

1973

ANNUAL REPORT

AGS COMPUTERS, INC.

2005 ROUTE 22 · UNION, NEW JERSEY 07083 · (201) 687-9200

TO OUR SHAREHOLDERS:

AGS completed its fifth year of public ownership in 1973. During those five years AGS's revenues have grown six-fold or at a 53% compounded annual rate while its net profits have risen at a compounded rate of 30%. AGS achieved these earnings while spending and expensing considerable sums for expansion in advance of any current requirement. This is our equivalent of research and development and represents AGS's investment in the future.

The results for 1973 were highlighted by revenues of \$2.1 million from a record number of clients, net profits of \$.25 per share, and the creation of two new business areas: business forms and communications and engineering services. These areas are expected to provide meaningful revenues and profits in 1974. In addition, AGS finished the year with its largest backlog of business and an enlarged professional staff with the breadth and depth of experience necessary to perform the contracts anticipated for 1974.

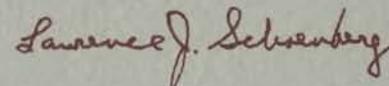
Sales and profits are expected to rise 50% for the year 1974. To achieve this goal AGS will have to grow in 1974 by an amount approximately twice as great as its total figures of five years ago. The percentage gain in revenue is anticipated to be greater in the first half of 1974 because of the small volume of forms sales during the comparable period in 1973.

The greatest gains in 1974 will come from three areas: business forms, communications and engineering, and systems education. Business forms will expand by serving as a consulting and purchasing agent for other distributors of forms. Communications and engineering will be heavily involved in mini-computers and special hardware "black-boxes" which will connect computers with unique video and reading devices. Systems education will expand by offering state-of-the-art courses throughout the United States.

AGS does not expect to be seriously affected by the current economic climate during 1974. A major turndown in the economy would inevitably have its effect but historically we have been late to feel the repercussions and so far the effect has been very minor. AGS is also relatively immune to inflationary factors. We do not have any inventory "profits" because we do not have any inventory. Our labor costs are subject to inflationary pressures but the high average salary reduces the impact of increases in the cost-of-living.

In summary, AGS will emphasize internal growth to reach its goals in 1974. We believe these goals are consistent with increasing profits for the current year while assuring the basis for profit gains in the years to come.

Lawrence J. Schoenberg



President

CONSOLIDATED STATEMENTS of INCOME and RETAINED EARNINGS
for the years ended December 31, 1973 and 1972

	1973	1972
Sales of services and products (Note 1)	<u>\$2,127,277</u>	<u>\$1,376,827</u>
Costs and expenses:		
Cost of sales	1,336,310	724,216
Selling, general and administrative	<u>586,996</u>	<u>379,509</u>
	<u>1,923,306</u>	<u>1,103,725</u>
Income before provision for income taxes	<u>203,971</u>	<u>273,102</u>
Provision for income taxes:		
Federal	76,500	111,900
State and local	<u>18,500</u>	<u>28,000</u>
	<u>95,000</u>	<u>139,900</u>
Net income	108,971	133,202
Deficit, beginning of year	<u>(34,096)</u>	<u>(79,398)</u>
	74,875	53,804
Cash dividend (Note 5)	<u> </u>	<u>87,900</u>
Retained earnings (deficit), end of year	<u>\$ 74,875</u>	<u>(\$ 34,096)</u>
Net income per average share of common stock and common stock equivalents (stock options) outstanding	<u>\$.25</u>	<u>\$.30</u>

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

AGS COMPUTERS, INC. and SUBSIDIARY
CONSOLIDATED BALANCE SHEETS, December 31, 1973 and 1972

ASSETS:	<u>1973</u>	<u>1972</u>
Current assets:		
Cash	\$ 19,479	\$123,960
Certificates of deposit	100,000	50,000
Accounts receivable	418,171	245,504
Marketable securities, at cost (approximates market)	50,250	50,250
Prepaid expenses	<u>37,190</u>	<u>10,732</u>
Total current assets	<u>625,090</u>	<u>480,446</u>
Fixed assets, at cost (Note 1):		
Furniture and equipment	20,839	18,890
Leasehold improvements	34,357	33,977
Automobiles	<u>27,600</u>	<u>21,593</u>
	82,796	74,460
Less, Accumulated depreciation and amortization	<u>44,637</u>	<u>27,425</u>
	38,159	47,035
Other assets	<u>39,272</u>	<u>30,871</u>
	<u>\$702,521</u>	<u>\$558,352</u>
LIABILITIES and STOCKHOLDERS' EQUITY:	<u>1973</u>	<u>1972</u>
Current liabilities:		
Accounts payable and accrued expenses	\$144,460	\$ 52,015
Accrued income taxes	<u>98,121</u>	<u>155,368</u>
Total current liabilities	<u>242,581</u>	<u>207,383</u>
Stockholders' equity (Notes 4, 5, 6 and 7):		
Common stock, par value \$.10 per share; authorized 2,000,000 shares, issued and outstanding 439,500 shares	43,950	43,950
Paid-in capital	341,115	341,115
Retained earnings (deficit), as annexed	<u>74,875</u>	<u>(34,096)</u>
Total stockholders' equity	<u>459,940</u>	<u>350,969</u>
	<u>\$702,521</u>	<u>\$558,352</u>

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. The financial statements include the accounts of the Company and its wholly owned subsidiary, AGS System Forms, Inc. During January, 1973, this subsidiary entered into the business of brokering business forms. Sales, cost of goods sold and the related selling expense are recorded when the forms are delivered to the customer by the manufacturer.

The Company provides professional services related to information systems in the computer software field. Revenue is recorded and expenses are charged to operations as services are performed.

Depreciation of furniture and equipment is computed on the straight-line method based on three to ten-year estimated useful lives. Leasehold improvements are amortized over the life of the lease. Any investment tax credit on purchased assets is reflected as a reduction of federal income tax expense in the year realized. The amount of such credit for 1973 and 1972 was insignificant.

2. During 1973 the Company adopted a profit sharing plan covering all employees with one year of continuous employment. The annual contribution under the plan, as determined by the Board of Directors, cannot exceed the maximum amount permissible as a deduction for the Company under the applicable regulations of the Internal Revenue Code. The Company charged \$25,000 to income for the year ended December 31, 1973.

3. The Company leases premises under agreements that provide for the payment of minimum annual rentals, excluding provisions for escalation based on certain increases in costs incurred by the lessors, aggregating approximately \$54,000 through May 31, 1974, \$41,000 through June 30, 1975 and \$33,000 thereafter through June 30, 1979. The Company has a two-year renewal option, at a rent of \$16,500 per year, on a lease which expires on May 31, 1974. One of these premises is sublet at an annual rental of approximately \$12,600 through June 30, 1975, and another is sublet on a month by month basis for \$600 per month. Rental expense for the years ended December 31, 1973 and 1972 approximated \$26,000 per year after deducting sublease income of \$28,000 in each year.

4. In 1972, three officers of the Company (who are also directors and majority stockholders) paid \$69,000 to the Company, in satisfaction of their guarantee of investments, against which a reserve had been provided in prior years. The payment, net of applicable income tax effect, was accounted for as a capital contribution (\$51,000). There were no other charges in paid-in capital during 1972 and 1973.

5. In 1972, the Company paid a cash dividend of \$87,900 (\$.20 per share). The dividend was authorized by the Board of Directors as a distribution of net income. The three officers referred to in Note 4 own 67% of the outstanding common stock.

6. In March, 1973 the stockholders approved an increase in the authorized common stock from 1,000,000 shares to 2,000,000 shares.

7. The Company has a qualified stock option plan under which 20,000 shares of common stock are reserved for issuance to officers and employees at prices not lower than the fair market value at dates options are granted. Options are exercisable one year from date of grant in accordance with terms fixed by the Board of Directors, but in all cases expire five years from date of grant.

At December 31, 1973, options to purchase 18,300 shares at prices ranging from \$1.25 to \$4.50 per share were outstanding of which options for 9,000 shares were exercisable. At December 31, 1973, 1700 shares were reserved for the granting of future options.

The Company has a nonqualified stock option plan under which 30,000 shares of common stock are reserved for issuance to Company officers and employees at prices not less than 75% of the fair market value on date of grant. Options become exercisable in three equal annual installments commencing one year from date of grant in accordance with terms fixed by the Board of Directors, but in all cases expire ten years from date of grant.

At December 31, 1973, options to purchase 23,500 shares at prices ranging from \$1.00 to \$2.50 per share were outstanding of which options for 8,933 shares were exercisable. At December 31, 1973, 6,500 shares were reserved for the granting of future options.

During 1973 and 1972 no options were exercised. No charges were made to income in connection with the aforementioned stock option plans since the amount of related compensation was not material.

In connection with a public stock offering in 1969, warrants to purchase 15,000 shares of common stock at a price of \$3.85 per share were issued to the underwriters and others. The warrants expire May 21, 1974.

CONSOLIDATED STATEMENTS of CHANGES in FINANCIAL POSITION
for the years ended December 31, 1973 and 1972

	<u>1973</u>	<u>1972</u>
Source of funds:		
Net income	\$108,971	\$133,202
Depreciation and amortization	<u>17,212</u>	<u>13,030</u>
Working capital provided from operations	126,183	146,232
Capital contribution by officers (Note 4)	<u>51,000</u>	<u>51,000</u>
	<u>126,183</u>	<u>197,232</u>
Application of funds:		
Cash dividend (Note 5)		87,900
Additions to fixed assets, net of dispositions of \$1,306 in 1972	8,336	17,704
Increase (decrease) in other assets	<u>8,401</u>	<u>(11)</u>
	<u>16,737</u>	<u>105,593</u>
Increase in working capital	<u>\$109,446</u>	<u>\$ 91,639</u>
Increases (decreases) in the components of working capital are as follows:		
Cash	(\$104,481)	\$ 68,740
Certificates of deposit	50,000	(2,578)
Accounts receivable	172,667	78,516
Marketable securities		50,250
Prepaid expenses	26,458	5,299
Accounts payable and accrued expenses	(92,445)	27,989
Accrued income taxes	<u>57,247</u>	<u>(136,577)</u>
	<u>\$109,446</u>	<u>\$ 91,639</u>

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

REPORT of INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Board of Directors and
Stockholders of AGS Computers, Inc.:

We have examined the consolidated balance sheet of AGS COMPUTERS, INC. and SUBSIDIARY as of December 31, 1973 and the related statements of income and 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. We previously examined and reported upon the financial statements for the year ended December 31, 1972.

In our opinion, the aforementioned consolidated financial statements present fairly the financial position of AGS Computers, Inc. and Subsidiary at December 31, 1973 and 1972 and the results of their operations and changes in financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

New York, New York
March 8, 1974.

COOPERS & LYBRAND

AGS SERVICES

APPLICATIONS AND SOFTWARE DEVELOPMENT

AGS develops and manages applications and systems software projects from conception through implementation. AGS conducts feasibility studies, writes system specifications, formulates project plans, creates programming specifications, codes and tests programs, documents the developed systems and assists in the training and conversion effort.

COMMUNICATIONS, ENGINEERING AND MINI-COMPUTERS

AGS provides design, engineering and implementation services for the development of communication networks, devices and hardware interfaces. This group also specializes in the use of dedicated mini-computers for business and scientific applications. These services are provided on an individual and turn-key basis.

SYSTEMS EDUCATION

AGS Systems Education provides education services for users of large-scale computer systems. The services include surveys of training requirements, audits of current education efforts, the development of training programs and materials and the conducting of the courses on a lecture, workshop and tutorial basis. AGS utilizes its own services to maintain and enhance the skills of its general staff and to ensure a professional and standard approach to client requirements.

BUSINESS FORMS

AGS System Forms, Inc. offers a personalized, professional service for the entire spectrum of tasks required for the design and sale of business forms for both manual and automated applications. The services range from form consulting through system design to art copy work, the selection of appropriate manufacturing sources and the delivery of the finished product. These services are provided to end-users and distributors on a facility management or total umbrella basis as well as on an individual basis.

AGS COMPUTERS, INC.

OFFICERS AND DIRECTORS

Lawrence J. Schoenberg President & Director
Joseph Abrams Executive Vice-President,
Secretary & Director
Anthony F. Stepanski Senior Vice-President & Director
Peter G. Graf Treasurer & Director
David B. Levine Vice-President
Victor L. Lurie Director

COUNSEL

Greenbaum, Wolff & Ernst

AUDITORS

Coopers & Lybrand

REGISTRAR & TRANSFER AGENT

Registrar & Transfer Company

CORPORATE OFFICE

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292 Madison Avenue — New York, New York 10017

AGS SYSTEM FORMS, INC.

2005 Route 22 — Union, New Jersey 07083

John E. Kridel, President