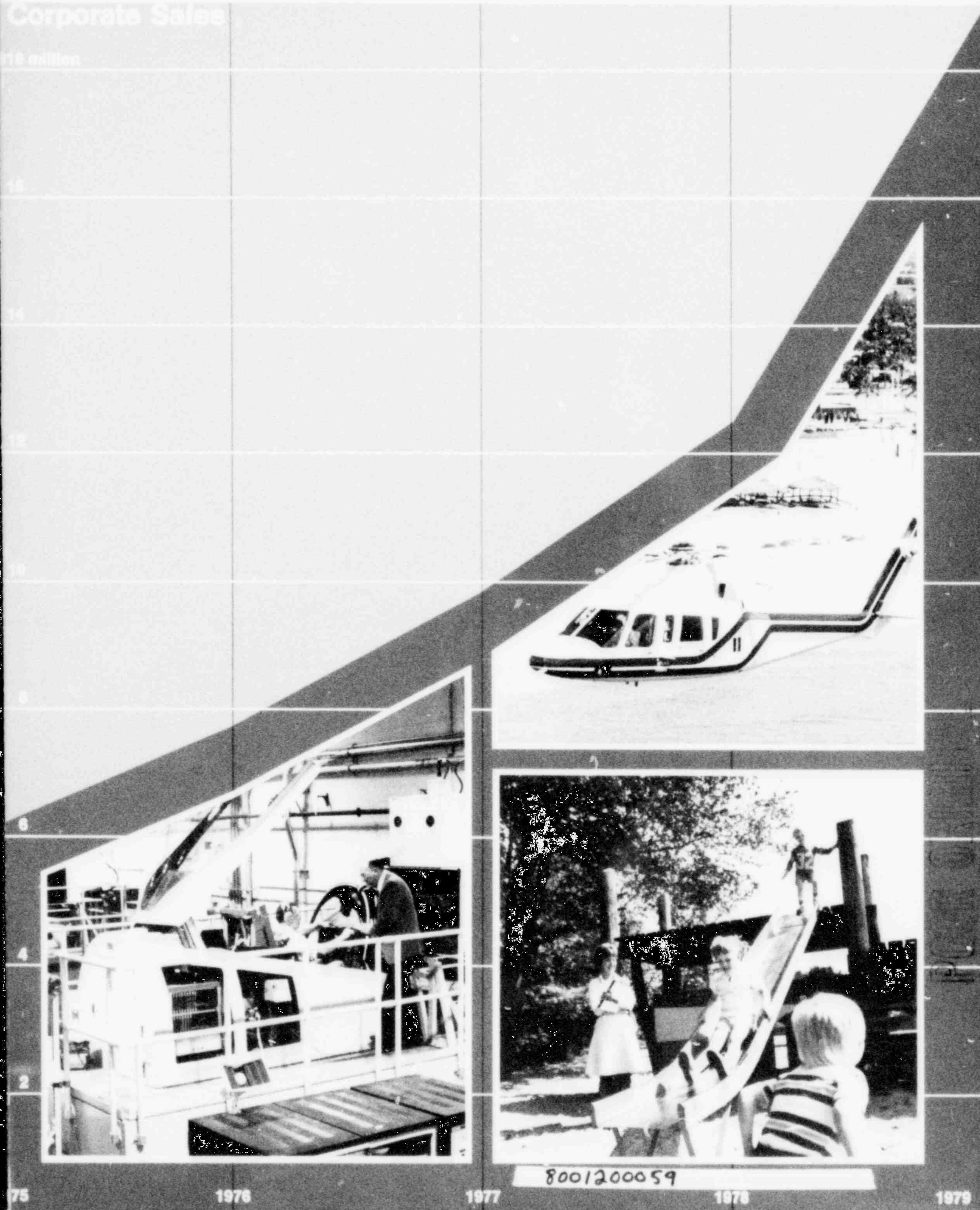
# DUNLAP AND ASSOCIATES ANNUAL REPORT 1979

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**Dunlap and Associates, Inc.** is a diversified research and development company applying advanced behavioral and system science technology to the solution of governmental, industrial and societal problems relating to human performance, safety, health and learning. Current areas of emphasis incude: highway safety, military systems, health care, alcohol and drug abuse, mass transportation systems, consumer product safety, management information systems and training program development. Through its Reflectone subsidiary, the Company has become a strong competitor in the expanding field of designing and producing flight simulators and training devices for the military and commercial aerospace industry. Founded in 1948 and headquartered in Darien, Connecticut, Dunlap operates five facilities in California, Connecticut, Florida and Massachusetts. The common stock of Dunlap and Associates, Inc. is traded Over-the-Counter with a NASDAQ listing under the symbol DUNL.

**Cover:**

The photograph at the *left* shows Dick Haas, Reflectone Project Manager, in the cockpit of an A-10 flight simulator as he checks out production details with George Seiden, Senior Vice President, at the Company's Stamford facility.

In the *middle* photograph, Carol Preusser, Dunlap Research Associate, records the activities of schoolchildren as part of the Company's current research assignment from the Consumer Product Safety Commission relating to playground equipment safety.

The aircraft in the *upper right* is an S-76 multi-mission twelve passenger Sikorsky business helicopter and represents Reflectone's entry into the commercial aerospace market via the Company's recent contract to build a flight trainer for the S-76.

**Contents**



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## REPRESENTATIVE CLIENTS

### GOVERNMENT

- National Highway Traffic Safety Administration
- National Institute of Mental Health
- National Institute on Drug Abuse
- National Institute for Occupational Safety and Health
- Transportation Systems Center
- Office of Naval Research
- Air Force Office of Scientific Research
- U.S. Army Human Engineering Laboratory
- U.S. Naval Training Equipment Center
- Federal Highway Administration
- Law Enforcement Assistance Administration
- Connecticut Department of Correction
- Dallas County, Texas
- U.S. Navy Bureau of Medicine and Surgery
- State of New Hampshire
- Nassau County, New York

### COMMERCIAL

- Bell Telephone Laboratories, Inc.
- Eastman Kodak Company
- Sikorsky Aircraft Division of UAC
- Collins Radio Company
- Dorr-Oliver, Inc.
- Raytheon Company
- General Electric Company
- IBM Corporation
- RCA Corporation
- ITT Defense Communications Division
- Xerox Corporation
- Corning Glass Works
- First National Bank of Kansas City
- Time, Incorporated
- International Minerals and Chemical Corporation
- American Oil Company

## THE ORGANIZATION

D&A is a publicly-held research-consulting organization specializing in the practical application of behavioral and system science technology to complex commercial, industrial, military and social problems. It was founded in 1948 and has completed well over two thousand assignments for hundreds of clients. Many clients of long standing demonstrate that expectations have been surpassed more frequently than simply attained.

D&A consists of an Eastern and Western Division with annual sales totaling between $1-2 million. A subsidiary, Reflectone, Inc., has over 30 years of experience in design and development of training devices and simulators.

Comprehensive proposals are prepared in response to written or oral requests. Work is initiated only after written authorization to proceed is received from the client. Each project is the responsibility of an officer of the Corporation who is supported by a project team which works in close contact with the client throughout the duration of an assignment. Results are presented in a form selected by the client. Careful attention is given to the tenets of National and client security both during and after assignments.

Simply stated, D&A provides for clients:

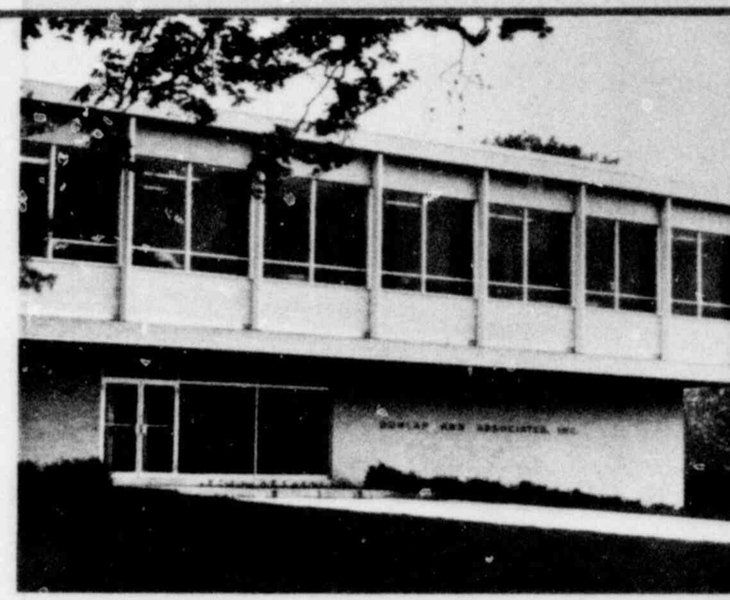
- a fresh insight into their problems
- an objective and interdisciplinary approach
- a variety of skills in specialized fields
- extensive experience gained from related assignments
- on-time performance within a pre-established budget
- practical, cost-effective results

One Parkland Drive
DARIEN, CONNECTICUT 06820
203 - 655-3971

115 South Oak Street
INGLEWOOD, CALIFORNIA 90301
213 - 674-1301

Other offices
Boston, Massachusetts • LaJolla, California

# DUNLAP and ASSOCIATES, INC.



## BEHAVIORAL AND SYSTEM SCIENCES APPLIED TO THE SOLUTION OF COMPLEX PROBLEMS

*Research • Analysis*

*Planning • Design*

*Development • Evaluation*

*Services*



DUNLAP and ASSOCIATES, INC.

**OVER 25 YEARS SERVING THE GOVERNMENT, INDUSTRY AND COMMUNITIES**

## PROFESSIONAL SERVICES

### AREAS OF SPECIAL SKILL

- Creative problem solving
- Accident analysis
- Human factors engineering and research
- Systems and operations analyses
- Job-task analysis
- Market research and surveys
- Computer technology
- Training and education
- Laboratory and field research

### AREAS OF WORK

- Conducting psychological, social, environmental and economic research
- Analyzing job requirements, causal factors in accidents, user needs, product marketability and training requirements
- Planning, designing and evaluating systems, equipment, procedures and facilities
- Developing regulations, safety programs, training/educational curricula and public information systems
- Conducting training programs, workshops, seminars and panel sessions
- Evaluating programs, products and processes

### AREAS OF APPLICATION

- Highway safety
- Drug and alcohol abuse
- Health care systems
- Aircraft, ships, vehicles, weapons and support systems
- Communication and information systems
- Occupational safety and health
- Law enforcement
- Community action programs
- Consumer, industrial and commercial products

## REPRESENTATIVE EXPERIENCE

### RESEARCH

- Human performance using handheld weapons and devices
- Market potential of sewage treatment systems
- Vehicle interlock systems to prevent individuals from driving while intoxicated
- Adaptive predictor techniques to control complex systems
- Performance under hypnotically induced stress

### ANALYSIS AND PLANNING

- Relationship between drug abuse and driving performance
- Economics and planning of ambulance services
- Space planning for offices and banks
- Requirements and concepts for a white blood cell analyzer

### HUMAN FACTORS DESIGN

- Radar and communications systems
- Typewriters and copiers for offices
- Missile systems and personal defense weapons
- Vehicle instruments and control spaces
- Medical-electronic equipment
- Training devices and simulators

### DEVELOPMENT

- Training curricula in the areas of emergency medical care, law enforcement, driver improvement and occupational safety and health
- Pedestrian safety regulations and public information programs
- Human engineering design guides, handbooks and manuals
- Predictor displays for manual control systems

### APPLICATION

- Instructor training programs
- Creative problem solving sessions using the Dunlap developed Neol...cs technique
- Workshops, seminars and institutes in the area of human factors engineering
- Audience reaction and expert panel sessions

### EVALUATION

- Criminal justice systems and procedures
- Drinking-driving countermeasure programs
- Printed materials to combat drug abuse
- Aircraft carrier landing performance
- Automotive rear vision systems

## PROFESSIONAL STAFF and FACILITIES

### STAFF

The quality of services provided clients is totally dependent upon the people assigned to projects. Accordingly, our most valuable asset is our staff, composed of professionals trained and experienced in the areas of:

- Psychology
- Engineering
- Statistics
- Mathematics
- Economics
- Physics
- Political science
- Human factors
- Computer sciences
- Epidemiology
- Management sciences
- Business administration
- Accounting and finance

Professionalism is a creed at D&A. Most of the staff have advanced degrees. Many hold the Ph. D. degree in their field of competence. However, most problems transcend classical areas of training and require special interdisciplinary skills. D&A scientists work as a well coordinated, multi-disciplined team of results-oriented problem solvers. Scientists first, pragmatists foremost, professionals always, they take pride in delivering products of high quality, on time and within budget.

### FACILITIES

Headquartered in Darien, Connecticut, D&A maintains facilities in the Boston, Massachusetts area, and Inglewood and LaJolla, California. Special support resources include:

- Computerized data processing
- Analog computers
- Control/display devices
- Data recording equipment, e.g., EKG, polygraph, movie cameras and projectors, sound recording equipment, noise measuring devices
- Test set-up areas for the conduct of psychophysical experiments
- Technical libraries
- Electro-mechanical shops
- Print shop

Additional resources are obtained as required to satisfy unique needs of clients including the fielding of teams and equipment to conduct research remote from the premises.

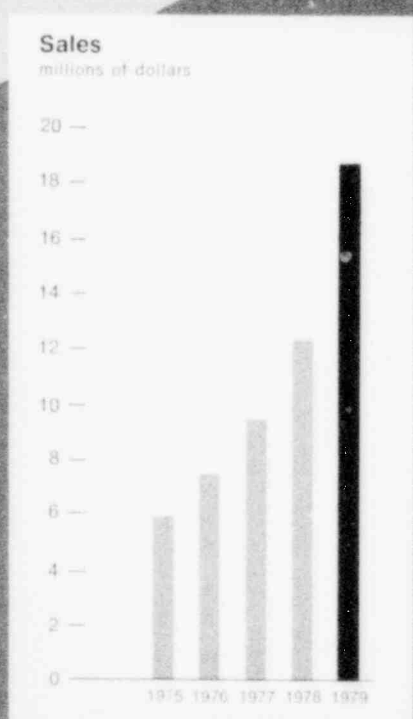
DUNLAP AND ASSOCIATES, INC.

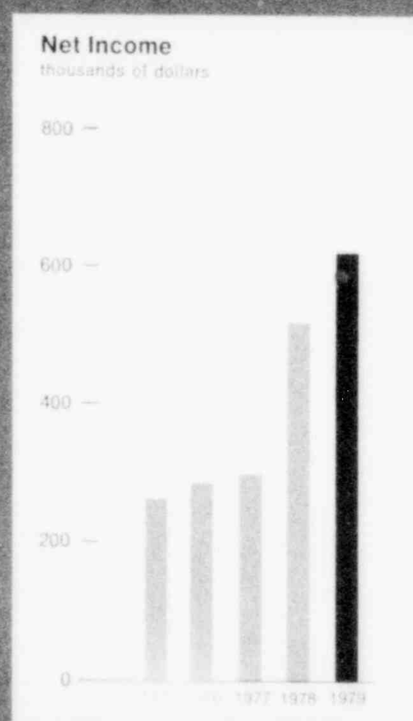
# DUNLAP AND ASSOCIATES ANNUAL REPORT 1979

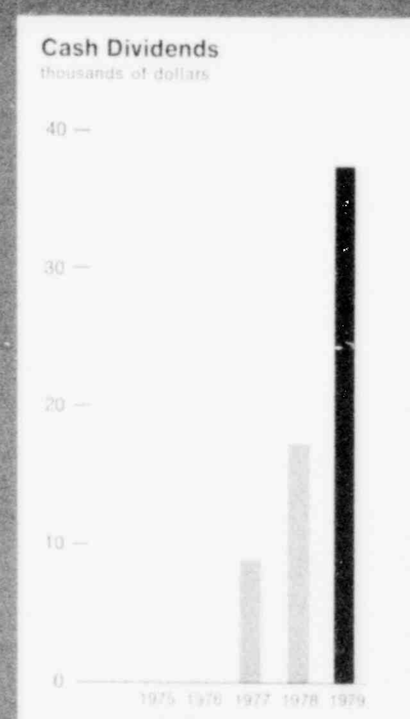
## Highlights

| | Year Ended March 31 1979 | 1978 | Change |
|---|---|---|---|
| Sales | $18,980,488 | $12,401,635 | +52% |
| Income from Operations | 1,318,493 | 982,639 | +34% |
| Income before Extraordinary Credit | 625,608 | 477,820 | +31% |
| Extraordinary Credit | — | 49,083 | — |
| Net Income | 625,608 | 526,903 | +19% |
| Income Per Share* | | | |
| Before Extraordinary Credit | $ 1.05 | $ .79 | +33% |
| Extraordinary Credit | — | .08 | — |
| Total Income Per Share | $ 1.05 | $ .87 | +21% |
| Average Shares Outstanding* | 594,192 | 604,999 | |

*Adjusted to reflect a 10% stock dividend and a 3-for-2 stock split during the year ended March 31, 1979.




POOR ORIGINAL

## Dear Shareholder:

In the fiscal year ended March 31, 1979, for the seventh consecutive year, your Company achieved record sales, income before taxes and net income.

Sales were $18,890,465, an increase of 52 percent over the previous year's total of $12,401,635. Net income reached $625,508, a 19 percent improvement over $526,883 in fiscal 1978. Total income per share rose to $1.05 from a comparable $.87 per share earned in the previous year. Income from operations in fiscal 1979 totaled $1,218,493, a 24 percent improvement from the $985,539 registered a year earlier.

### Highlight Events

In addition to these excellent operating results, other important events took place during the year which may make fiscal 1979 the single most significant 12-month period in our 31-year Corporate history.

In January of this year, as announced in our special letter to shareholders, we made a major long-term financial commitment to the future growth and profitability of our Reflectone subsidiary—the largest source of Corporate earnings. In the near future, Reflectone will be moving operations to a new 120,000 square-foot facility in the Tampa West Industrial Park. The Tampa plant will expand Reflectone's engineering and manufacturing production capacity to 70,000 square feet from the present 43,000—an increase of 63 percent. For future expansion, we have an option to lease contiguous acreage on which to build additional facilities.

The greater Tampa area offers an excellent business environment, fine community facilities and has a moderate cost-of-living index. Our move to Florida will be a major factor in helping Reflectone recruit and retain the kind of engineering and scientific personnel so essential to the growth of a high technology company.

In May 1978, we raised our quarterly cash dividend from $.01 to $.02 per share and announced a 10 percent stock dividend—our fourth since 1974. In November of last year we also increased the number of our authorized shares to 2,000,000 and split the shares 3-for-2. Simultaneously, we maintained the quarterly cash dividend of $.02 on the new shares.

As part of our program to increase the liquidity of our common shares, late last year we listed our stock on the National Association of Securities Dealers Automated Quotation system (NASDAQ) with the symbol DUNL. Today, shareholders and potential investors can read the daily bid and asked prices of our shares on the Over-the-Counter stock table page of The Wall Street Journal. As a result of our program to increase Dunlap's national investment exposure, the average weekly trading volume in DUNL shares has increased by more than 600 percent during the past three years.

### Reflectone

The continued worldwide escalation in the cost of oil and all energy is an ever-increasing problem for most segments of American industry. However, in the case of our Reflectone subsidiary, the skyrocketing increase in the price of aviation fuel has been a major marketing advantage. The two charts on page 5 offer a capsule illustration of the economic opportunities in Reflectone's specialized and fast growing high technology segment of the aerospace industry.

In fiscal 1979, Reflectone received contract awards of almost $34,000,000, an increase of 48 percent over the $23,000,000 received in fiscal 1978. At the start of our fiscal year Reflectone's backlog was approximately $47,400,000 as contrasted with the 12-month-earlier total of $28,400,000. These two statistics are solid evidence of our expanding penetration of the growing flight simulator market.

Last August Reflectone received a $20,000,000 letter contract to design and produce six additional flight trainers for the U.S. Air Force's A-10 close support aircraft. The contract was the largest single contract award in the Company's 31-year Corporate history. Reflectone reached another milestone during the last quarter of fiscal 1979 when it obtained its first contract in the commercial aerospace market—an award to design and produce a flight trainer for a business helicopter manufactured by the Sikorsky Division of United Technologies, Inc.

### Eastern & Western Divisions

In fiscal 1979, our Eastern and Western behavioral and system science research divisions collectively improved their sales and profitability over the year earlier period. Revenues of the two operating groups totaled $2,058,447, a 17 percent increase over the results of fiscal 1978.

Diversification efforts by the Eastern Division resulted in research contract awards from new clients such as the Consumer Product Safety Commission and the States of New York, Connecticut and New Mexico. New awards also were received from the Department of Transportation, National Institute of Drug Abuse and the Army Research Institute. In the private sector, Eastern Division is providing research-consulting services to such corporate clients as RCA, Raytheon, AT&T, the 3M Company and Systems Consultants, Inc.

### Financial Condition & Outlook

As of March 31, 1979, Corporate current assets totaled $8,082,601 and current liabilities were $3,900,860, a ratio of 2.07 to 1. At the same time, your Company had total assets of $9,561,949, working capital of $4,181,741 and shareholders' equity of $2,564,736. These totals represent respective increases of 62 percent, 116 percent and 33 percent over the same figures for the end of fiscal 1978.

Looking ahead, our immediate management priority is to insure the smooth transition of Reflectone from Stamford to Tampa. We have been greatly encouraged by the fact that more than 80 percent of Reflectone's key staff members have already decided to make the move with us. Additionally, our initial recruiting efforts indicate a significantly higher success rate than ever achieved in the Stamford area.

As we approach the end of the first quarter of our new fiscal year, we are optimistic that our strong sales and earnings performance will continue. I extend my sincere appreciation for the dedication of all our employees and the continued support of our shareholders who have jointly made the success of the past year possible.

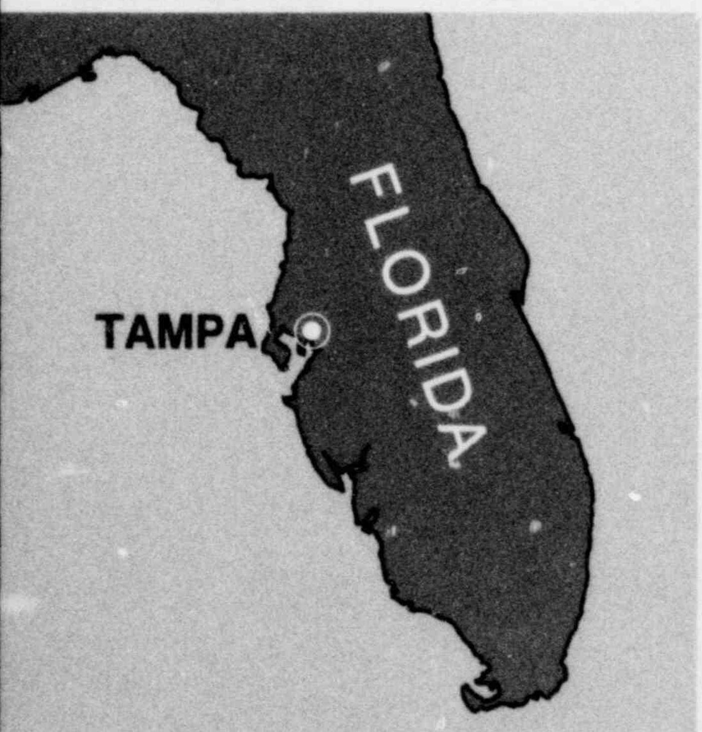
Sincerely,

Jack Wm. Dunlap

Jack Wm. Dunlap, Ph.D.
Chairman of the
Board of Directors

June 1979

**The outline map indicates the site of Reflectone's new facility in Tampa, Florida.**




POOR ORIGINAL

## Reflectone

Fiscal 1979 was a milestone year for Reflectone in several different respects. Some of these highlights include:

- **Decision to relocate from Stamford to Tampa**
- **Record contract awards of almost $34,000,000—an increase of 48 percent from the total of $23,000,000 in fiscal 1978**
- **Entry into the commercial market via an award to design a flight trainer for Sikorsky's S-76 business helicopter**
- **A $20,000,000 contract to produce six flight simulators for the Air Force's A-10 aircraft—the largest single award in our Corporate history.**

**Moving to Tampa**

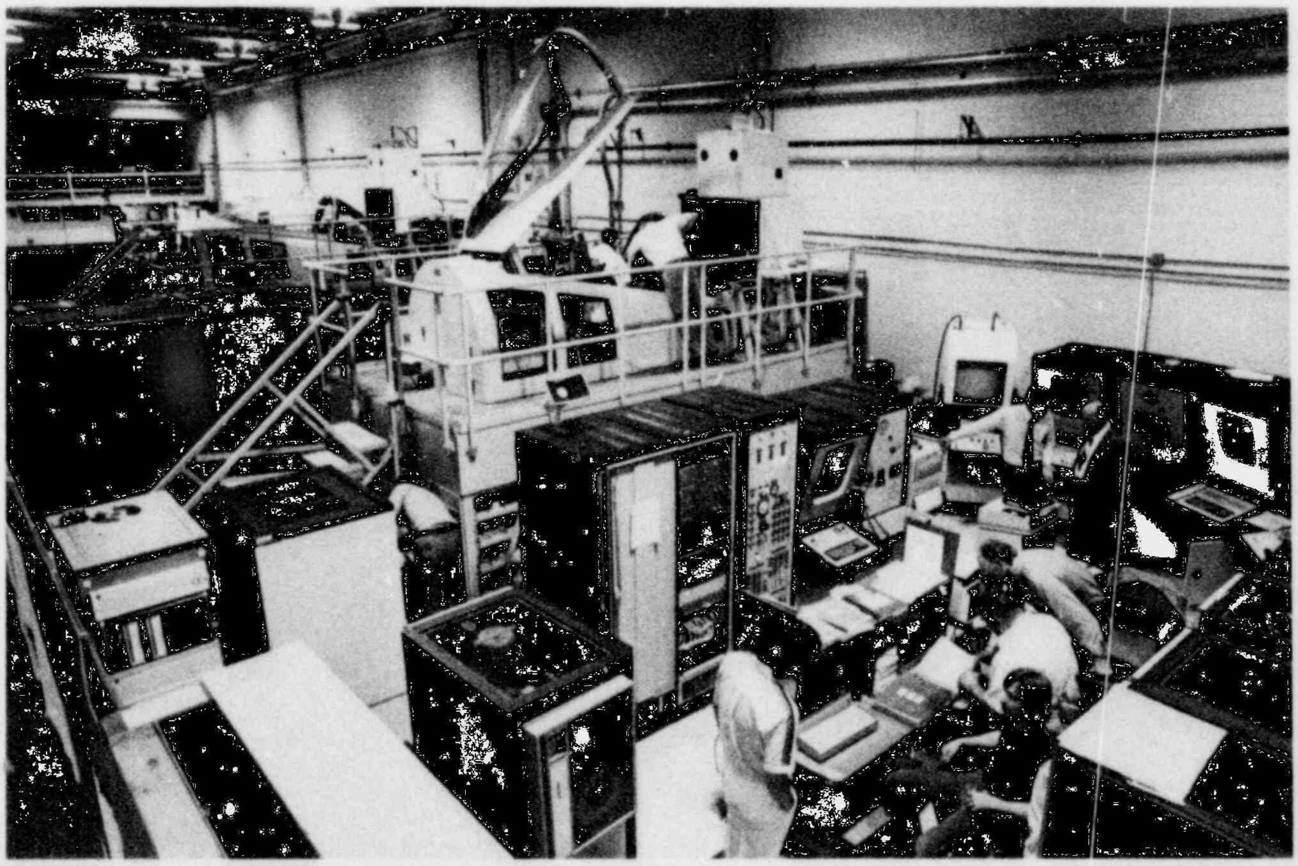
Management's decision to move Reflectone from Stamford to Tampa (Florida)—announced at a Tampa press conference on January 18, 1979—will have a positive impact on our subsidiary's ongoing ability to successfully compete in its high technology specialized segment of the aerospace industry.

As briefly mentioned in the Chairman's letter, the main reason for the move South is the simple but all-important fact that the general environment and lower cost of living in the Greater Tampa area will enable us to dramatically improve our recruiting of the kind of engineering professionals that are essential to our industry. The move is also expected to significantly reduce production costs through long-term operating efficiencies.

As this report is being published, start-up operations in Tampa have commenced and we are busily engaged in recruiting up to 50 engineers and 50 production personnel. By year-end we expect to have a total work force of approximately 280 personnel.

**Entry Into Commercial Market**

In February of this year we announced that Reflectone had received its first contract to design and produce a flight simulator for the commercial aerospace market—a $2,000,000 award from American Airlines to produce a trainer for the S-76 business helicopter built by the



On the elevated production platform, Dick Haas, Project Manager, confers with an Air Force officer sitting in the cockpit of an A-10 flight trainer. The computer and systems technicians in the foreground program the tactics and other flight information data which is communicated to the trainer pilot.

POOR ORIGINAL

Sikorsky Division of United Technologies, Inc. As the prime contractor, American's Flight Training Division—using our trainer—will provide flight and maintenance crew training to purchasers of the twelve passenger multi-mission helicopter.

The market for simulators and training devices for business aircraft, including commercial airliners and corporate jets, represents a new marketing area for Reflectone. Having successfully produced simulators with sophisticated motion systems for the military for more than eight years, Reflectone is well positioned to translate this technological experience into effective approaches for the commercial market.

**Marketing Statistics**

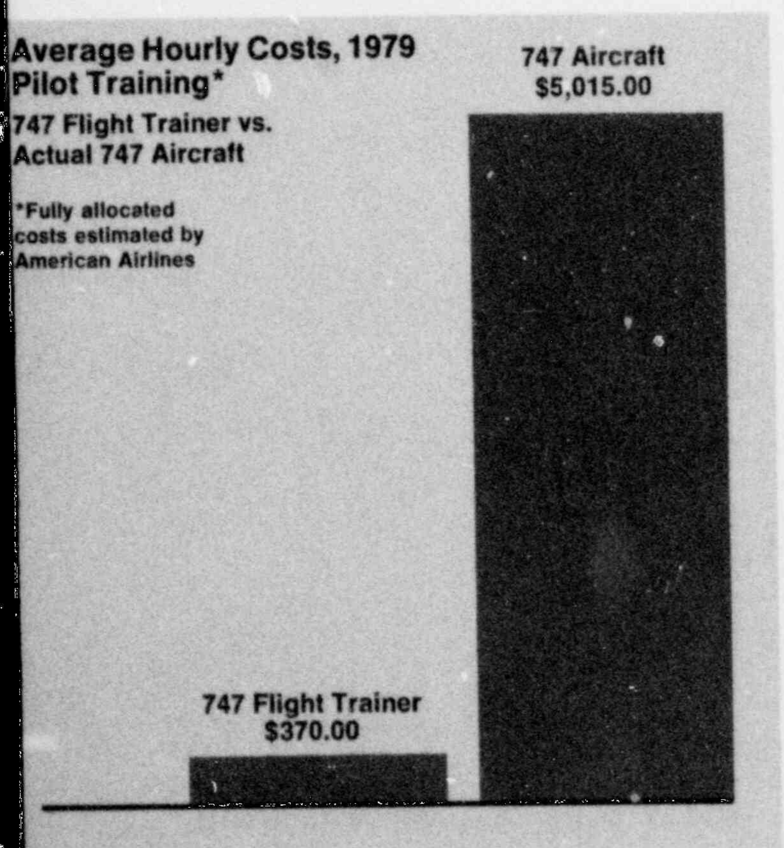
The Chairman's letter noted that, unlike the negative impact on many industries, the ever-spiralling cost of oil (and aviation fuel) has been a major advantage to Reflectone. In a chart on this page you can see the tremendous difference in the average hourly cost of teaching a pilot to fly in a simulator as opposed to the same hourly cost of flight training in an actual aircraft. The companion chart illustrates the dynamic growth of the new product market for military and commercial flight simulators between 1973 (before the OPEC nations tightened the international oil spigot) and 1979.

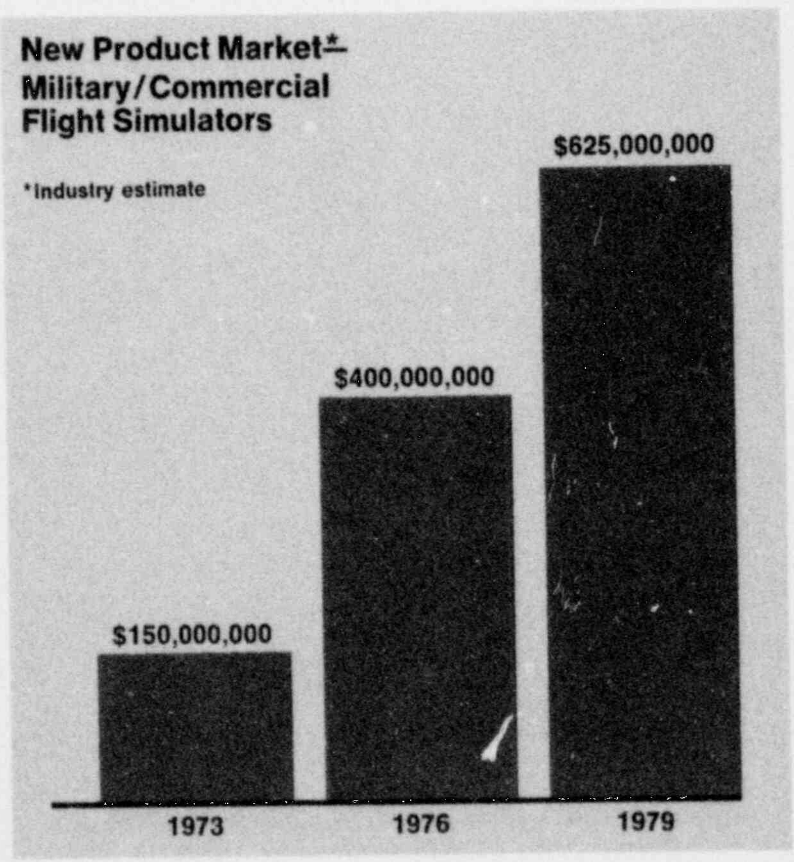
**Contract News**

With the $20,000,000 A-10 contract of last August, Reflectone now has 12 trainers for the Air Force's close support aircraft in various stages of design and production. Delivery on the first A-10 simulator is set for late this year.

Delivery of the initial trainer for a different aircraft, the Marine Corps CH-46E helicopter, took place in late March when Dr. Jack Wm. Dunlap, Chairman, and Anthony T. Langone, Vice President-Marketing, represented the Company at dedication ceremonies at the USMC installation at New River, North Carolina.

Last November the Company received its second major contract involving the installation of visual systems, (i.e., cockpit




POOR ORIGINAL

windows which give the appearance of various exterior conditions such as aircraft, runways, aircraft carrier and destroyer decks, etc.) for flight trainers. Working on a $10,000,000 Air Force contract, Reflectone will supply technical, administrative and support services while two manufacturers develop competing visual systems which will then be mounted on Reflectone A-10 trainers and submitted to the Air Force for final evaluation and selection.

A few weeks after the close of the 1979 fiscal year, the U.S. Navy terminated a contract to produce a flight trainer for the Navy's CH-53D heavy-lift helicopter because of alleged delays in delivery of systems data. Reflectone, disputing the correctness of the action, will avail itself of all possible remedies to settle any differences relating to contract terms. After evaluation, Management feels the CH-53D action will have no effect on other contract relationships with the Navy or other military agencies. With adjustment for the CH-53D, as of March 31, 1979, Reflectone's backlog approximated $47,400,000.


The Sikorsky Spirit helicopter (S-76) is shown heading for an offshore oil platform in the Gulf of Mexico. Reflectone entered the commercial aerospace market when it obtained a contract to produce a flight trainer for this aircraft in early 1979.

## D&A Research

Our Eastern and Western research divisions achieved solid sales and profit gains in fiscal 1979. Some highlights of the year include:

- **The two divisions had combined sales of $2,058,447, a gain of 17 percent over fiscal 1978**
- **Income increased by 14 percent from the year earlier**
- **Eastern Division diversified into new research areas including studies of consumer product safety, computerized management information systems, fire prevention and control, and enforcement of the 55 MPH speed limit**
- **Progress on ongoing and new assignments from such major corporate clients as RCA, AT&T, 3M Corporation and Raytheon.**

### New Research Studies

As a result of a major program to diversify its areas of research problem solving, Eastern Division obtained its first contract award from the Consumer Product Safety Commission—a $84,000 study to determine the effectiveness of a public education program for children, parents and teachers regarding playground safety.

Another new public sector client, the State of New York, awarded Eastern Division a $95,000 contract to evaluate the cost-effectiveness of the State's three-year-old Administrative Adjudication System which mandates minor traffic offenses be settled outside the court system. Another major award during fiscal 1979 was an assignment from the National Institute of Drug Abuse to evaluate the effectiveness of its drug abuse prevention materials (e.g., films, posters, brochures).

### Traffic/Travel Safety

In the area of highway safety and manpower development, Eastern Division is conducting a number of studies for the National Highway Traffic Safety Administration (NHTSA). Three of these projects, totaling $210,000, involve the development of training programs for police officers in the use of different traffic speed measuring devices, traffic records analysis and motor vehicle titling and registration personnel.

One of the Company's largest traffic and transportation projects, a $588,000 contract from the U.S. Department of Transportation (DOT) to study the safety and security of future automated guideway transit systems (AGT), will be completed this year. Another large, long-term program for DOT—the development and field testing of pedestrian safety messages—is now entering its fifth year. Funding to date totals almost $800,000.

### Military R&D

From its base in LaJolla (California), Western Division obtained three new contracts and three renewal contracts from the U.S. Navy. These research projects continue to focus on evaluating and measuring pilot and aircraft carrier personnel performance in air combat and carrier landings. The Eastern Division's continuing human factors engineering and systems analysis work on the Hawk and Aegis missile systems increased significantly during the past year and new work was initiated on a Naval war gaming system and personnel selection requirements for the infantry and cavalry fighting vehicles.

*Left:* **Research Associate Joan Edwards and Joseph T. Fucigna, Executive Vice President, determine the response of schoolchildren to drug abuse prevention materials as part of a current project for the National Institute of Drug Abuse.**

*Right:* **As part of a study for the NHTSA, Edward W. Bishop, (left) Vice President, and Research Associate Charles Goransson analyze the tasks of a Darien (Conn.) police officer as he demonstrates a radar device used in measuring automobile speed.**

# Consolidated Balance Sheet

M·rch 31

| | 1979 | 1978 |
|---|---|---|
| **ASSETS** | | |
| **Current assets** | | |
| Cash | **$ 662,095** | $ 569,930 |
| Accounts receivable (Notes 1 and 2) | **7,327,917** | 3,977,844 |
| Prepaid expenses and other current assets | **92,589** | 42,048 |
| Total current assets | **8,082,601** | 4,589,822 |
| **Receivables due after one year** (Notes 1 and 2) | **230,520** | 486,281 |
| **Property, plant and equipment**—at cost (Notes 1 and 4) | | |
| Land | **107,862** | 107,862 |
| Building and improvements | **571,550** | 559,487 |
| Machinery and equipment | **323,493** | 186,000 |
| Furniture and fixtures | **359,430** | [illegible]38,179 |
| Leasehold improvements | **342,697** | 264,168 |
| | **1,705,032** | [illegible]5,696 |
| Less: accumulated depreciation and amortization | **812,759** | 24,118 |
| | **892,273** | 731,578 |
| **Other assets** | | |
| Deferred charges (Note 3) | **185,154** | 36,451 |
| Other | **171,401** | 45,390 |
| | **356,555** | 81,841 |
| **TOTAL ASSETS** | **$9,561,949** | $5,889,522 |
| **LIABILITIES AND STOCKHOLDERS' EQUITY** | | |
| **Current liabilities** | | |
| Accounts payable | **$2,900,283** | $1,479,806 |
| Accrued liabilities | **770,100** | 824,404 |
| Notes payable and current installments of long-term debt (Note 4) | **142,325** | 118,188 |
| Income taxes payable | **4,925** | 158,197 |
| Other current liabilities | **83,227** | 75,892 |
| Total current liabilities | **3,900,860** | 2,656,487 |
| **Long-term liabilities** (Note 4) | **3,096,353** | 1,300,896 |
| **Commitments and contingencies** (Note 9) | | |
| **Stockholders' equity** (Note 5) | | |
| Common stock, par value $1.00; 2,000,000 shares authorized; shares issued: 590,163 and 355,897 | **590,163** | 355,897 |
| Additional paid-in capital | **1,055,207** | 1,084,692 |
| Retained earnings | **998,755** | 594,916 |
| | **2,644,125** | 2,035,505 |
| Less: cost of 19,747 shares and 23,192 shares held in treasury | **( 60,546)** | ( 103,366) |
| Subscriptions receivable under employee stock purchase plan | **( 18,843)** | — |
| Total stockholders' equity | **2,564,736** | 1,932,139 |
| **TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY** | **$9,561,949** | $5,889,522 |

See accompanying notes to financial statements.

## Consolidated Statement of Income

Year Ended March 31

| | 1979 | 1978 |
|---|---|---|
| Sales | $18,890,465 | $12,401,635 |
| Costs and expenses | | |
| Cost of sales | 16,855,976 | 10,669,997 |
| General and administrative | 815,996 | 746,099 |
| | 17,671,972 | 11,416,096 |
| Income from operations | 1,218,493 | 98[illegible],539 |
| Other income, principally net rentals | 113,572 | 78,840 |
| Interest expense | ( 187,457) | ( 117,521) |
| Income before income taxes, minority equity and extraordinary credit | 1,144,608 | 946,858 |
| Provision for income taxes | 519,100 | 441,000 |
| Income before minority equity and extraordinary credit | 625,508 | 505,858 |
| Minority equity in income of subsidiary | — | ( 28,038) |
| Income before extraordinary credit | 625,508 | 477,820 |
| Extraordinary credit—life insurance proceeds, not subject to taxation | — | 49,063 |
| Net income | $ 625,508 | $ 526,883 |
| Income per common and common equivalent share (Note 1) | | |
| Income before extraordinary credit | $ 1.05 | $ .79 |
| Extraordinary credit | — | .08 |
| Net income | $ 1.05 | $ .87 |
| Weighted average shares outstanding | 594,102 | 604,9[illegible] |

## Consolidated Statement of Changes in Stockholders' Equity

Years Ended March 31, 1979 and 1978

| | Common stock | Additional paid-in capital | Retained earnings | Treasury stock |
|---|---|---|---|---|
| Balance—April 1, 1977 | $320,448 | $ 900,827 | $301,539 | $ 293 |
| Net income | — | — | 526,883 | — |
| 10% Stock dividend | 31,740 | 184,064 | ( 216,443) | — |
| Cash dividends—$.05 per share | — | — | ( 17,063) | — |
| Issuance of common shares— | | | | |
| Stock option plan | 3,709 | ( 199) | — | — |
| Treasury shares purchased | — | — | — | 103,073 |
| Balance—March 31, 1978 | 355,897 | 1,084,692 | 594,916 | 103,366 |
| Net income | — | — | 625,508 | — |
| Cash dividends—$.08 per share | — | — | ( 37,804) | — |
| 10% Stock dividend | 33,430 | 150,435 | ( 183,865) | — |
| Stock split | 196,684 | ( 196,684) | — | — |
| Issuance of common shares— | | | | |
| Stock option plans | 3,060 | ( 12,014) | — | ( 14,550) |
| Stock purchase plan | — | 20,990 | — | ( 19,886) |
| For services | 1,092 | 7,788 | — | ( 13,139) |
| Treasury shares purchased | — | — | — | 4,755 |
| Balance—March 31 1979 | $590,163 | $1,055,207 | $998,755 | $ 60,546 |

See accompanying notes to financial statements.

# Consolidated Statement of Changes in Financial Position

Year Ended March 31

| | 1979 | 1978 |
|---|---|---|
| **Working capital was provided from:** | | |
| Operations | | |
| Income before extraordinary credit | $ 625,508 | $ 477,820 |
| Expenses not requiring working capital | | |
| Depreciation and amortization | 117,245 | 111,138 |
| Deferred compensation | 28,610 | 28,284 |
| Minority equity in subsidiary | — | 28,038 |
| Total before extraordinary credit | 771,363 | 645,280 |
| Extraordinary credit—life insurance proceeds | — | 49,063 |
| Working capital provided from operations | 771,363 | 694,343 |
| Other increase in long-term debt | 1,852,795 | 221,893 |
| Decrease in receivables due after one year | 255,760 | — |
| Other | 62,394 | 12,942 |
| | $2,942,312 | $ 929,178 |
| **Working capital was used for:** | | |
| Additions to property, plant and equipment | $ 304,741 | $ 116,423 |
| Additions to deferred and other assets | 260,658 | — |
| Reductions in, and maturities of long-term debt | 85,948 | 78,279 |
| Receivables due after one year | — | 486,281 |
| Purchase of treasury stock | 4,755 | 103,073 |
| Purchase of minority equity in subsidiary | — | 42,508 |
| Cash dividends | 37,804 | 17,702 |
| Increase in working capital | 2,248,406 | 84,912 |
| | $2,942,312 | $ 929,178 |
| **Increase (Decrease) in components of working capital:** | | |
| **Current assets** | | |
| Cash | $ 92,165 | ($ 201,557) |
| Accounts receivable | 3,350,073 | 1,144,874 |
| Prepaid expenses and other current assets | 50,541 | ( 9,135) |
| | 3,492,779 | 934,182 |
| **Current liabilities** | | |
| Accounts payable | 1,420,477 | 659,503 |
| Accrued liabilities | ( 54,304) | 199,390 |
| Current maturities of long-term debt | 24,137 | 54,468 |
| Income taxes payable | ( 153,272) | ( 53,970) |
| Other liabilities | 7,335 | ( 10,121) |
| | 1,244,373 | 849,270 |
| **Increase in working capital** | $2,248,406 | $ 84,912 |

See accompanying notes to financial statements.

# Notes to Consolidated Financial Statements

March 31, 1979 and 1978

### Note 1—Significant Accounting Policies

*Principles of Consolidation*—The consolidated financial statements include the accounts of the Company and its subsidiaries, all of which are wholly-owned. All inter-company transactions and balances have been eliminated in consolidation. On March 31, 1978, the Company purchased the then outstanding 7% minority equity in one subsidiary. The excess of net assets acquired, as represented by the carrying value of the minority equity, over the cost thereof, has been reflected in consolidation as a reduction of the subsidiary's noncurrent assets.

*Revenue Recognition*—Sales are derived principally from fixed price, time and material, and cost plus fixed fee contracts with government agencies. Income is recognized using the percentage of completion method of accounting, under which the sales value of performance, including earnings thereon, are accrued on the basis of the percentage that each contract's cost to date bears to the total estimated cost. Projected losses, if any, are provided for in their entirety. Revisions in projected costs and earnings for contracts which extend beyond one year are accounted for as changes in estimates.

Fees under certain government contracts may be increased or decreased in accordance with cost or performance incentive provisions. Such fee awards or penalties are included in operations at the time they can be reasonably determined.

*Property, Plant and Equipment*—Property, plant and equipment are depreciated by straight-line or accelerated methods at rates based upon their respective estimated useful lives, which approximate 10 to 55 years for building and related components, 5 to 15 years for machinery and equipment, and 5 to 10 years for furniture and fixtures. Improvements to leased premises are generally amortized over the related lease term. Depreciation expense included in the consolidated statement of income for the years ended March 31, 1979 and 1978 amount to $117,245 and $111,138, respectively.

Expenditures which extend useful lives are capitalized. Charges for incidental repairs and maintenance, and gains or losses upon disposal, are reflected in operations as incurred.

*Income Taxes*—The Company provides prepaid and deferred income taxes in recognition of timing differences as between the reporting of certain items for income tax and financial statement purposes. Investment and new job development tax credits are reflected in income as realized.

*Per Share Data*—Income per common and common equivalent share are based upon the historical weighted average number of shares outstanding during each year, after reflecting for both the 10% stock dividends declared in 1979 and 1978, the issuance in November, 1978 of one and one-half shares of common stock for each share of the then issued stock, and adjusted to reflect the dilutive effect resulting from the assumed exercise of outstanding stock options, using the treasury stock method.

### Note 2—Accounts Receivable

Accounts receivable, substantially all of which arise from contracts and programs undertaken for the United States Government as a prime or subcontractor, consist of the following:

| | 1979 | 1978 |
|---|---|---|
| Amounts billed | | |
| Not subject to retainage | **$2,815,305** | $1,732,453 |
| Subject to retainage | **1,810,815** | 986,977 |
| Unbilled recoverable costs and accrued profits on contracts in progress | **2,701,797** | 1,258,414 |
| | **$7,327,917** | $3,977,844 |

Retainages withheld pursuant to contract provisions are due upon deliveries of items called for in the contracts. Unbilled recoverable costs and accrued profits comprise amounts of revenue recognized on contracts for which billings have not been presented. It is anticipated that these amounts will be billed during the subsequent fiscal year. Based upon historical experience, estimated overhead rates used in calculating unbilled recoverable costs approximate such rates as finally determined after audit by cognizant agencies.

During the month of April, 1979, Reflectone, Inc., a consolidated subsidiary, was notified that one of its government contracts was terminated for default. In accordance with the Company's revenue recognition policy, the potential known loss resulting from this termination was recognized as of March 31, 1979. The contingent liability, if any, with regard to reprocurement costs is unknown at this time. Management is of the opinion that the determination of a default was in error and is taking all appropriate steps to seek a reversal of such determination, which if successful, will result in income during a future fiscal year.

### Note 3—Deferred Charges

During the fiscal year ended March 31, 1979, Reflectone, Inc. leased property in Tampa, Florida and will move to this new facility during the fiscal year ending March 31, 1980. The Company estimates that there will be costs approximating $1,250,000 related to this relocation, of which $120,478 was incurred as of March 31, 1979. For financial statement purposes these costs will be amortized over a five year period, their estimated useful life, commencing with the fiscal year ending March 31, 1980, whereas for income tax purposes these costs will be written off as incurred.

## Notes to Consolidated Financial Statements (continued)

### Note 4—Long-term Liabilities

Long-term liabilities consist of the following:

| | 1979 | 1978 |
|---|---|---|
| Note payable—bank (a) | **$2,200,000** | $ 500,000 |
| 8½% mortgage payable (b) | **600,060** | 616,678 |
| Deferred employee compensation (c) | **117,627** | 108,047 |
| 8%—12¾% sundry indebtedness, and deferred taxes | **320,991** | 194,359 |
| | **3,238,678** | 1,419,084 |
| Portion due in one year | **142,325** | 118,188 |
| | **$3,096,353** | $1,300,896 |

(a) During the fiscal year ended March 31, 1979 the Company and its subsidiaries entered into a new long-term line of credit agreement and retired its then existing notes payable. Under the terms of the current a reement, the Companies may borrow an aggregate maximum of $2,500,000 through June 21, 1981. On that date the unpaid portion may be converted to a term note, payable in 48 consecutive monthly installments. Interest is charged at a rate equal to the prime bank lending rate, plus 1¼%. The Company is obligated to pay a commitment fee of ¼% per annum on the unutilized portion of the credit line.

The agreement, among other things, limits annual cash dividends to after tax net earnings and requires the Company to maintain minimum consolidated working capital, net worth, current asset ratio, and total liabilities to net worth ratio. This loan is collateralized by substantially all of the assets of the parent company and its subsidiaries.

(b) The mortgage is payable in consecutive monthly installments of $5,700 each, representing principal and interest, with a final payment in April, 1987. This indebtedness is collateralized by land, a building, and certain furniture and equipment.

(c) The Company has agreements with certain key employees, providing for the payment of retirement benefits. Provision is made for such benefits over the estimated remaining service lives of the individual employees. Additionally, the agreements require that insurance policies be maintained on the life of each individual. In the event of death prior to retirement, the face value of the policy becomes payable to the employee's estate. The annual cost of the foregoing retirement program approximated $28,600.

Under an agreement with two former employees the Company previously provided for guaranteed retirement income. Payments of amounts due under these agreements are currently being made and will continue to be made for approximately four years.

Maturities of long-term liabilities during the next five fiscal years are tabulated as follows:

| Years Ended March 31 | Amount |
|---|---|
| 1980 | $142,325 |
| 1981 | 513,920 |
| 1982 | 623,806 |
| 1983 | 613,567 |
| 1984 | 606,698 |

### Note 5—Common Stock

(a) Stock Option Plans—Under the Company's qualified stock option plan, options may be granted to certain employees at not less than fair market value on the grant date. Options are cumulatively exercisable at the rate of 20% per annum and expire after five years. Information with respect to this plan, retroactively reflects the 10% stock dividend paid during May, 1978 and the issuance of one and one-half shares of common stock in November, 1978 for each share of the then issued stock. Shares available for future granting of options amounted to 1,481 at March 31, 1979 and 1,398 at March 31, 1978. The following tabulation summarizes certain data with respect to this plan:

| | Number of Shares | |
|---|---|---|
| | 1979 | 1978 |
| Outstanding at beginning of year | **25,984** | 32,543 |
| Exercised | **9,705** | 6,120 |
| Cancelled | **83** | 439 |
| Outstanding at end of year (Exercisable at $.56 per share) | **16,196** | 25,984 |

Under the terms of a non-statutory stock option plan adopted in 1971, options may be granted to purchase shares of the Company's common stock in amounts equal to the options held by participants in the qualified stock option plan, at prices which may be lower than the current market value of the common stock and under other terms as determined by the Board of Directors. At March 31, 1979, 17,677 shares of common stock were reserved for issuance under this plan. No options have been granted under this plan to date.

During the fiscal year ended March 31, 1979, the Board of Directors adopted a non-statutory stock option plan under the terms of which options to purchase 75,000 shares of the Company's common stock may be granted to employees, at prices which may be lower than the current market value of the common stock and under other terms as determined by the Board of Directors. This plan was approved by stockholders at the Annual Meeting held on July 28, 1978. The following tabulation summarizes certain data with respect to this plan during the fiscal year:

| | Number of Shares |
|---|---|
| Outstanding at beginning of year | — |
| Granted | 58,650 |
| Exercised | 30 |
| Outstanding at end of year (Exercisable at $4.33 per share) | 58,620 |

(b) Employee Stock Purchase Plan—In September 1979 the Company issued 6,628 common shares at $6.17 per share, under an offering made pursuant to an Employee Stock Purchase Plan. This plan was approved by Stockholders at a special meeting held on October 30, 1978. The subscription price is to be paid over a period ending September 30, 1979.

(c) The following is a reconciliation of the shares of common stock outstanding and treasury shares for the two years ended March 31, 1979:

| | 1979 Common | 1979 Treasury | 1978 Common | 1978 Treasury |
|---|---|---|---|---|
| Balance at beginning of year | 355,897 | 23,192 | 320,448 | 225 |
| Stock dividend | 33,430 | — | 31,740 | — |
| Stock split | 196,684 | 8,658 | — | — |
| Exercise of stock options | 3,060 | (4,818) | 3,709 | — |
| Employee stock purchase plan | — | (4,419) | — | — |
| Issued for services | 1,092 | (3,637) | — | — |
| Treasury shares purchased | — | 771 | — | 22,967 |
| Balance at end of year | 590,163 | 19,747 | 355,897 | 23,192 |

## Note 6—Employee Benefit Plan

The Companies maintain employee benefit plans covering substantially all employees. Contributions, which are discretionary with the Boards of Directors, may not exceed 15% of defined compensation. The cost of the plans for the years ended March 31, 1979 and 1978 was $395,773 and $348,695 respectively.

## Note 7—Income Taxes

The component elements of the provision for income taxes are tabulated as follows:

| | 1979 | 1978 |
|---|---|---|
| Federal | | |
| Current | $366,900 | $366,500 |
| Deferred | 48,000 | (7,200) |
| | 414,900 | 359,300 |
| State | | |
| Current | 94,300 | 83,200 |
| Deferred | 9,900 | (1,500) |
| | 104,200 | 81,700 |
| | $519,100 | $441,000 |

Deferred taxes result primarily from the differences in timing of expenses, principally relocation expenses and deferred compensation, for financial reporting and income tax purposes. The following is a reconciliation of the statutory federal income tax rate and the actual rate reflected in the statement of income:

| | 1979 | 1978 |
|---|---|---|
| Statutory federal tax rate | 47.5% | 48.0% |
| State income taxes, net of federal tax benefit | 4.8 | 4.5 |
| Investment and new job development tax credit | (5.6) | (4.7) |
| Surtax exemptions | (1.4) | (1.3) |
| | 45.3% | 46.5% |

## Note 8—Business Segment Information

The following tabulation summarizes certain information relating to the Companies' two business segments as at and for the year ended March 31, 1979 and 1978:

**1979**

| | Behavioral and System Science | Training Devices | Consolidated |
|---|---|---|---|
| Sales | $2,058,447 | $16,832,018 | $18,890,465 |
| Segment income before unallocated expense | $ 271,278 | $ 1,763,211 | $ 2,034,489 |
| Interest expense | | | ( 187,457) |
| Corporate administrative expense | | | ( 815,996) |
| Other income | | | 113,572 |
| Income before income taxes | | | $ 1,144,608 |
| Identifiable assets | $ 734,526 | $ 7,779,971 | $ 8,514,497 |
| Corporate assets | | | 1,047,452 |
| Total assets | | | $ 9,561,949 |
| Depreciation | $ 25,891 | $ 77,788 | $ 103,679 |
| Corporate depreciation | | | 13,566 |
| Total depreciation | | | $ 117,245 |
| Capital expenditures | $ 33,176 | $ 162,210 | $ 195,386 |
| Corporate expenditures | | | 109,355 |
| Total capital expenditures | | | $ 304,741 |

**1978**

| | Behavioral and System Science | Training Devices | Consolidated |
|---|---|---|---|
| Sales | $1,758,325 | $10,643,310 | $12,401,635 |
| Segment income before unallocated expense | $ 238,695 | $ 1,492,943 | $ 1,731,638 |
| Interest expense | | | ( 117,521) |
| Corporate administrative expense | | | ( 746,099) |
| Other income | | | 78,840 |
| Income before income taxes, minority equity and extraordinary credit | | | $ 946,858 |
| Identifiable assets | $ 694,543 | $ 4,539,814 | $ 5,234,357 |
| Corporate assets | | | 655,165 |
| Total assets | | | $ 5,889,522 |
| Depreciation | $ 22,100 | $ 84,844 | $ 106,944 |
| Corporate depreciation | | | 4,194 |
| Total depreciation | | | $ 111,138 |
| Capital expenditures | $ 41,162 | $ 60,099 | $ 101,261 |
| Corporate expenditures | | | 15,162 |
| Total capital expenditures | | | $ 116,423 |

The behavioral and system science segment conducts human factors analysis services and studies, principally for government agencies. These services and studies are in areas such as safety and security in transportation systems, attributed to the Company's subsidiary, Reflectone, whose sales increased 31%.

Although operating expenses increased 26%, the Company experienced a slight decrease in these expenses as a percentage of sales. On the same basis, general and administrative expenses decreased from 7% in 1977 to 5.9% in 1978.

Interest expense increased 22% and was directly related to the working capital requirements of Reflectone.

Pre-tax income, as a percentage of sales, increased from 6.7% in 1977 to 7.6% in 1978. This was the effect of an increase in sales and a decrease in operating expenses in relation to sales.

State income taxes increased as a function of increased earnings. The effective tax rate decreased from 1977 to 1978 when the Company took advantage of investment credit and new job tax credit. These were deducted from the provision for income taxes under the flow-through method.

Although no extraordinary item appeared in the 1977 statement, in 1978 the $49,063 item represented the net life insurance proceeds accruing to the Company as a result of the death of one of the founders.

Net income, as a percentage of sales, increased from 3.1% in 1977 to 4.3% in 1978. This is due in part to the decrease in ratio of operating expenses to sales, the tax credits and extraordinary item discussed above.

## Common Stock Prices

| | **Fiscal Year 1977** | | | | Fiscal Year 1978 | | | |
|---|---|---|---|---|---|---|---|---|
| **Quarter** | **Bid High** | **Low** | **Asked High** | **Low** | Bid High | Low | Asked High | Low |
| First | **5** | **5** | **6½** | **6½** | 7 | 5½ | 8½ | 7 |
| Second | **6½** | **6½** | **7½** | **7½** | 6½ | 5 | 8½ | 6½ |
| Third | **10** | **5** | **11** | **6½** | 5 | 4½ | 8½ | 6 |
| Fourth | **10** | **5** | **12** | **6½** | 5 | 4 | 6½ | 6 |

*Prices supplied by National Quotation Bureau, Inc. They have not been adjusted for the 10 per cent stock dividend in the first quarter of fiscal 1979 and the 3-for-2 stock split in the third quarter of fiscal 1979.

# Directors and Officers

## Directors

Ralph C. Channell
Retired President

John N. Engelsted
Chairman
Walker Magnetics Group, Inc.
Worcester, Mass.

Raymond J. Klemmer
Vice President
Heidrick & Struggles, Inc.
New York, N.Y.

William O. Rockwood
Member
Rockwood, Edelstein & Duffy, P.C.
320 Chappaqua Road
Briarcliff Manor, N.Y.

Robert A. Rosof
President
Associated Marine Institute
Tampa, Florida

## Officers

*Jack Wm. Dunlap, Ph.D.
Chairman, President and
Chief Executive Officer

*Joseph T. Fucigna
Executive Vice President and
President, Eastern Division

*Robert W. Yates
Vice Chairman

*Nicholas C. Graniere
President
Reflectone, Inc.

*George Seiden
Senior Vice President and
Technical Director, Reflectone, Inc.

Anthony T. Langone
Vice President, Marketing
Reflectone, Inc.

*Clyde A. Brictson, Ph.D
Senior Vice President and
President, Western Division

*John A. Sanna, Jr.
Treasurer

*William O. Rockwood
General Counsel and Secretary

Edward W. Bishop
Vice President

Richard D. Blomberg
Vice President

Richard D. Pepler, Ph.D.
Vice President

Robert G. Ulmer
Vice President

*Also Directors

## Counsel

Rockwood, Edelstein & Duffy, P.C.
320 Chappaqua Road
Briarcliff Manor, N.Y.

## Transfer Agent and Registrar

Dunlap and Associates, Inc.
Darien, Conn.

## Independent Certified Public Accountants

Rothstein, Harrow and Co.
New York, N.Y.

DUNLAP AND ASSOCIATES, INC.
One Parkland Drive
Darien, Connecticut 06820