

1969 ANNUAL REPORT

To Our Stockholders:

It is with a great deal of pleasure that I report to you on the progress our company has made in its first year of operation.

During the period of February 3, 1969 through January 31, 1970, Science Applications, Inc., reports a gross income of \$201,878 with operating expenses of \$191,213, providing income before Federal and State taxes of \$10,665. Net income for Fiscal 1969 was \$6,765 yielding earnings per share of \$4.19 based on the weighted average number of shares outstanding during the year. Our audited financial statement is enclosed.

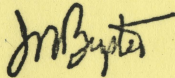
Substantial growth has taken place in the size of our organization which, as of January 31, 1970, numbered 16 scientific personnel. The present size, as of May 15, 1970, is 25 people.

Our plans for 1970 include increasing our staff to exploit new areas of work, while increasing our gross income by about four times its level during this first fiscal year. Overall corporate profits should be four or five percent of the gross after taxes.

We are studying the development of a number of new funding possibilities in both the private and government sectors. Most of these ideas involve computer technology. Work in the commercial area is important to begin considering since it can produce a maximum return on our investment. Further, in the eyes of the investment community, these activities will enhance the market value of our stock.

As a final note, I would like to thank each stockholder for his efforts in the company's behalf. A continued effort on our part to build a strong company at a controlled pace should maximize both current and long range progress.

Best wishes,



J. R. Beyster
President

SCIENCE APPLICATIONS, INC.

NOTES TO FINANCIAL STATEMENTS

1. NOTES RECEIVABLE

10% notes receivable from various stockholders, unsecured, due in full no later than 1 October 1971.

\$5,030.00

2. NOTES PAYABLE

10% note to J.R. Beyster, President

9,500.00

3. SURPLUS

The 1969 surplus is a product of sales less total expenses.

This surplus amounts to \$6,765.00 with Net Income per share of Capital Stock of \$4.19 based on the weighted average number of shares outstanding during Fiscal 1969.

4. BALANCE SHEET ADJUSTMENTS

The Ernst and Ernst published Balance Sheet, as attached, will differ from the internal detailed report by the following:

A. Miscellaneous Accounts Receivable - Offset against Accounts Payable to same individuals

377.15

B. Other Assets - Deferred Federal Tax Benefit offset against Liability for Federal and State Taxes on Income

200.00

TOTAL

\$ 577.15

AUDITED FINANCIAL STATEMENTS

SCIENCE APPLICATIONS, INC.
LA JOLLA, CALIFORNIA

January 31, 1970

CONTENTS

| | |
|---|--------|
| Accountants' Report | PAGE 3 |
| Balance Sheet | 4 |
| Statement of Income and Retained Earnings | 5 |
| Notes to Financial Statements | 6 |

ERNST & ERNST

SUITE 1515, U. S. NATIONAL BANK BLDG.

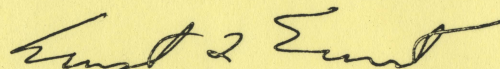
1010 SECOND AVENUE

SAN DIEGO, CALIF. 92101

Board of Directors
Science Applications, Inc.
La Jolla, California

We have examined the balance sheet of Science Applications, Inc. as of January 31, 1970, and the related statement of income and retained earnings for the period from February 3, 1969 to January 31, 1970. 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.

In our opinion, the accompanying balance sheet and statement of income and retained earnings present fairly the financial position of Science Applications, Inc. at January 31, 1970, and the results of its operations and the changes in stockholders' equity for the period from February 3, 1969 to January 31, 1970, in conformity with generally accepted accounting principles.



San Diego, California
March 31, 1970

BALANCE SHEET

SCIENCE APPLICATIONS, INC.

January 31, 1970

ASSETS

CURRENT ASSETS

| | | |
|--|----------------------|------------|
| Cash | | \$ 4,564 |
| Notes receivable from stockholders | | 5,030 |
| Unreimbursed costs and fees under cost plus fee contracts - Note A | | 50,896 |
| Recoverable amount applicable to fixed price contract in process - Note A | | 21,571 |
| Prepaid expenses | | <u>595</u> |
| | TOTAL CURRENT ASSETS | 82,656 |

OTHER ASSETS

613

EQUIPMENT AND IMPROVEMENTS - on the basis of cost

| | | |
|--|----------------|-----------------|
| Office furniture and equipment | \$ 4,398 | |
| Leasehold improvements | 3,372 | |
| Allowances for depreciation and amortization (deduction) | <u>(3,347)</u> | <u>4,423</u> |
| | | <u>\$87,692</u> |

LIABILITIES AND STOCKHOLDERS' EQUITY

CURRENT LIABILITIES

| | | |
|---|---------------------------|--------------|
| Note payable to affiliate | | \$ 4,000 |
| Note payable to officer | | 9,500 |
| Accounts payable | | 7,170 |
| Salaries, wages, and amounts withheld from employees' compensation | | 7,568 |
| Vacation and other accrued expenses | | 9,989 |
| Federal and state taxes on income | | <u>3,700</u> |
| | TOTAL CURRENT LIABILITIES | 41,927 |

STOCKHOLDERS' EQUITY - Note B

| | | |
|--|--------------|-----------------|
| Capital Stock, no par value | | |
| Authorized 25,000 shares | | |
| Issued and outstanding 3,900 shares, at stated capital amount | \$39,000 | |
| Retained earnings | <u>6,765</u> | <u>45,765</u> |
| | | <u>\$87,692</u> |

See notes to financial statements.

STATEMENT OF INCOME AND RETAINED EARNINGS

SCIENCE APPLICATIONS, INC.

For the period from February 3, 1969 to January 31, 1970

| | | |
|---|--|-----------------|
| Sales - Note A | | \$201,677 |
| Other income | | <u>201</u> |
| | | 201,878 |
| Costs and expenses: | | |
| Cost of sales | \$ 88,582 | |
| Selling, administrative, and general expenses | 102,378 | |
| Interest expense | <u>253</u> | <u>191,213</u> |
| | INCOME BEFORE INCOME TAXES | 10,665 |
| Income taxes: | | |
| Federal and state income taxes | | <u>3,900</u> |
| | NET INCOME FOR THE PERIOD AND RETAINED EARNINGS AT JANUARY 31, 1970 | <u>\$ 6,765</u> |

Net income per share of Capital Stock - Note C \$4.19

Provision for depreciation and amortization
of equipment and improvements for the period \$ 3,410

See notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

SCIENCE APPLICATION, INC.

January 31, 1970

NOTE A - CONTRACT SALES

Sales include costs as incurred and fees as earned on cost plus fee contracts, as well as costs incurred and estimated profit on a fixed price contract. Such estimated profit has been computed by applying the percentage of completion of the contract to the estimated ultimate profit.

The recoverable amount applicable to fixed price contract in process, shown in the balance sheet, represents accumulated costs incurred and estimated profit, less related progress payments (\$8,395) received thereon.

NOTE B - CAPITAL STOCK

Science Applications, Inc. was incorporated on February 3, 1969. Subsequent to incorporation the Company increased its authorized shares of Capital Stock from 2,500 shares to 25,000 shares.

As of January 31, 1970, 3,900 shares of stock had been sold to shareholders for cash at \$10.00 a share. Under terms of its stock issue agreements, the Company has the option to repurchase up to 3,747 of its outstanding shares at the original issue price in the event that the purchasers do not meet certain conditions.

During the period, the Company granted options for 975 shares at \$10.00 a share and 600 shares at \$25.00 a share. Options for 725 shares at \$10.00 were exercised during the year. Options for 850 shares were outstanding at January 31, 1970, of which options for 725 shares were exercisable.

NOTE C - NET INCOME PER SHARE OF CAPITAL STOCK

Income per share of Capital Stock was based on the weighted average number of shares outstanding during the period.

NOTE D - DEPRECIATION AND AMORTIZATION

Depreciation and amortization have been calculated using the sum-of-the-years-digits method for office furniture and equipment and the straight-line method for leasehold improvements.

NOTES TO FINANCIAL STATEMENTS

SCIENCE APPLICATIONS, INC.

January 31, 1970

NOTE E - SUBSEQUENT EVENT

On March 27, 1970 the Board of Directors authorized the issue of 767 shares of stock in exchange for all of the outstanding stock of J R B Associates, Inc. Under terms of the exchange agreement Science Applications, Inc. has the option to repurchase certain of the shares if specified conditions are not met.