

**ags**

**1975**

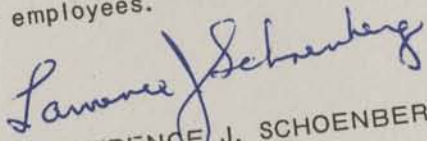
**ANNUAL REPORT**

AGS COMPUTERS, INC.  
2005 ROUTE 22 • UNION, N.J. 07083

April 1976

TO OUR SHAREHOLDERS:

We believe that AGS' record speaks for itself. Rather than reiterate the financial results which can be easily gleaned from the following papers, we have chosen to briefly answer some of the questions that have been posed to us by shareholders and employees.



LAWRENCE J. SCHOENBERG  
PRESIDENT

**Q. What is the main thrust of AGS' marketing activities?**

A. AGS is emphasizing its inter-disciplinary capability. This approach allows us to provide the greatest value-added service through combining our hardware and software consulting, engineering, analysis, design and implementation skills with our training, technical writing, maintenance, forms design and, most importantly, managerial talents. AGS is offering these services on a turnkey and partial responsibility basis for large corporations. These services are currently being offered mainly in the New York Metropolitan Area.

**Q. What are AGS' near term plans for expansion?**

A. AGS is planning to offer its services over a wider geographic area and to expand its general consulting activities and to provide additional brokerage services.

**Q. Is AGS in a labor intensive business?**

A. Our business is certainly more labor than capital intensive. Yet the sales per employee are \$50,000 at AGS compared to \$31,000 for the average computer manufacturer, \$24,000 for computer service companies, and between \$20,000 and \$39,000 for such industries as Chemicals, Pharmaceuticals, Motors and Papers.

**Q. What is the distribution of AGS' revenues?**

A. In 1975 AGS worked on approximately 150 different computer contracts for 100 clients representing 56 separate companies. The forms operation sold to approximately 250 customers. Two-thirds of all sales were repeat sales to old clients and one-third were to new clients. The largest client represented less than 10% of AGS' business.

**Q. Why do sales rise at a faster and more consistent rate than profits?**

A. Developing, training and marketing costs are incurred and expensed in increments which are large relative to the related immediate revenues. AGS has consistently carried an administrative, marketing and technical staff geared to handle a volume of business substantially beyond its current requirements.

**Q. What are AGS' future capital needs?**

A. Our current return on capital (50%) is sufficient to finance our current growth rate (approximately 40%). AGS' further penetration in turnkey systems (Hardware/Software products) may require some additional capital which would probably be obtained through borrowings.

**Q. What financial results does the company anticipate for 1976?**

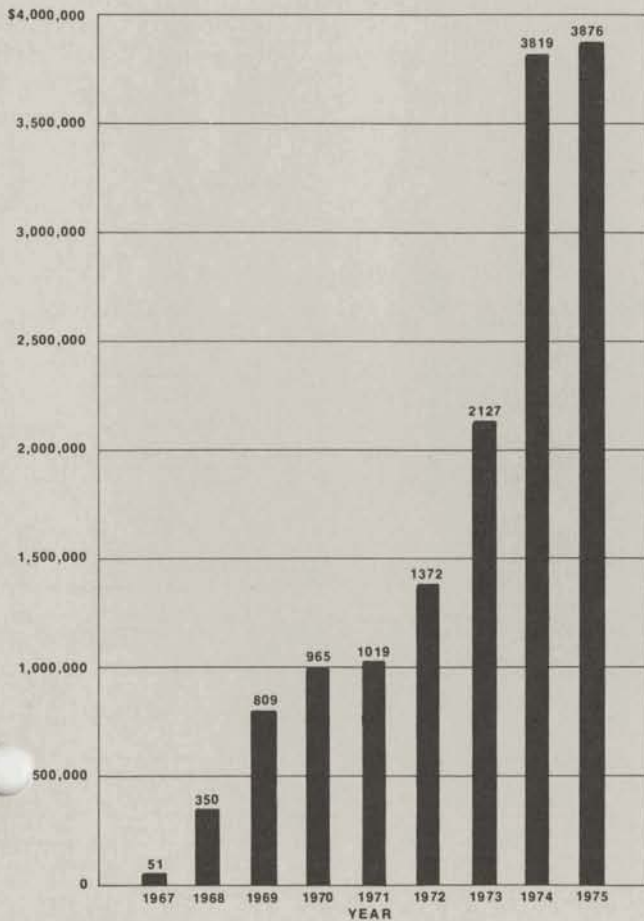
A. AGS expects its sales and profits to grow this year at a comparable rate to the respectively 40% and 33% compounded rate achieved over the last four years.

**AGS COMPUTERS, INC. AND SUBSIDIARY**  
**CONSOLIDATED STATEMENTS OF INCOME AND RETAINED EARNINGS**  
for the years ended December 31, 1975 and 1974

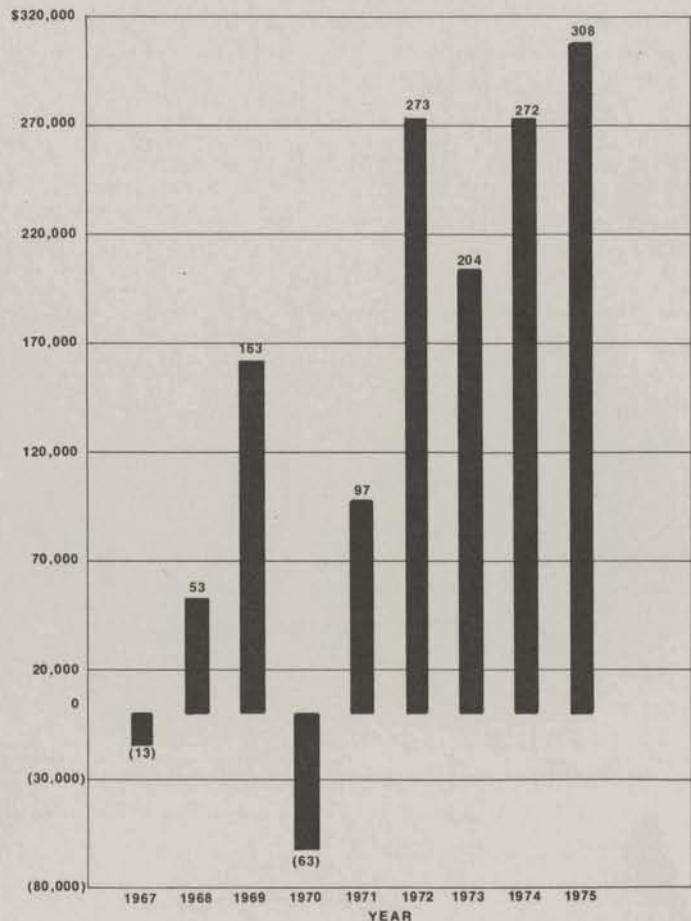
	<u>1975</u>	<u>1974</u>
Revenues from sales and services (Note 1)	\$3,875,651	\$3,818,999
Cost of sales and services	2,505,684	2,574,073
Selling, general and administrative	1,062,015	972,684
	<u>3,567,699</u>	<u>3,546,757</u>
Income before income taxes	<u>307,952</u>	<u>272,242</u>
Income taxes (Note 1):		
Federal, including deferred taxes of \$32,000 and \$40,000	112,000	102,000
State and local	42,000	32,000
	<u>154,000</u>	<u>134,000</u>
Net income	153,952	138,242
Retained earnings, beginning of year	213,117	74,875
Retained earnings, end of year	<u>\$ 367,069</u>	<u>\$ 213,117</u>
Net income per average share of common stock outstanding (common stock equivalents not materially dilutive)	<u>\$ .36</u>	<u>\$ .32</u>

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

ANNUAL SALES



ANNUAL NET PROFIT BEFORE TAXES  
CONTINUING OPERATIONS



**AGS COMPUTERS, INC. AND SUBSIDIARY**  
**CONSOLIDATED BALANCE SHEETS, December 31, 1975 and 1974**

ASSETS	<u>1975</u>	<u>1974</u>
Current assets:		
Cash	\$ 104,748	\$ 30,463
Temporary investments, at cost (approximates market)	179,844	100,000
Accounts receivable	709,310	649,913
Prepaid materials (Note 2)	34,560	41,999
Other prepaid expenses	29,699	31,596
	<hr/>	<hr/>
Total current assets	1,058,161	853,971
Fixed assets, at cost (Note 1):		
Furniture and equipment	45,699	40,060
Leasehold improvements	7,687	34,503
Automobiles	29,714	29,714
	<hr/>	<hr/>
	83,100	104,277
	Less, accumulated depreciation and amortization	
	50,698	62,823
	<hr/>	<hr/>
	32,402	41,454
	Investment in municipal bonds, at cost (approximate market \$27,000 and \$34,000)	
	50,250	50,250
Other assets	30,266	29,150
	<hr/>	<hr/>
	\$1,171,079	\$974,825
	<hr/>	<hr/>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 239,661	\$286,119
Income taxes, principally deferred	192,682	96,470
	<hr/>	<hr/>
Total current liabilities	432,343	382,589
	<hr/>	<hr/>
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	367,069	213,117
	<hr/>	<hr/>
	752,134	598,182
	Less 9,500 and 4,350 shares of treasury stock, at cost	
	13,398	5,946
	<hr/>	<hr/>
Total stockholders' equity	738,736	592,236
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	\$1,171,079	\$974,825
	<hr/>	<hr/>

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

**AGS COMPUTERS, INC. AND SUBSIDIARY**  
**CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION**  
for the years ended December 31, 1975 and 1974

	<u>1975</u>	<u>1974</u>
Source of funds:		
Net income	\$153,952	\$138,242
Depreciation and amortization	15,102	22,291
Write off of non-current note receivable		9,000
Working capital provided from operations	<u>169,054</u>	<u>169,533</u>
Application of funds:		
Reclassification of investment in municipal bonds		50,250
Purchase of treasury stock	7,452	5,946
Additions to fixed assets, net of dispositions of \$1,369 in 1974	6,050	25,586
Increase (decrease) in other assets	1,116	( 1,122)
	<u>14,618</u>	<u>80,660</u>
Increase in working capital	<u>\$154,436</u>	<u>\$ 88,873</u>
Increases (decreases) in the components of working capital are as follows:		
Cash	\$ 74,285	\$ 10,984
Temporary investments	79,844	
Accounts receivable	59,397	231,742
Investment in Municipal bonds		( 50,250)
Prepaid materials and expenses	( 9,336)	36,405
Accounts payable	47,296	( 115,368)
Accrued expenses	( 97,050)	( 24,640)
	<u>\$154,436</u>	<u>\$ 88,873</u>

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

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**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, 1975 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, 1974.

In our opinion, the aforementioned consolidated financial statements present fairly the financial position of AGS Computers, Inc. and Subsidiary at December 31, 1975 and 1974 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 15, 1976

COOPERS & LYBRAND

**AGS COMPUTERS, INC. AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

1. Significant Accounting Policies:

The financial statements include the accounts of the Company and a wholly-owned subsidiary.

For financial reporting purposes, computer sales and services (which arise principally from professional services related to information systems in the computer software field) are recorded and expenses are charged to operations as services are performed. For income tax purposes, revenue is recognized when billings are rendered; deferred income taxes are provided for the effect of such differences. With respect to business forms, sales, cost of business forms 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 estimated useful lives. Leasehold improvements are amortized over the life of the lease. Investment tax credits are reflected as a reduction of federal income tax expense in the year realized. The amounts of such credits for 1975 and 1974 were insignificant.

2. Prepaid materials consist of the cost of purchased paper held by a printer-vendor and preprinted forms awaiting release authorization from customers. At December 31, 1974, prepaid materials also includes purchased computer equipment of \$30,000 delivered and billed to a customer in 1975.
3. 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 (\$40,000 in 1975 and 1974) cannot exceed the maximum amount permissible as deductions for the Company under the applicable regulations of the Internal Revenue Code.
4. 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 \$52,000 in 1976, \$38,500 in 1977, \$33,000 in 1978 and \$16,500 in 1979. Total rental expense for the years ended December 31, 1975 and 1974 approximated \$45,000 and \$37,000, respectively, after deducting sublease income of \$12,500 and \$22,000, respectively.
5. 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, 1975, options for 19,300 and 13,800 shares are available for future grants under the qualified and nonqualified plans, respectively.

The Company had a similar stock option plan which expired in 1973. Options granted under that plan expire no later than 1978.

The Company has a nonqualified stock option plan, which expires in 1981 under which options to purchase an aggregate of 30,000 shares of common stock may be granted to officers and employees at prices not less than 75% of the fair market value at the date 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 ten years from date of grant.

Certain information with respect to options granted under all plans is as follows:

	1975		1974	
	Number Of Shares	Option Price Per Share	Number Of Shares	Option Price Per Share
Shares under option at December 31,	40,800	\$1.00-2.50	41,800	\$1.00-4.50
Granted	3,000	\$1.50	8,300	\$1.25
Canceled	6,100	\$1.00-2.50	9,300	\$1.00-4.50
Shares under option at December 31,	<u>37,700</u>	\$1.00-2.00	<u>40,800</u>	\$1.00-2.50

At December 31, 1975, options for 27,965 shares were exercisable.

No charges were made to income in connection with the aforementioned stock option plans since the amount of related compensation was not material.

# FIRST QUARTER 1976

## AGS COMPUTERS, INC. AND SUBSIDIARY

### CONSOLIDATED STATEMENTS OF INCOME

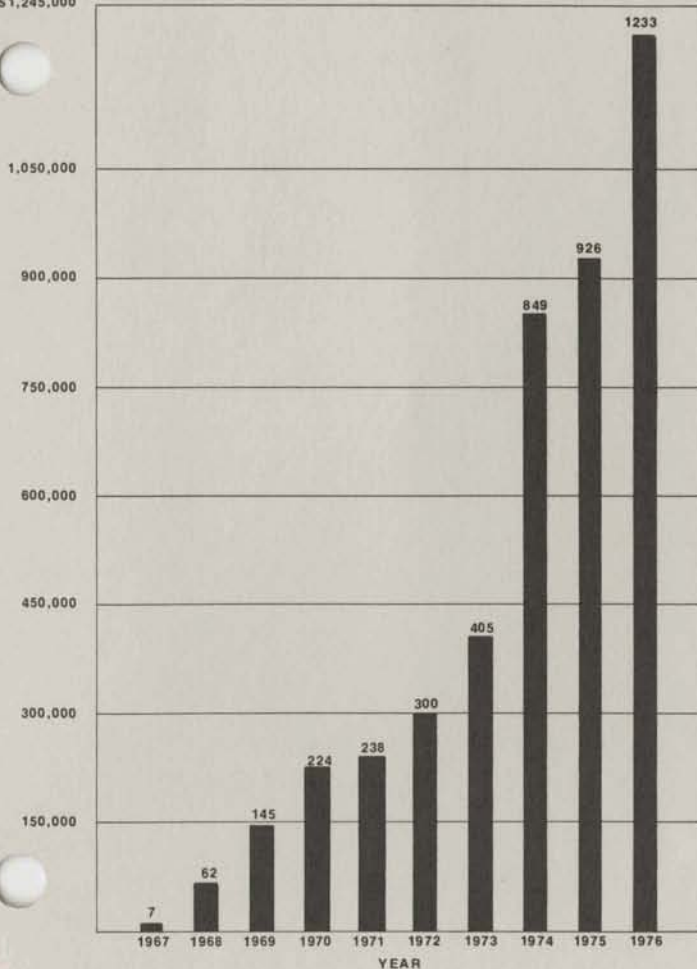
FOR THE THREE MONTHS ENDED MARCH 31, 1976 AND 1975

(UNAUDITED)

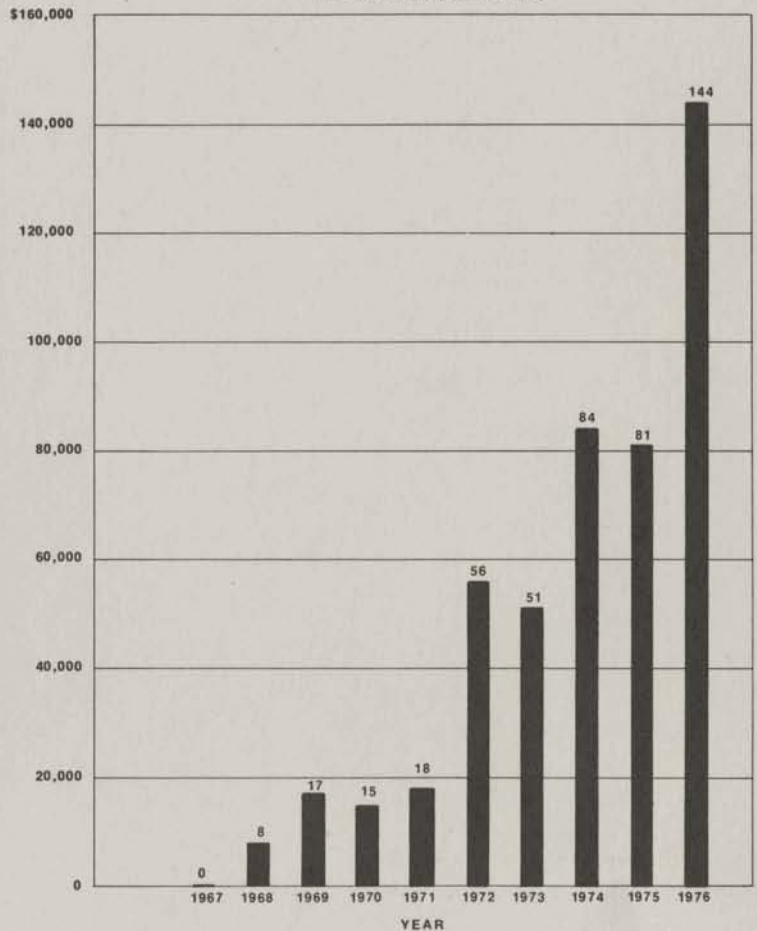
	<u>1976</u>	<u>1975</u>
REVENUES	\$1,231,511	\$925,789
COST AND EXPENSES		
Costs of Services and Sales	786,594	609,310
Selling, General and Administrative	301,112	235,435
	<u>1,087,706</u>	<u>844,745</u>
INCOME BEFORE TAXES	143,805	81,044
Provision for Taxes on Income	<u>64,126</u>	<u>39,114</u>
NET INCOME	<u>\$ 79,679</u>	<u>\$ 41,930</u>
EARNINGS PER SHARE	<u>\$ .19</u>	<u>\$ .10</u>
BOOK VALUE PER SHARE	<u>\$ 1.90</u>	<u>\$ 1.45</u>

FIRST QUARTER  
SALES (UNAUDITED)

SALES  
\$1,245,000



NET PROFIT BEFORE TAXES  
(CONTINUING OPERATIONS)  
FIRST QUARTER (UNAUDITED)



**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 OFFICE**

292 Madison Avenue — New York, New York 10017

**AGS SYSTEM FORMS, INC.**

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