

ags

1974
ANNUAL REPORT

AGS COMPUTERS, INC.

2005 Route 22, Union, New Jersey 07083

To Our Shareholders:

AGS completed its finest year in 1974. Sales rose 80% while profits increased 27%. The rate of gain was more than double the annual compounded gain of 36% in revenues and 13% in income achieved during the past five years. AGS' profits were sufficient to internally finance the \$1.7 million increase in 1974 revenues and still allow it to pursue various activities which would improve its profitability while assuring greater stability.

AGS' computer activities are continuing to enjoy profitable growth during the early months of 1975. The software consulting group is serving a broader list of clients as well as handling substantial on-going and repeat business with former customers. The education division is now offering training management and curriculum development services. These services are sold on an individual, inter-company basis and complement the former intra-company dedicated offerings. Revenue Systems has received a second contract from the New Jersey Turnpike for a toll collection system and has expanded its marketing activities to traffic control systems for local governments.

AGS expects to equal its 1974 record in 1975. Revenue increases in the computer area should offset the anticipated decline in the forms business. The forms subsidiary is encountering a substantial, recession induced, reduction in its volume activity-leaving it with minimal profits. AGS believes that profit increases for all activities in the latter part of 1975 will compensate for lower margins in the first half of the year.

Lawrence J. Schoenberg
President

AGS COMPUTERS, INC. and SUBSIDIARY
CONSOLIDATED STATEMENTS OF INCOME and RETAINED EARNINGS
for the years ended December 31, 1974 and 1973

	<u>1974</u>	<u>1973</u>
Sales of services and products (Note 1)	\$3,818,999	\$2,127,277
Costs and expenses:		
Cost of services and products	2,574,073	1,336,310
Selling, general and administrative	<u>972,684</u>	<u>586,996</u>
	<u>3,546,757</u>	<u>1,923,306</u>
Income before provision for income taxes	<u>272,242</u>	<u>203,971</u>
Provision for income taxes:		
Federal	102,000	76,500
State and local	<u>32,000</u>	<u>18,500</u>
	<u>134,000</u>	<u>95,000</u>
Net income	138,242	108,971
Retained earnings, (deficit) beginning of year	<u>74,875</u>	<u>(34,096)</u>
Retained earnings end of year	<u>213,117</u>	<u>74,875</u>
Net income per average share of common stock outstanding (common stock equivalents not materially dilutive)	<u>\$.32</u>	<u>\$.25</u>

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

AGS COMPUTERS, INC. and SUBSIDIARY
CONSOLIDATED BALANCE SHEETS, December 31, 1974 and 1973

ASSETS:	<u>1974</u>	<u>1973</u>
Current Assets:		
Cash	\$30,463	\$19,479
Certificates of deposit	100,000	100,000
Accounts receivable	649,913	418,171
Municipal bonds, at cost (approximates market)		50,250
Prepaid expenses	<u>73,595</u>	<u>37,190</u>
Total current assets	<u>853,971</u>	<u>625,090</u>
Fixed assets, at cost (Note 1):		
Furniture and equipment	40,060	20,839
Leasehold improvements	34,503	34,357
Automobiles	<u>29,714</u>	<u>27,600</u>
	104,277	82,796
Less, Accumulated depreciation and amortization	<u>62,823</u>	<u>44,637</u>
	41,454	38,159
Investment in municipal bonds, at cost (approximate market \$34,000)	50,250	
Other Assets	<u>29,150</u>	<u>39,272</u>
	<u>\$974,825</u>	<u>\$702,521</u>
LIABILITIES AND STOCKHOLDERS' EQUITY:		
	<u>1974</u>	<u>1973</u>
Current Liabilities:		
Accounts payable and accrued expenses	286,119	144,460
Accrued income taxes	<u>96,470</u>	<u>98,121</u>
Total current liabilities	<u>382,589</u>	<u>242,581</u>
Commitments (Note 3)		
Stockholders' equity (Note 4):		
Common stock, par value \$.10 per share; authorized 2,000,000 shares, issued 439,500 shares	43,950	43,950
Paid-in capital, no change during year	341,115	341,115
Retained earnings, as annexed	<u>213,117</u>	<u>74,875</u>
	598,182	459,940
Less, 4350 shares of treasury stock, at cost	<u>5,946</u>	_____
Total stockholders' equity	<u>592,236</u>	<u>459,940</u>
	<u>\$974,825</u>	<u>\$702,521</u>

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

CONSOLIDATED STATEMENTS of CHANGES in FINANCIAL POSITION
for the years ended December 31, 1974 and 1973

	<u>1974</u>	<u>1973</u>
Source of funds:		
Net income	\$138,242	\$108,971
Depreciation and amortization	22,291	17,212
Write off of non-current note receivable	<u>9,000</u>	<u> </u>
Working capital provided from operations	169,533	126,183
Application of funds:		
Reclassification of investment in municipal bonds	50,250	
Purchase of Treasury stock	5,946	
Additions to fixed assets, net of dispositions of \$1,369 in 1974	25,586	8,336
Increase (decrease) in other assets	<u>(1,122)</u>	<u>8,401</u>
	<u>80,660</u>	<u>16,737</u>
Increase in working capital	<u>\$88,873</u>	<u>\$109,446</u>
Increases (decreases) in the components of working capital are as follows:		
Cash	\$10,984	(\$104,481)
Certificates of deposit		50,000
Accounts receivable	231,742	172,667
Municipal Bonds	(50,250)	
Prepaid expenses	36,405	26,458
Accounts payable and accrued expenses	(141,659)	(92,445)
Accrued income taxes	<u>1,651</u>	<u>57,247</u>
	<u>\$88,873</u>	<u>\$109,446</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 a wholly owned subsidiary. Revenue with respect to professional services related to information systems in the computer software field is recorded and expenses are charged to operations as services are performed. 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.

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 1974 and 1973 was insignificant.

2. The Company has 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 \$40,000 and \$25,000 to income for the years ended December 31, 1974 and 1973, respectively.
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 \$59,000 through June 30, 1975 and \$33,000 thereafter through June 30, 1979. One of these premises is sublet at an annual rental of approximately \$14,200 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, 1974 and 1973 approximately \$37,000 and \$26,000, respectively, after deducting sublease income of \$22,000 and \$28,000, respectively.
4. In 1974, the stockholders approved a qualified stock option plan under which options to purchase an aggregate of 30,000 shares of common stock may be granted up to March 12, 1984 to officers and employees at prices not lower than the fair market value at dates options are granted. In accordance with terms fixed by the Board of Directors, options become exercisable in three equal annual installments commencing one year from date of grant and in all cases expire five years from date of grant.

At December 31, 1974, options to purchase 8,300 shares at \$1.25 per share were outstanding, of which no options were exercisable. At December 31, 1974, 21,700 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.

NOTES to CONSOLIDATED FINANCIAL STATEMENTS, Continued

At December 31, 1974, options to purchase 19,700 shares at prices ranging from \$1.00 to \$2.00 per share were outstanding, of which options for 14,333 shares were exercisable. At December 31, 1974, 10,300 shares were reserved for the granting of future options.

At December 31, 1974, under a similar qualified stock option plan, which expired in 1973, options for 12,800 shares were outstanding at exercise prices of \$1.25 to \$4.50. These options, of which 9,350 are exercisable, expire no later than 1978.

During 1974 and 1973 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 \$3.89 per share were issued to the underwriters and others. The warrants expired May 21, 1974.

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, 1974 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, 1973.

In our opinion, the aforementioned consolidated financial statements present fairly the financial position of AGS Computers, Inc. and Subsidiary at December 31, 1974 and 1973 and the results of their operations and the changes in their financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Newark, New Jersey,
March 13, 1975.

COOPERS & LYBRAND

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

2005 Route 22—Union, New Jersey 07083

BRANCH OFFICES:

292 Madison Ave. — New York, New York 10017
120 West John St., Hicksville, Long Island, N. Y. 11802

AGS SYSTEM FORMS, INC.

2005 Route 22—Union, New Jersey 07083
John E. Kridel, President