in Note B and the litigation matters as described in Note C; however, the other auditors reported that the accompanying separate 1980 consolidated financial statements were presented fairly in conformity with the two accounting methods specified by the Settlement Agreement.

Price Waterhouse

Morristown, New Jersey July 2, 1982

Directors and Officers

Directors

Bernard M. Goldsmith III
Lawrence S. Robinson
Robert J. Sywolski
Joel M. Handel
Thomas F. Kearns

Officers

Bernard M. Goldsmith III
President and Treasurer

Lawrence S. Robinson
Executive Vice President and Secretary

Robert J. Sywolski
Executive Vice President

Leonard S. Ostfeld
Vice President and Controller

Jack Goldstein
Vice President

Joel M. Handel
Assistant Secretary

Transfer Agent

Fidelity Union Bank
Newark, New Jersey

Independent Accountants

Price Waterhouse
Morristown, New Jersey

Counsel

Baer Marks & Upham
New York, New York

Shares Traded

Over-The-Counter

Corporate Directory

CGA Computer Associates Inc.
Corporate Headquarters

Cannon Hill Farm
255 Route 520 East
Marlboro, NJ 07746
201-946-8900
Telex: 288314

CGA Software Products and Consulting Services Offices

California
30101 Town Center Drive
Suite 200
Laguna Niguel, CA 92677
714-643-0311

Florida
1100 Fifth Avenue South
Suite 310
Naples, FL 33940
813-263-5011

Georgia
Software Shop Systems, Inc.
5825 Glenridge Drive
Building 1, Suite 106
Atlanta, GA 30328
404-255-8164

Illinois
1011 East Touhy Avenue
Suite 485
Des Plaines, IL 60018
312-296-9660

Maryland
401 East Pratt Avenue
World Trade Center
Suite 545
Baltimore, MD 21202
301-837-0343

1370 Piccard Drive
Rockville, MD 20850
301-948-9600

8630 Fenton Street
Suite 810
Silver Spring, MD 20910
301-588-5525

Minnesota
6750 France Avenue South
Suite 123
Edina, MN 55435
612-925-0524

New Jersey
25 Commerce Drive
Cranford, NJ 07016
201-272-7950

New York
369 Lexington Avenue
New York, NY 10017
212-883-0900

Ohio
212 West National Road
Vandalia, OH 45377
513-890-1200

Pennsylvania
111 Presidential Boulevard
Suite 243
Bala Cynwyd, PA 19046
215-668-4626

Texas
5757 Alpha Road
Suite 505
Dallas, TX 75240
214-385-3290

1111 North Loop West
Suite 1000
Houston, TX 77008
713-869-8001

Virginia
1501 Santa Rosa Road
Room 5-10
Richmond, VA 23288
804-288-1422

Wisconsin
675 North Brookfield
Brookfield, WI 53005
414-784-9337

International Marketing Representatives

TopData
Hanne Nielsens Vej 10
DK-2840
Holte, Denmark
Phone: 02-42 40 61
Telex: 37563 topdat dk

DEK
Minato-Ku
Tokyo 107, Japan
Phone: (03) 479-1600-1606
Telex: J 24495

Advanced Technology
P.O. Box 13045
Atidim, Neve Shareth
Tel Aviv
Phone: 03-474213
Telex: 342621 ATLIL

Syntax
Via G. Negri 8
20123 Milano, Italy
Phone: 877. 444/5-879-151
Telex: 321137 Syndir 1

CGA Computer Associates Inc.
Cannon Hill Farm
255 Route 520 East
Marlboro, NJ 07746
201-946-8900