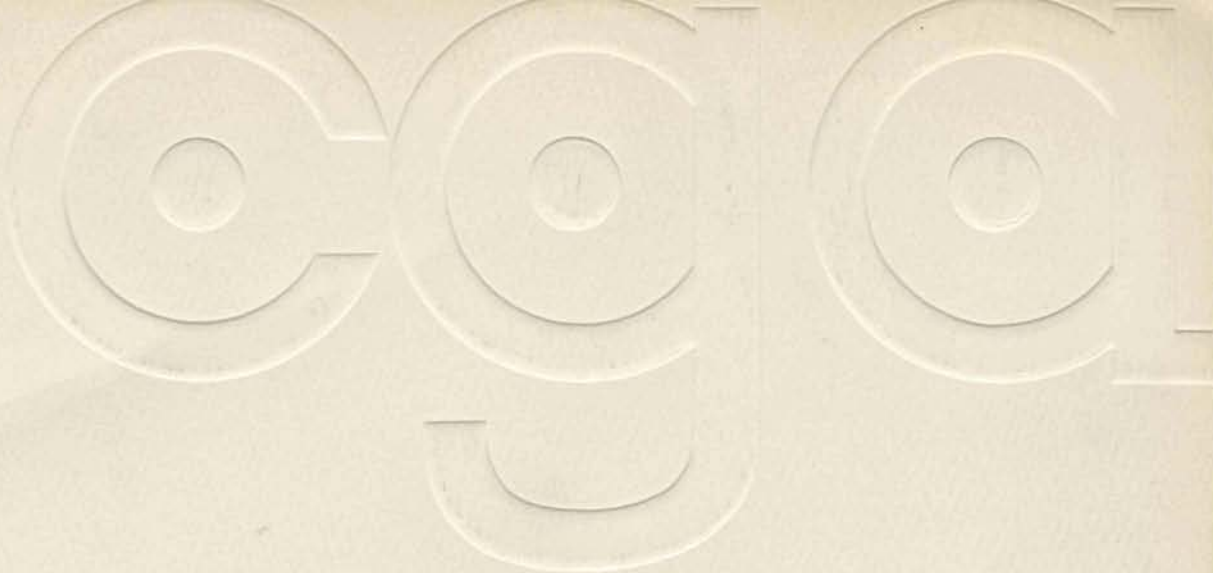


ANNUAL REPORT 1970



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CGA COMPUTER ASSOCIATES, INCORPORATED, is a data processing firm committed to solving business problems. Our ability to develop solutions for clients comes from strength in three main areas: technical, applications, and especially business management.

Technical expertise gives us the resources to design and develop software based on individual client requirements and facilities. And through our production facilities we can implement these solutions for clients without their own facilities.

Our applications ability gives us knowledge of business standards, policies, and procedures.

The uniqueness of CGA, as a data processing firm, lies in our strong business management ability. This allows us to apply common sense, as well as the technical and applications elements, to any business situation.

Our business management gives us the background to understand and interpret business problems. It also gives us the ability to oversee the proper blending of just the right elements from our technical and applications services in developing computerized solutions for business.

We're dedicated to maintaining this strength in business management, as well as in the technical and applications elements. This is our corporate philosophy. And our strength in serving business.

DEAR SHAREHOLDERS:

This was a significant year in the development of your company. On August 6, 1969, we became a public company and raised capital which we plan to use for future development and growth. The company increased its gross business from \$248,373 for the fiscal year ending April 30, 1969, to \$614,458 for the fiscal year ending May 1, 1970, and decreased its net loss from \$72,170 to \$7,614 for the same periods. Based on the performance of our first quarter in the current fiscal year, we are now operating at a profit.

With the aid of our increased capital, we have shifted our orientation from development to operations, with emphasis on profitability and diversification.

In June of 1970, CGA formed a wholly owned subsidiary, with offices in Pelham, New York. This transaction now allows CGA to offer the services and benefits of an IBM 360/40. We look forward to this subsidiary becoming a major area of growth for CGA in the coming fiscal year.

In July of 1970, CGA along with Chartcraft, Inc., a company that produces technical financial information for the investment community, formed Chartcraft Computer Associates, Inc., whose offices are in Larchmont, New York. This new company is chartered to provide certain technical information to the financial community through a computerized data base. I look forward to reporting the favorable progress of these two new companies during the coming fiscal year.

Closing, I wish to express my gratitude for the enthusiastic support shown by our employees, shareholders, and clients. Your continued support which we shall endeavor to justify will be a most essential ingredient for our continued success.



Bernard M. Goldsmith, III
President

CGA COMPUTER ASSOCIATES, INCORPORATED

STATEMENTS OF INCOME (LOSS) AND RETAINED EARNINGS (DEFICIT)
FOR THE FISCAL YEARS ENDED MAY 1, 1970 AND APRIL 30, 1969
(NOTES 1 AND 2)

	MAY 1, 1970	APRIL 30, 1969
NET OPERATING REVENUES	\$614,458	\$248,373
OPERATING EXPENSES	450,117	206,194
Gross profit	\$164,341	\$ 42,179
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Notes 3 and 8)	172,495	112,880
Net operating loss	(\$ 8,154)	(\$ 70,701)
INTEREST INCOME	16,713	435
INTEREST EXPENSE	(16,173)	(1,904)
Net loss	(\$ 7,614)	(\$ 72,170)
RETAINED EARNINGS (DEFICIT), at beginning of fiscal year	(72,170)	—
RETAINED EARNINGS (DEFICIT), at end of fiscal year (Note 6)	(\$ 79,784)	(\$ 72,170)
Net loss per share of common stock (based on weighted average number of shares outstanding during each fiscal year)	(\$.04)	(\$.88)

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

CGA COMPUTER ASSOCIATES, INCORPORATED
 BALANCE SHEETS, MAY 1, 1970 AND APRIL 30, 1969 (NOTES 1 AND 2)

ASSETS	MAY 1, 1970	APRIL 30, 1969
CURRENT ASSETS:		
Cash (including \$400,000 of certificates of deposit in 1970)	\$421,156	\$ 30,706
Accounts receivable, less allowance for doubtful accounts of \$3,846 in 1970	127,288	63,107
Unbilled contracts in progress	—	4,770
Notes receivable from officers and stockholder	—	10,880
Prepaid expenses	2,264	113
TOTAL CURRENT ASSETS	\$550,708	\$109,576
OFFICE FURNITURE, AUTOMOBILE AND LEASEHOLD IMPROVEMENTS, at cost:		
Office furniture	\$ 15,839	\$ 9,235
Automobile	3,287	—
Leasehold improvements	2,507	2,075
	\$ 21,633	\$ 11,310
Less — Accumulated depreciation and amortization (Note 8)	3,803	690
	\$ 17,830	\$ 10,620
OTHER ASSETS:		
Deferred charges (Note 3)	\$ 35,185	\$ 24,500
Security deposits	2,070	1,413
	\$ 37,255	\$ 25,913
	\$605,793	\$146,109

LIABILITIES AND STOCKHOLDERS' INVESTMENT	MAY 1, 1970	APRIL 30, 1969
CURRENT LIABILITIES:		
4% demand notes payable to director	\$ —	\$ 99,750
Accounts payable	41,734	66,897
Accrued expenses —		
Salaries and wages	—	12,184
Taxes other than Federal income taxes	13,212	748
Interest	15,016	1,904
Reserve for losses on fixed price contracts	—	8,096
Excess of amounts billed over costs incurred	—	2,820
TOTAL CURRENT LIABILITIES	\$ 69,962	\$192,399
LONG-TERM DEBT:		
7% convertible subordinated debentures — due August 14, 1979 (Note 9)	\$300,000	\$ —
COMMITMENTS (Note 7)		
STOCKHOLDERS' INVESTMENT (Notes 4 and 5):		
Common stock, par value \$.10 per share; authorized 1,000,000 shares; outstanding 222,000 shares in 1970 and 82,000 shares in 1969	\$ 22,200	\$ 8,200
Amount contributed in excess of par value	293,415	17,680
Retained earnings (deficit) (Note 6)	(79,784)	(72,170)
	\$235,831	(\$ 46,290)
	\$605,793	\$146,109

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

CGA COMPUTER ASSOCIATES, INCORPORATED
 NOTES TO FINANCIAL STATEMENTS, MAY 1, 1970

(1) ORGANIZATION AND OPERATIONS OF THE COMPANY:

CGA Computer Associates, Incorporated (a New York corporation) was incorporated on May 6, 1968. The Company was organized to engage in computer consulting services, software development and related services. Activities for a major part of the initial year, and for a part of this year, have been directed primarily towards establishing customer contacts, employment of programmers and other personnel, and arranging financial and other organizational matters.

The Company, during 1970, changed from a fiscal year ending April 30 to a 52-53 week fiscal year ending on the Friday nearest to April 30. Accordingly, the year ended May 1, 1970 consists of a 52 week period plus 1 day and the year ended April 30, 1969 consists of a 51 week period commencing with the inception of the Company on May 6, 1968.

(2) BASIS OF ACCOUNTING:

The accompanying financial statements are prepared on the accrual basis of accounting, whereas the accounts are maintained and the Federal income tax returns are filed on the cash basis.

(3) DEFERRED CHARGES:

Deferred charges represent costs (legal, accounting, etc.) incurred in connection with the sale of the 7% convertible subordinated debentures as of August 14, 1969. These costs are being amortized over the life of the Debentures through 1979. Amortization charged to selling, general and administrative expenses for the fiscal year ended May 1, 1970 was \$2,680.

(4) CAPITAL CHANGES:

During the fiscal year ended May 1, 1970, the following changes occurred in the capital accounts—

	Common Stock, Par Value \$.10 Per Share		Amount Contributed in Excess of Par Value
	Number of Shares	Amount	
Balance, April 30, 1969	82,000	\$ 8,200	\$ 17,680
Exercise of option to purchase 20,000 shares at \$1.50 per share	20,000	2,000	28,000
Issuance of 120,000 shares at \$2.50 per share (a)	120,000	12,000	288,000
Costs incurred (legal, accounting, etc.) in conjunction with the issuance of the 120,000 shares of common stock	—	—	(40,265)
Balance, May 1, 1970	<u>222,000</u>	<u>\$22,200</u>	<u>\$293,415</u>

(a) The 120,000 shares of common stock were sold to the public in connection with the Company's prospectus dated August 6, 1969.

(5) STOCK OPTIONS:

- (a) QUALIFIED STOCK OPTION PLAN — As of May 1, 1970, 25,000 shares of Common Stock were reserved under a Qualified Stock Option Plan for issuance at not less than market value at date of grant to key employees, including officers who are directors (10,000 additional shares will be reserved under this Plan upon stockholder approval). Under the Plan, options shall become exercisable for four years from the date of grant, 30% at the end of the first year, 30% at the end of the second year, and 40% at the end of the third year.

As of May 1, 1970, options to purchase 25,000 common shares were outstanding at \$1.50 to \$2.00 per share. During the period from inception (May 6, 1968) to April 30, 1969, options for 14,425 shares were granted and 1,300 shares were cancelled. During the fiscal year ended May 1, 1970, an additional 13,450 shares were granted, and 1,575 shares were cancelled. No options have been exercised under this Plan.

The Company has made no charge to income in connection with these stock options. Proceeds from the sale of stock under the Plan will be credited to the Common Stock account to the extent of par value and the remainder to amount contributed in excess of par value.

- (b) EXECUTIVE INCENTIVE STOCK PURCHASE PLAN — On June 30, 1969, the Board of Directors of the Company adopted an Executive Incentive Stock Purchase Plan, under which 50,000 shares of the Company's Common Stock were reserved for issuance to key executives and Directors. Under the Plan, the Board of Directors may allocate a number of shares of Common Stock of the Company to key executives and Directors, at a price to be determined by the Board, but which shall not be less than \$1.00 per share. These shares are restricted, as they may not be sold, transferred, pledged, hypothecated or otherwise disposed of by the recipient unless he shall first offer the shares to the Company for repurchase at the same amount as he shall have paid for the shares under the Plan. This restriction shall terminate one-fifth at the end of each of the five years following the date of grant. In addition, upon termination of the recipient's employment or position, the Company has the option to repurchase the remaining shares which are covered by the aforementioned restriction during the initial five year period.

As of June 24, 1970, 37,000 of the foregoing reserved shares of the Company's Common Stock were allocated by the Board of Directors at a price of \$1.00 per share to the officers of the Company and certain directors. No options have been granted under this Plan.

The difference between the market price and the aforementioned price of \$1.00 per share will be charged against income over a five year period commencing one year from the date of grant.

(6) FEDERAL INCOME TAX:

As of May 1, 1970, the Company had operating loss carry-forwards of approximately \$79,784, which may be used to reduce future income otherwise subject to Federal income taxes through 1974 (\$79,784) and 1975 (\$7,614).

(7) COMMITMENTS:

The Company has entered into two lease agreements which expire on May 31, 1974 and provide for annual rentals of \$15,990 and \$7,350 plus 5.3% and 2.50% of all taxes payable, respectively.

The Company entered into a three year employment agreement on May 6, 1968 with Bernard M. Goldsmith, III as President of the Company at an annual salary of \$17,000. The Board of Directors authorized an increase in the annual salary to \$20,000 effective March 9, 1970.

(8) DEPRECIATION AND AMORTIZATION:

Depreciation and amortization, which is provided on the straight-line method, amounted to \$3,113 in 1970 and \$690 in 1969 and was charged to selling, general and administrative expenses.

(9) 7% CONVERTIBLE SUBORDINATED DEBENTURES:

The Company may redeem the Debentures, in whole or in part, at any time after January 1, 1970, upon paying the redemption price of one hundred per cent (100%) of the principal amount of the Debentures to be redeemed together with accrued interest up to the date of redemption.

The holders of Debentures after January 1, 1970, may, at their option, convert the principal of such Debentures into common stock at \$2.50 per share through August 14, 1979, except for those Debentures previously called by the Company.

(10) SUBSEQUENT EVENTS:

On June 18, 1970, the Company entered into an agreement loaning Dimode Industries, Inc., \$100,000 with interest at the rate of 18% per annum for approximately a one-month period. The loan is secured by all of the outstanding stock of Dimode Industries, Inc.'s subsidiaries, Minisink Rubber Co., Inc., Burton Manufacturing Corp., Plymouth Enterprises, Inc., and Plastic Packaging Materials, Inc., and a security interest in the accounts receivable of Minisink Rubber Co., Inc.

On July 16, 1970, the Company extended the loan for an additional 60 days with the same terms as stated above except that additional security is being held for the extended period as follows: all accounts receivable of Dimode Industries, Inc., arising from the operations of its Pemco division prior to May 1, 1970, \$50,000 face value of convertible subordinated debentures of Pemtek, Inc., due May 1, 1980, and 10,000 shares of the common stock of Pemtek, Inc., owned by Dimode Industries, Inc.

AUDITORS' REPORT

To the Stockholders and the Board of Directors of CGA Computer Associates, Incorporated:

We have examined the balance sheet of CGA Computer Associates, Incorporated (a New York corporation) as of May 1, 1970 and the related statement of income (loss) and retained earnings (deficit) for the fiscal year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We have previously examined and reported on the financial statements for the preceding year.

In our opinion, the accompanying balance sheet and statement of income (loss) and retained earnings (deficit) present fairly the financial position of CGA Computer Associates, Incorporated, as of May 1, 1970, and the results of its operations for the fiscal year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Arthur Andersen & Co.

Newark, New Jersey
June 24, 1970

Arthur Andersen & Co.

DIRECTORS

Bernard M. Goldsmith, III
Joel M. Handel
Benson A. Selzer
Peter Townsend
Dr. Edwin C. Nevis

CORPORATE OFFICERS

Bernard M. Goldsmith, III, President, Treasurer
Anthony P. Cavallo, Vice President
Joel M. Handel, Secretary

TRANSFER AGENT

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COUNSEL

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