# CGA Annual Report, 1975

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#### **DIRECTORS**

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

## CORPORATE OFFICERS

Bernard M. Goldsmith, III, President, Treasurer Lawrence S. Robinson, Vice President, Secretary Joel M. Handel, Assistant Secretary

## TRANSFER AGENT

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

#### **AUDITORS**

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

#### COUNSEL

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

#### SHARES TRADED

Over the Counter

A copy of the annual report to the Securities and Exchange Commission, Form 10K, is available on request from the company.

## PRESIDENT'S LETTER TO SHAREHOLDERS

## DEAR SHAREHOLDERS:

We are pleased to report that the year ending April 30, 1975, was a record year. Sales increased 33% to \$1,921,791 as compared to sales of \$1,445,013 for our fiscal year ended April 1974. Of particular satisfaction was the increase in net after tax profits from \$26,574 to \$160,485 or .53 per share.

This year saw emphasis on building a strong marketing organization and on developing a technical management structure to insure the quality of our consulting engagements. Our management team was strengthened through the addition of Elliot J. Rosenzweig who is responsible for all of our consulting assignments. A new position was created to perform quality assurance on all our work. This post was filled by Mr. Paul Aron, who, prior to his promotion had been a project manager with CGA.

In an effort to continue our sales growth we strive to increase the quality and size of our marketing organization.

During this fiscal year ended 4/30/75, CGA introduced a line of software packages designed to give management audit points in the implementation of a data processing project. The cost of these products has been fully expensed and we expect these software packages to assist us in diversifying our revenue base.

Your management team will continue to develop the present consulting business while looking for opportunities to diversify within the data processing field. We look forward to continued growth, given a stable economic picture, of both sales and profits in the coming year.

I want to thank all of our employees, our shareholders and our clients for their continued support. It is this suport that contributes to CGA's growth and success.

Bespectfully Systemitted,

President

# CGA COMPUTER ASSOCIATES INC. (DEL.)

## STATEMENT OF INCOME For the Years Ended April 30, 1975 and 1974

	Year E		Year Ended	
	April 30	, 1975	April 30, 1974	
NET REVENUES	\$1,921,791		\$1,445,013	
COST OF REVENUES	1,110,512		940,559	
GROSS PROFIT		\$811,279		\$504,454
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES				
(Note 4)	520,460		390,769	
EXPENSES OF DISTRIBUTION TO STOCKHOLDERS				
(Note 2)		520,460	25,721	416,490
OPERATING INCOME		290,819	HARME.	87,964
OTHER INCOME OR (EXPENSE):				
Interest Income	20,722		938	
Interest Expense	(7,256)		(7,468)	
Other - Net		13,466	(602)	(7,132)
INCOME FROM CONTINUING OPERATIONS BEFORE TAXES		304,285		80,832
INCOME TAXES (Notes 1E and 5)		143,800		32,700
INCOME FROM CONTINUING OPERATIONS		160,485	THE STATE OF	48,132
OPERATING LOSS ON DISCONTINUED SUBSIDIARY			0.78125	
(Net of Income Tax Effect of \$16,100) (Note 2)			Marine Marine	21,558
NET INCOME		\$160,485		\$ 26,574
EARNINGS PER COMMON SHARE (Note 10):			Edition of	
Primary Earnings:			THE RESERVE	
Income from Continuing Operations		\$.53		\$.16
Loss on Discontinued Subsidiary		-		(.07)
Net Income		.53	AND REAL PROPERTY.	.09
Fully Diluted Earnings:			BEST OF	
Income from Continuing Operations		.43		.14
Loss on Discontinued Operations				(.06)
Net Income		.43		.08

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

## CGA COMPUTER ASSOCIATES INC. (DEL.)

## STATEMENT OF CHANGES IN FINANCIAL POSITION For the Years Ended April 30, 1975 and 1974

WORKING CAPITAL WAS PROVIDED BY: Operations -	Year Ended April 30,1975	Year Ended April 30,1974	
Net Income for the Year  Add Items Charged to Operations,  Not Requiring Use of Working Capital:	\$160,485	\$26,574	
Depreciation and Amortization Write-off of Deferred Start-up Costs	4,635	11,696	
of Subsidiary		21,255	
Total from Operations	165,120	59,525	
Disposal of Equipment and Improvements		43,595	
Issuance of 7% Convertible Debentures	103,000	1 1 2 2 2 X X X X X X X X X X X X X X X	
Total	\$268,120	\$103,120	
WORKING CAPITAL WAS USED FOR:		THE PERSON NAMED IN	
Purchase of Equipment	4,416	980	
Increase in Security Deposits	660	2,256	
Exchange of Note Payable for Convertible			
Debentures	103,000		
Total	108,076	3,236	
NET INCREASE IN WORKING CAPITAL	<u>\$160,044</u>	\$ 99,884	

# DETAIL OF CHANGES IN ELEMENTS OF WORKING CAPITAL

CURRENT ASSETS:	R (DECREASE)	
Cash	\$132,757	\$97,193
Marketable Securities	1.00,000	The second second
Receivables	(22,697)	48,097
Prepaid Expenses	308	(3,227)
Total	\$210,368	\$142.063
CURRENT LIABILITIES:		
Accounts Payables	(46,621)	70,626
Income Taxes Payable	16,482	6,405
Accrued Liabilities	80,463	(34,852)
Total	50,324	42,179
NET INCREASE IN WORKING CAPITAL	\$160,044	\$99,884

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

# ASSETS

	April 30, 1975		April 30, 1974		
CURRENT ASSETS:					
Cash Marketable Securities (Notes 1B and 3)		\$269,295	\$136,538		
Receivables:		100,000			
Trade Accounts (Note 1C)	\$230,682		\$254,020		
Other	2,483	233,165	1,842	255,862	
Prepaid Expenses		2,247	1,0 /2	1,939	
Total Current Assets		604,707		394,339	
EQUIPMENT AND IMPROVEMENTS (Notes 1D and 4):					
Furniture and Equipment	20,588		19,868		
Leasehold Improvements			2,507		
Total Equipment and Improvements	20,588		22,375		
Less: Accumulated Depreciation and					
Amortization	13,816		16,682		
Net Book Value - Equipment and Improvements		6,772	10 m	5,693	
OTHER ASSETS:					
Deferred Debt Expense (Notes 1F, 4 and 6)	5,071		6,369		
Security Deposits	4,305		3,645		
Total Other Assets		9,376		10,014	
Total Assets		\$620,855		\$410,046	

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# LIABILITES AND STOCKHOLDERS' EQUITY

CURRENT LIABLITIES: Accounts Payable Income Taxes Payable (Notes 1E and 5) Accrued Liablities Total Current Liablities	April 30, 1975 \$ 39,423 22,887 101,459 \$163,769	April 30, 1974 \$ 86,044 6,405 20,996 \$113,445
LONG-TERM DEBT (Note 6): 7% Promissory Note Payable 7% Convertible Subordinated Debentures Total Long-Term Debt	\$ — 	\$103,000 —————————————————————————————————
COMMITMENTS AND CONTINGENCIES (Note 8)		
STOCKHOLDERS' EQUITY [Notes 2, 6 and 9]: Common Stock, Par Value \$.10 Per Share Authorized 1,000,000 Shares; Issued and Outstanding 300,200 Shares Amount Contributed in Excess of Par Value Retained Earnings Total Stockholders' Equity	30,020 137,007 187,059 _354,086	30,020 137,007 26,574 193,601
Total Liabilities and Stockholders' Equity	\$620,855	\$410,046

# CGA COMPUTER ASSOCIATES INC. (DEL.)

STATEMENT OF RETAINED EARNINGS For the Years Ended April 30, 1975 and 1979

	Year Ended April 30, 1975	Year Ended April 30, 1974	
RETAINED EARNINGS AT BEGINNING OF YEAR	\$ 26,574	\$ —	
NET INCOME	160,485	26,574	
RETAINED EARNINGS AT END OF YEAR	\$187,059	\$26,574	

## CGA COMPUTER ASSOCIATES INC. (DEL.)

## NOTES TO FINANCIAL STATEMENTS APRIL 30, 1975 and 1974

#### Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

- A. Principles of reporting The financial statements include the accounts of the Company and its subsidiary, The Sutton Group, which was discontinued in August 1973. All inter-company transactions and balances have been eliminated. See Note 2 below.
- B. Marketable Securities Marketable securities are carried at cost, which approximates market.
- C. Receivables and Bad Debts It is the Company's policy to reserve for accounts considered to be uncollectible. No reserve was required at April 30, 1975 and 1974.
- D. Equipment, Improvements and Depreciation Equipment and improvements are stated at cost Depreciation and amortization are charged against income on a straight-line basis over the estimated useful lives of the assets as follows:

Furniture and Equipment 5 years Leasehold Improvements 5-10 years

Maintenance and repair expenditures are charged to appropriate expense accounts in the period incurred; replacement, renewals, and betterments are capitalized. When equipment and improvements are retired or otherwise disposed of, the cost and accumulated depreciation in respect to such properties are eliminated from the accounts and the gains or losses thereon are reflected in income.

- E. Investment Tax 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. The amount of such credits were not significant for the years ended April 30, 1975 and 1974.
- F. Deferred Debt Expense Deferred debt expense represents costs incurred in the original issuance of the 7% convertible subordinated debentures which have been assumed by the Company upon the reorganization (See Notes 2 and 6). These costs are being amortized over the life of the debentures through August 14, 1979.
- G. Profit Sharing Plan During the year ended April 30, 1975, the Company established a profit sharing plan covering substantially all of its emlpoyees. The amount of the annual profit sharing plan contribution is discretionary with the Company. The Company's policy is to fund profit sharing contributions accrued.

#### Note 2 - ORGANIZATION AND REORGANIZATION

The Company, a Delaware corporation, was incorporated on May 3, 1973, with authorization to issue 1,000,000 shares of common stock having a par value of \$.10 per share. By an agreement dated May 1, 1973, the Company issued 300,200 shares of its common stock to CGA Computer Associates, Inc., a New York corporation, in exchange for the latter's computer software business and the assets and liabilities pertaining thereto. The stock was subsequently distributed by the New York corporation as a distribution in kind to its stockholders of record on June 28, 1974.

The net book value of the assets and liabilities acquired by the Company on May 1, 1973 was \$167,027. Of this amount, \$30,020 was credited to "Common Stock" and \$137,007 was credited to "Amount Contributed in Excess of Par Value". Included in the assets acquired was the stock of The Sutton Group, Inc., an entity engaged in the recruitment and placement of computer personnel. On May 1, 1973, The Sutton Group had deferred start-up costs in the amount of \$21,255. In August, 1973, operations of The Sutton Group were discontinued and the operating loss from the discontinued subsidiary, including the write-off of the deferred start-up costs, was \$21,558, net of the income tax effect of \$16,100.

#### Note 3 - MARKETABLE SECURITIES:

Marketable securities at April 30, 1975 consisted of \$100,000 N.Y.C. Bond Anticipation Notes, maturing March 12, 1976 with an effective yield of 8%.

#### Note 4 - DEPRECIATION, AMORTIZATION AND ABANDONMENTS:

Depreciation and amorfization expense of equipment and improvements for the years ended April 30, 1975 and 1974 amounted to \$3,337 and \$3,349, respectively.

Amortization of deferred debt expense amounted to \$1,298 in 1975 and \$1,203 in 1974

During the year ended April 30, 1974, leasehold improvements with a book value of \$37,837 were abandoned because of cancellation of a lease. The abandonment is included in selling, general and administrative expenses for that year.

## Note 5 - INCOME TAXES:

Income taxes for the years ended April 30, 1975 and 1974 are all currently payable and are summarized as follows:

	Year Ended April 30		
	1975	1974	
Federal Income Tax	\$127,000	\$28,200	
State Taxes	16,800	4,500	
Total	\$143,800	\$32,700	

#### Note 6 - LONG-TERM DEBT:

Effective May 1, 1973, upon reorganization as described in Note 2 above, the Company assumed an obligation to pay 7% convertible subordinated debentures, due August 14, 1979, in the amount of \$103,000. To cover the obligation for the debentures, the Company issued to the seller a 7% promissory note payable for \$103,000, due on the same date as the debentures.

In June, 1974, the Company registered \$103,000 of 7% convertible subordinated debentures and issued these debentures in place of the promissory note and the assumed obligation. The debentures are due August 14, 1979 and are convertible at \$1.25 per share of common stock. The Company is not required to maintain a sinking fund with respect to the retirement of the debentures.

## Note 7 - PROFIT SHARING PLAN:

On February 28, 1975, the Company established a profit sharing plan, effective May 1, 1974, covering substantially all of its employees.

Total profit sharing expense for the fiscal year ended April 30, 1975 amounted to \$55,000. The amount of the contributions for any year is discretionary with the Company.

#### Note 8 - COMMITMENTS AND CONTINGENCIES:

The Company rents its present office facilities under a lease agreement expiring on May 31, 1979. The lease agreement specifies minimum rentals subject to increases in taxes and maintenance costs.

Total rental expense included in the statement of income for the year ended April 30, 1975 was \$19,830. Rental expense on the previous office facilities for the year ended April 30, 1974 was \$39,694.

The minimum rental commitment under the lease described above is as follows:

1976	\$21,390
1977	21,390
1978	21,390
1979	21,390
1980	1,782

## Note 9 - STOCK OPTIONS:

An option to purchase 20,000 shares of the Company's common stock, granted to a director of the predecessor corporation, was assigned by the holder to an entity not related to the Company. The option agreement specifies that the options may be exercised at \$.75 per share, subject to adjustment for future dividends and additional shares issued. The option expires June 25, 1983. No options were exercised during the years ended April 30, 1975 and 1974.

#### Note 10 - EARNINGS PER SHARE:

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

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

#### REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

We have examined the balance sheet of CGA Computer Associates Inc. (Del.) as of April 30, 1975 and the related statements of income, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. The financial statements of CGA Computer Associates Inc. (Del.) for the year ended April 30,1974 were examined by other public accountants and are presented for comparative purposes only.

In our opinion, the aforementioned financial statements present fairly the financial position of CGA Computer Associates Inc. (Del.) at April 30, 1975, and the results of its operations and changes in its financial position for the year then ended in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

SAX, MACY, FROMM and CO. Certified Public Accountants

Clifton, New Jersey June 12, 1975

## MANAGEMENT DISCUSSION AND ANALYSIS OF OPERATIONS

#### REVENUES:

Revenues continued to increase as they have over the last 5 years. The increases are in line with the growth experienced over the last 5 years. The increases over the years can be directly attributed to our ability to offer our services to more clients. Sales of software products and recruiting services in 1975 accounted for 2% of the gross revenue, while in the past years this non-consulting revenue was insignificant.

#### GROSS PROFIT:

The gross profit margin increased to 42% in 1975 from 35% in 1974. This increase was due to our ability to keep our staff members actively engaged throughout the year. The increase in non consulting revenues also positively affected the gross profit margin.

#### NET INCOME:

Consistent with sales net operating income continued to grow. The increase to \$290,819 in 1975 as compared to \$87,964 in 1974 is not an accurate picture as net operating income in 1974 was reduced to \$87,964 by 2 non-recurring items of \$25,721 for the cost of the stock distribution and of \$37,837 due to the abandonement of leaseholds.

#### FIVE YEAR SUMMARY OF OPERATIONS

The following five year summary of operations is presented as if the business of the predecessor entity (prior to May 1, 1973) had been operated by CGA Computer Associated Inc.(Del.) for all the indicated periods. Certain proforma adjustments had been made to historial net income for the periods prior to May 1, 1973, eliminating interest income or expense on assets or liabilities not assumed by the Company.

	For the Years Ended April 30				
	1975	1974	1973	1972	1971
	107.0	-		countants' R	
NET REVENUES	\$1,921,791	\$1,445,013		\$887,966	\$728,339
COST OF REVENUES:	1,110,512			618,007	488,440
GROSS PROFIT	811,279		413,497	269,959	239,899
SELLING, GENERAL AND ADMINISTRATIVE					
EXPENSES	520,460	390,769	333,197	257,748	218,060
EXPENSES OF DISTRIBUTION TO					
STOCKHOLDERS	W 1000 =	25,721	_		
OPERATING INCOME	290,819	87,964	80,300	12,211	21,839
OTHER INCOME OR (EXPENSE):					
Interest Income	20,722	938	14,178	15,707	30,089
Interest Expense	(7,256)		(21,137)	(19,993)	(21,309)
Other - Net		(602)	2,472	4,998	3,368
	13,466	(7,132)	(4,487)	712	12,148
INCOME FROM CONTINUING OPERATIONS					
BEFORE TAXES, DISCONTINUED OPERATIONS	004005	00.000	75.040	10,000	00.007
AND EXTRAORDINARY ITEMS	304.285	80,832	75,813	12,923	33,987
INCOME TAXES	143,800	32,700	30,000	3,000	10,000
INCOME FROM CONTINUING OPERATIONS	160,485	48,132	45,813	9,923	23,987
OPERATING LOSS ON DISCONTINUED					
SUBSIDIARY (Net of Income Tax Effect		(01 550)			
of \$16,100) INCOME BEFORE EXTRAORDINARY ITEM	160,485	(21,558) 26,574	45,813	9,923	23,987
EXTRAORDINARY ITEM — Income Tax	100,405	20,574	45,015	9,923	23,307
Benefit from Carry-Forward of					
Net Operating Loss		_	18,500	3,000	10,000
HISTORICAL NET INCOME	160,485	26,574	64,313	12,923	33,987
NET PRO FORMA ADDITIONS OR (DEDUCTIONS)	100,400	20,074	9,530	(8,300)	(10,000)
PRO FORMA NET INCOME	\$160,485	\$26.574	\$73,843	\$4,623	\$23,987
THO TOTIMA NET INCOME	#100,100	420.071	470,010	41,020	420,001
HISTORICAL PER SHARE EARNINGS BASED					
ON 300,200 SHARES:					
Income from Continuing Operations	\$ .53	\$ .16	\$ .15	\$ .03	\$ .08
Operating Loss on Discontinued					
Subsidiary	_	(.07)	_		
Extraordinary Item			.06	.01	.03
Historical Net Income	\$ .53	\$ .09	\$ .21	\$ .04	\$ .11
PRO FORMA PER SHARE EARNINGS					
BASED ON 300,200 SHARES	\$ .53	\$ .09	\$ .25	\$ .02	\$ .08
PRO FORMA PER SHARE EARNINGS					
ASSUMING FULL DILUTION, BASED					
ON 382,600 SHARES*	\$ .43	\$ .08	\$ .22		

<sup>\*</sup> Fully diluted earnings per share assumes conversion of the 7% convertible debentures at the beginning of the year. Consequently, the number of shares assumed to have been converted, 82,400, were added to the weighted average number of common shares outstanding and historical net income was adjusted to eliminate interest on these debentures, net of applicable income taxes. For the years ending in 1972 and 1971, fully diluted earnings per share on pro forma earnings are not shown because the effect of assumed conversion is anti-dilutive.