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# 1970 ANNUAL REPORT

SCIENCE APPLICATIONS, INC.

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SCIENCE APPLICATIONS, INCORPORATED

P. O. BOX 2351, 1250 PROSPECT ST., LA JOLLA, CALIFORNIA 92037 (714) 454-7187

1970 ANNUAL REPORT

SCIENCE APPLICATIONS, INC.

To Our Stockholders:

On January 31, 1971, we concluded our second fiscal year of operation, and I am pleased to report that the Company continues to grow and prosper.

On August 12, 1970, Science Applications, Inc. acquired all of the Capital Stock of JRB Associates, a corporation with which we have been closely associated since its origin. This annual report contains the audited, consolidated financial statements of the two companies.

During the period February 1, 1970, through January 31, 1971, Science Applications, Inc. reports a gross income from sales and all other sources of \$1,187,273, including \$99,958 gross income from JRB Associates. The total figure represents an increase almost five times that reported by the two companies during the preceding fiscal year, their first year of operation. The combined operating expenses for Science Applications, Inc. and its new subsidiary for this fiscal year were \$1,079,120 providing income before State and Federal taxes of \$108,153. Net income after taxes was \$59,708 including Science Applications, Inc.'s equity in JRB Associates undistributed net income in the amount of \$5,628. This total net income figure is more than five times the consolidated income of the two companies during the preceding year of operation.

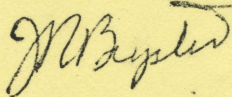
On December 18, 1970, the shareholders of the Company approved a ten for one stock split. Recognizing the stock split, earnings per share were \$1.21 based upon the weighted average number of shares outstanding during the year.

The Company has enjoyed substantial growth during this year of operation. At the close of the fiscal year, January 31, 1971, there were 57 full time employees on our payroll, an increase of 38 since our last report. The staff, as of May 28, 1971, numbers 74.

During the year greater emphasis was placed upon identifying and pursuing commercial markets. In addition, our government business has increased dramatically, and we are attempting to broaden this market into new areas compatible with our demonstrated abilities. For example, we are exploring the possibility of applying the systems analysis approach to problem solving in the area of law enforcement.

It is our intention in the coming year to continue diversification in our government market in order to maximize our growth potential. We will also place greater emphasis on establishing the Company in the commercial marketplace where a potentially larger return on our investment may be realized.

I would like to offer my thanks to you for your labor in behalf of the Company. I am sure that with your continued cooperation and efforts the Company will achieve each new goal we set for it.



J. R. Beyster  
President

AUDITED CONSOLIDATED FINANCIAL STATEMENTS  
SCIENCE APPLICATIONS, INC. AND SUBSIDIARY  
LA JOLLA, CALIFORNIA

January 31, 1971

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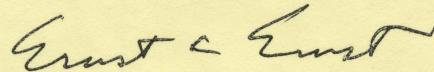
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SUITE 1515, U. S. NATIONAL BANK BLDG.  
1010 SECOND AVENUE  
SAN DIEGO, CALIF. 92101

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

We have examined the consolidated balance sheet of Science Applications, Inc. and subsidiary as of January 31, 1971, and the related statements of consolidated stockholders' equity and income 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. We previously made a similar examination of the financial statements for the preceding year.

In our opinion, the accompanying balance sheet and statements of stockholders' equity and income present fairly the consolidated financial position of Science Applications, Inc. and subsidiary at January 31, 1971, and the consolidated results of their operations and changes in stockholders' equity for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.



San Diego, California  
April 15, 1971

CONSOLIDATED BALANCE SHEET

SCIENCE APPLICATIONS, INC. AND SUBSIDIARY

	<u>January 31, 1970</u>		
	January 31, 1971	As Restated- Note A	As Previously Reported
ASSETS			
CURRENT ASSETS			
Cash	\$ 2,885	\$ 5,447	\$ 4,564
Notes receivable from stockholders	15,306	5,030	5,030
Trade note (1971 - \$3,708) and accounts receivable - Notes B and C	206,552	58,846	46,691
Unbilled costs and fees under cost plus fee contracts - Notes B and C	113,823	4,205	4,205
Recoverable amounts applicable to fixed price contracts in process - Notes B and C	66,223	21,571	21,571
Prepaid expenses	<u>2,987</u>	<u>751</u>	<u>595</u>
TOTAL CURRENT ASSETS	407,776	95,850	82,656
OTHER ASSETS			
Note receivable from stockholder	3,139		
Trade note receivable - less portion classified as current asset	3,435		
Other assets	<u>1,739</u>	<u>1,327</u>	<u>613</u>
	8,313	1,327	613
EQUIPMENT AND IMPROVEMENTS - on the basis of cost			
Office furniture and equipment	28,332	7,917	4,398
Leasehold improvements	8,587	3,372	3,372
Allowances for depreciation and amortization (deduction)	<u>(10,435)</u>	<u>(4,639)</u>	<u>(3,347)</u>
	<u>26,484</u>	<u>6,650</u>	<u>4,423</u>
	<u>\$442,573</u>	<u>\$103,827</u>	<u>\$87,692</u>



	January 31, 1970		
	January 31, 1971	As Restated- Note A	As Previously Reported
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>			
<b>CURRENT LIABILITIES</b>			
Notes payable to bank - Note C	\$119,816		
Note payable to officer		\$ 9,500	\$ 9,500
Note payable to affiliate			4,000
Trade accounts payable	43,966	9,407	7,170
Salaries, wages, and amounts withheld from employees' compensation	11,832	6,277	5,106
Taxes, other than taxes on income	5,128	2,761	2,462
Accrued profit sharing	13,720		
Vacation and other accrued expenses	42,747	10,937	9,989
Federal and state taxes on income	<u>29,230</u>	<u>6,276</u>	<u>3,700</u>
TOTAL CURRENT LIABILITIES	266,439	45,158	41,927
<b>LONG-TERM DEBT</b>			
Note payable, due on or after May 8, 1972, with interest at 6% payable annually - Note D	25,000		
<b>STOCKHOLDERS' EQUITY - Note E</b>			
Capital Stock, no par value:			
Authorized: 1971 - 100,000 shares;			
Issued and outstanding: 1971 - 50,010 shares; 1970 - 44,028 shares	79,695	46,938	39,000
Retained earnings	71,439	11,731	6,765
	<u>151,134</u>	<u>58,669</u>	<u>45,765</u>
	<u>\$442,573</u>	<u>\$103,827</u>	<u>\$87,692</u>

See notes to consolidated financial statements.

STATEMENT OF CONSOLIDATED STOCKHOLDERS' EQUITY

SCIENCE APPLICATIONS, INC. AND SUBSIDIARY

Period from February 3, 1969 to January 31, 1971

	Capital Stock	Retained Earnings	Total
Balance at February 3, 1969 - date of incorporation	\$ -0-	\$ -0-	\$ -0-
Issuance of 39,000 shares of Capital Stock for cash	39,000		39,000
Acquisition of pooled company (5,028 shares) - Note A	7,938		7,938
Net income for the period		<u>11,731</u>	<u>11,731</u>
BALANCE AT JANUARY 31, 1970 - RESTATED	46,938	11,731	58,669
Issuance of 14,950 shares of Capital Stock	40,375		40,375
Repurchase of 10,060 shares of Capital Stock from employees under terms of stock issue agreements (deduction) - Note E	(11,180)		(11,180)
Acquisition of pooled company (1,092 shares)- Note A	3,562		3,562
Net income for the year		<u>59,708</u>	<u>59,708</u>
BALANCE AT JANUARY 31, 1971	<u>\$ 79,695</u>	<u>\$71,439</u>	<u>\$151,134</u>

See notes to consolidated financial statements.

STATEMENT OF CONSOLIDATED INCOME

SCIENCE APPLICATIONS, INC. AND SUBSIDIARY

	Year Ended January 31, 1971	Period from February 3, 1969 to January 31, 1970	
		As Restated- Note A	As Previously Reported
Sales - Note B	\$1,184,814	\$242,859	\$201,677
Other income	<u>2,459</u>	<u>201</u>	<u>201</u>
	1,187,273	243,060	201,878
Costs and expenses:			
Cost of sales	553,612	110,421	88,582
Selling, administrative, and general expenses	523,362	114,087	102,378
Interest expense	<u>2,146</u>	<u>245</u>	<u>253</u>
	<u>1,079,120</u>	<u>224,753</u>	<u>191,213</u>
INCOME BEFORE INCOME TAXES	108,153	18,307	10,665
Income taxes:			
Federal	40,950	3,906	2,300
State	<u>7,495</u>	<u>2,670</u>	<u>1,600</u>
	<u>48,445</u>	<u>6,576</u>	<u>3,900</u>
NET INCOME	\$ <u>59,708</u>	\$ <u>11,731</u>	\$ <u>6,765</u>
Net income per share of Capital Stock - Note F	\$ 1.21	\$ .63	\$ .42
Provision for depreciation and amortization of equipment and improvements for the period	\$ 5,796	\$ 4,702	\$ 3,410

See notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

SCIENCE APPLICATIONS, INC. AND SUBSIDIARY

January 31, 1971

NOTE A - PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of the Company and its subsidiary. All significant intercompany profits, transactions, and account balances have been eliminated in consolidation.

During the year, the Company acquired JRB Associates for 6,120 shares of its Capital Stock in a transaction accounted for as a pooling of interests. The financial statements for 1971 (and 1970 as restated) include the accounts of the pooled business.

NOTE B - 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 fixed price contracts. Such estimated profit has been computed by applying the percentage of completion of the contracts to the estimated ultimate profits.

The recoverable amounts applicable to fixed price contracts in process, shown in the consolidated balance sheet, represent accumulated costs incurred and estimated profit, less related progress payments (\$132,679) received thereon.

NOTE C - NOTES PAYABLE TO BANK

At January 31, 1971, the Company had pledged accounts receivable and contracts amounting to \$362,689 as collateral to notes payable to a bank.

NOTE D - LONG-TERM DEBT

The loan agreement underlying the long-term note payable provides that at the lender's option, the note may be converted to 2,500 shares of the Company's Capital Stock.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

SCIENCE APPLICATIONS, INC. AND SUBSIDIARY

January 31, 1971

NOTE E - CAPITAL STOCK

During the year ended January 31, 1971, the Company increased its authorized shares of Capital Stock from 25,000 shares to 100,000 shares. In December 1970, the Company approved a ten-for-one stock split. Shares and per share information in the financial statements have been adjusted to reflect the split.

The Company has offered shares of its stock to certain employees in connection with their employment. The following tabulation sets forth information relative to such stock offers:

	Number of Shares	Price Per Share
At beginning of year:		
Offers outstanding	8,500	\$1.00 to \$2.50
Changes during the year:		
Offers made	37,950	2.50 to 10.00
	1,000	Fair market value at date of exercise
Stock sold	14,950	1.00 to 5.00
Offers cancelled	1,450	2.50 to 5.00
At end of year:		
Offers outstanding	31,050*	5.00 to 10.00

\*Includes 16,800 shares exercisable

Offer price stated for the shares represents the fair market price at date of offer. Under terms of its stock issue agreements, the Company has the option to repurchase certain of its outstanding shares at the original issue price in the event that the purchasers do not meet specified conditions. At January 31, 1971, 43,488 shares outstanding were subject to such option.

On September 25, 1970, the Company adopted a Qualified Stock Option Plan for key employees. As of January 31, 1971, 50,000 shares of Capital Stock had been reserved for issuance under the Plan. No options for such shares had been granted.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

SCIENCE APPLICATIONS, INC. AND SUBSIDIARY

January 31, 1971

NOTE F - NET INCOME PER SHARE OF CAPITAL STOCK

Income per share of Capital Stock is based on the weighted average number of shares outstanding during the periods. Income per share of Capital Stock for the period February 3, 1969 to January 31, 1970, was restated to reflect a ten-for-one stock split which occurred in fiscal year 1971. The effect of stock offers and the convertible note would result in no material dilution of income per share.

NOTE G - PROFIT-SHARING PLAN

During the fiscal year ended January 31, 1971, the Company and its subsidiary adopted a Profit-Sharing Plan for participating employees. Provision for contributions under the Plan, charged to operations during the year ended January 31, 1971, amounted to \$40,915.

NOTE H - 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.

