Annual Report 1979



#### 1979 HIGHLIGHTS

#### **EARNINGS**

Net earnings increased 51% (82% from continuing operations) in 1979; 238% (28% compounded) in five years.

#### REVENUES

Revenues increased 47% in 1979: 263% (29% compounded) in five years.

#### CAPITAL

Return (before income taxes) on equity was 56% in 1979 compared to 59% five years ago.

#### **EMPLOYEE PRODUCTIVITY**

Revenue per employee was \$50,000 in 1979.

#### **CAPITAL PRODUCTIVITY**

Four cents of capitol was used to generate each additional dollar of revenue in 1979, compared to thirteen cents per dollar for the entire revenue base. New capitol consisted of the increase in accounts receivable, unbilled services, prepaid expenses and other assets less accounts payable.

#### **CONSISTENT GROWTH**

Revenue gains for fifty-two straight comparative reporting periods.

#### **CONTINUITY OF CLIENT RELATIONSHIP**

95% of clients and revenues represent repeat business.

#### **FINANCIAL STRENGTH FOR GROWTH**

Operational cash flow available for 40% per annum growth. One to eight (1:8) debt to equity ratio would permit borrowing to support additional growth.

#### **MARKET POSITION**

AGS is one of ten largest computer professional service companies in the United States. The company has increased its offices to nine by opening an office in Denver in 1979 and in Chicago and London, England early in 1980.

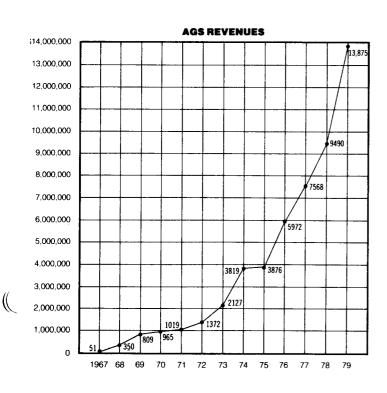
AGS STOCK PRICES BID AND ASKED PRICES AVERAGED ADJUSTED FOR 2 FOR 1 STOCK SPLIT ON 12/31/79					
	1975	1976	1977	1978	1979
3/31	\$.81	\$ .78	\$ .75	\$1.69	\$3.44
6/30	.81	.88	.94	2.31	3.44
9/30	.81	1.00	1.75	3.81	4.38
12/31	.81	.88	1.69	3.19	5.00

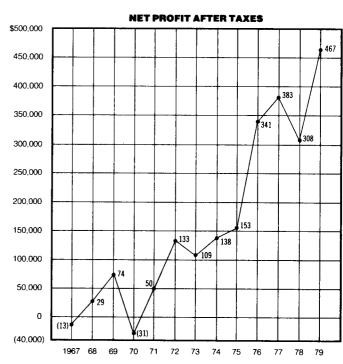
# AGS COMPUTERS, INC. AND SUBSIDIARIES CONSOLIDATED STATEMENTS OF INCOME AND RETAINED EARNINGS for the years ended December 31, 1979 and 1978

	1979	1978
Revenues from sales and services	\$13,771,635	\$ 9,449,445
Other income, principally interest	103,514	41,053
	13,875,149	9,490,498
Cost of sales and services	9,372,968	6,686,424
Selling, general and administrative expenses,	0.540.000	0.040.500
including interest of \$72,942 and \$39,852	3,512,833	2,340,588
	12,885,801	9,027,012
Income from continuing operations before	000 040	400 400
income taxes	989,348	463,486
Income taxes: Federal, including deferred taxes		
of \$283,000 and \$225,000	378.000	135.000
State and local, including deferred	3,0,000	700,000
taxes of \$60,000 and \$33,000	106,000	49,000
	484,000	184,000
Income from continuing operations	505,348	279,486
Income (loss) from operations of discontinued		
subsidiary, net of applicable income tax benefits of \$29,000 in 1979 and income taxes of \$17,000 in 1978	( 38,498)	28,870
Net income	·	
Retained earnings, beginning of year	466,850 1,398,778	308,356 1,090,422
Retained earnings, end of year	\$ 1,865,628	\$1,398,778
,	ψ 1,000,020	Ψ <u>1,390,770</u>
Per average share of common stock outstanding (common stock equivalents not materially dilutive)*:		
Income from continuing operations	\$.60	\$.33
Income (loss) from operations of	ψ.50	ψ.00
discontinued subsidiary	(05)	04
Net income	<b>\$</b> .55	\$.37

<sup>\*</sup>After giving retroactive effect to a two for one stock split on January 1, 1980.

See accompanying notes to consolidated financial statements.





### AGS COMPUTERS, INC. AND SUBSIDIARIES CONSOLIDATED BALANCE SHEETS, December 31, 1979 and 1978

ASSETS	1979	1978
Current assets:		
Cash (including money market funds		
of \$463,881 and \$2,023)	\$ 615,664	\$ 212,748
Accounts receivable, less allowance of \$48,820 and \$28,200	2,200,961	2,032,474
Unbilled services	269,583	311.185
Refundable income taxes	8,325	129,626
Inventories	6,988	120,224
Prepaid expenses and other assets	_266,647	233,327
Total current assets	3,368,168	3,039,584
Fixed assets, at cost, less accumulated depreciation		
of \$235,774 and \$165,544	335,391	.359,770
Noncurrent portion of unbilled services	555,546	451,237
Investment in municipal bonds, at cost (approximate market \$32,000 and \$35,000)	50,150	50,250
Cost in excess of net assets of subsidiary	30,130	30,230
acquired, net of amortization	141,600	145.334
Other assets	82,612	25,009
	\$4,533,467	\$4,071,184
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Note payable - bank		\$ 100,000
Current maturities of long-term debt	\$ 186,200	448,082
Accounts payable and accrued expenses	874,445	722,509
Income taxes payable	115,485	20,500
Deferred income taxes	709,480	419,733
Total current liabilities	1,885,610	1,710,824
Long-term debt, less current maturities	91,852	365,658
Deferred income taxes	284,253	231,000
Other liabilities	51,000	•
Stockholders' equity:		
Common stock, par value \$.10 per share;	40.050	40.050
authorized 2,000,000 shares; issued 439,500 shares	43,950 347,383	43,950 348,400
Paid-in capital Retained earnings, as annexed	1,865,628	1,398,778
netained earnings, as annexed		
Less 17,315 and 16,615 shares of	2,256,961	1,791,128
treasury stock, at cost	36,209	27,426
Total stockholders' equity	2,220,752	1,763,702
rotal stockholders equity		
	\$ <u>4,533,467</u>	\$4,071,184

See accompanying notes to consolidated financial statements.

# AGS COMPUTERS, INC. AND SUBSIDIARIES CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION for the years ended December 31, 1979 and 1978

	1979	1978
Source of funds:	ΦΕΩΕ 240	\$279,486
Income from continuing operations  Depreciation and amortization	\$505,348 75,107	73,699
Deferred hiring costs	( 55,158)	70,000
Deferred income taxes	53,253	231,000
Unbilled services, non-current	( 104,309)	( 451,237)
Working capital from continuing operations	474,241	132,948
Income (loss) from discontinued operations	( 38,498)	28,870
Depreciation	8,991	5,324
Working capital from (used by) discontinued operations	(_29,507)	34,194
Total working capital provided from operations	_444,734	167,142
Decrease in other assets		17,095
Note payable arising from acquisition of subsidiary		325,080
Proceeds of note payable - bank	54.000	350,000
Other liabilities	51,000 1,700	15,700
Stock options exercised (1,300 and 5,100 shares)		
	497,434	875,017
Application of funds:	55.005	00.705
Additions to fixed assets, net	55,985 2.345	90,705
Increase in other assets Current installments on long-term debt	2,345 273.806	448,082
Purchase of treasury stock	11,500	440,002
Acquisition of subsidiary:		
Fixed assets, net		20,619
Other assets		4,079
Other noncurrent liabilities		( 12,134)
Costs in excess of net assets acquired		_149,330
	343,636	700,681
Increase in working capital	\$153,798	\$174,336
Increases (decreases) in the components		
of working capital are as follows:		
Cash	\$402,916	\$167,151
Accounts receivable, net	168,487	632,643
Unbilled services	( 41,602)	21,085
Refundable income taxes	( 121,301)	37,118
Inventories Prepaid expenses and other assets	( 113,236) 33,320	( 51,619) 109,368
Note payable - bank	100,000	103,300
Current maturities of long-term debt	261,882	( 432,584)
Accounts payable and accrued expenses	( 151,936)	( 260,366)
Income taxes payable	( 94,985)	( 20,500)
Deferred income taxes	(_289,747)	( 27,960)
	\$153,798	\$174,336

See accompanying notes to 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 sheets of AGS Computers, Inc. and subsidiaries as of December 31, 1979 and 1978, and the related statements of income and retained earnings and changes in financial position for the years then ended. Our examinations were 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.

In our opinion, the consolidated financial statements referred to above present fairly the financial position of AGS Computers, Inc. and subsidiaries at December 31, 1979 and 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, 1979

### AGS COMPUTERS, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

#### **Significant Accounting Policies:**

The financial statements include the accounts of the Company and its wholly-owned subsidiaries.

The Company acquired a subsidiary in 1978 that provides system design and programming services to its customers. See Note 6.

Computer service income arising from time and material contracts is recognized on the basis of services rendered; on fixed price contracts the percentage-of-completion method is employed. Sales, cost of sales and related selling expenses, with respect to computer equipment and business forms, are recorded when the equipment or forms are delivered to the customer.

Fixed assets are recorded at cost. Depreciation is computed on the straight-line method based on estimated useful lives. Leasehold improvements are amortized over the life of the lease.

Deferred hiring costs, consisting principally of employment agency fees, are being amortized on the straight-line method over approximately a two year period.

Deferred income taxes are provided on timing differences arising from computer service revenues. Such revenues are recognized for financial reporting purposes as services are performed and for income tax purposes as billings are rendered. Investment tax credits (\$6.200 - 1979 and \$6,000 - 1978) are reflected as a reduction of federal income taxes in the year realized. In addition, the Compnay, in 1978, availed itself of the maximum credit (\$100,000) available for the hiring of new personnel (Jobs Credit) to reduce its' federal income tax liability by \$52,000.

#### Inventories:

Inventories stated at the lower of cost or market, consist of:

Used computer equipment		\$109,936
Paper and business forms	\$6,998	10,288
	\$6,998	\$120,224

#### **Unbilled Services:**

Unbilled services at December 31, 1979 and 1978 include, respectively, \$555,546 and \$451,237 (noncurrent portion) and \$217,000 and \$288,000 (current portion) arising under the terms of a fixed price contract whereby the Company is developing a computer system for a customer. The contract, as revised, provides for monthly payments by the customer of \$22,000 per month through December. 1983. The basic contract was completed in 1979. Contract modifications were agreed to during 1979, and the contract as revised, is approximately 93% complete at December 31, 1979. The Company is accounting for income on this contract under the percentage-of-completion method, based on the estimated man hours to be expended, after discounting (at 10% per annum) the contract amount to the present value of the scheduled payments.

#### **Fixed Assets:**

Fixed assets consist of:	1979	1978
Furniture and equipment	\$312,157	\$264,879
Computer equipment	65,091	62,253
Capitalized computer lease	148,132	148,132
Leasehold improvements	45,785	50,050
	571,165	525,314
Less, accumulated depreciation		
and amortization	_ 235,774	_165,544
	\$335,391	\$359,770

#### **Long-Term Debt:**

installments

Long-term debt consists of the following:

Decem	ber 31,
1979	1978

\$350,000

	December 31,	
	1979	1978
6% note arising from acquisition of subsidiary, payable in two equal		_
installments in 1979 and 1980	\$162.540	325.080
Capitalized lease obligation	109.308	126,52 <b>6</b>
Miscellaneous	6,204	12,134
	278,052	813,740
Less: Current maturities	186.200	448.082
	\$ 91.852	\$365,658

Aggregate maturities of long-term debt at December 31, 1979 are: \$22.925, 1981; \$23.611, 1982; \$26.232, 1983; and, \$19,084, 1984.

#### **Acquisition of Subsidiary**

During September, 1978, the Company acquired all of the outstanding common stock of PHD for Computing, Inc. (PHD) for cash of \$139.000 plus \$325.000 6% promissory notes payable in two equal annual installments in 1979 and 1980. The excess (\$149.330) of cost over underlying value of the net assets acquired is being amortized over a forty-year period.

The acquisition has been accounted for as a purchase and, accordingly, the results of operations of the subsidiary are included in the consolidated financial statements from date of acquisition. Had the purchase been consumated on January 1, 1978, unaudited consolidated net sales, net income and net income per share would have been approximately \$10,625,000. \$288,000 and \$.34 for 1978.

In connection with the acquisition, the principle officers of PHD signed covenants not to compete with the Company through December 31, 1983. In consideration therefore the officers will receive. provided they do not engage in competitive activities, \$63,750 in 1981. \$85,000 in 1982 and 1983, and \$21,250 in 1984 for an aggregate of \$255,000. Such amounts are being accrued from date of acquisition through December 31, 1983.

#### **Common Stock**

On December 20, 1979, the Board of Directors declared a two for one stock split effective January 1, 1980, with no change in the par value of the Company's shares. Earnings per share data for 1979 and 1978 have been adjusted to reflect the increased number of shares to be outstanding on January 1, 1980.

#### **Stock Option Plans:**

Under the Company's 1974 qualified stock option plan, options may be granted to officers and employees to purchase an aggregate of 30.000 shares of common stock to May 21, 1981, at prices not lower than the fair market value at dates options are granted.

The Company also 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 either two or 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, 1979, options for 8,100 and 26,100 shares are available for future grants under the qualified and nonqualified plans, respectively.

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

Number of Shares

	1979	1978
Shares under option at January 1,		
\$1.00-8.00 a share	27,200	28,500
Granted \$4.50-8.00 a share		11,000
Exercised, \$1.00-2.00 a share	( 1.300)	( 5,10 <b>0</b>
Cancelled, \$1.00-4.50 a share	(6,200)	(7,200)
Shares under option at December 31,	***	
\$1.25-8.00	19,700	27,200

At December 31, 1979, options for 9,800 shares were exercisable.

No charges were made to income in connection with the aforementioned stock option plans since all options granted in 1978 were at market.

Paid-in capital was charged \$1,017 (1979) and \$215 (1978) with the difference between the exercise price and the cost of treasury shares issued in connection with the exercise of stock options. Paid-in capital was credited \$7,500 (1978) with the difference between the exercise price and the market value at the date options were exercised under the nonqualified stock option plan.

All stock option data is shown without giving effect to a two for one stock split on January 1, 1980.

#### Leases:

The Company leases office space under various operating leases that provide for the payment of minimum annual rentals, excluding provisions for escalation based on certain increases in costs incurred by the lessors. Future minimum annual rental payments, by years, required under such leases that have an initial or remaining non-cancellable lease term in excess of one year as of December 31, 1979 are: 1980, \$153,000; 1981, \$126,000; 1982, \$104,000; 1983-1987, \$72,000 in each year; and, 1988, \$12,000.

In addition, the Company leases certain computer equipment under two leases, one of which is a capital lease. The future minimum lease payment under the capital lease, together with the present value of the net minimum lease payments as of December 31, 1979, is as follows:

Minimum annual lease payments of \$29,775

through August, 1984 \$138,850
Less: Amount representing interest 29,542
Present value of net minimum lease payments \$109,308

for the year ended December 31, 1979:

The second computer equipment lease is an operating lease with an affiliated partnership which requires future minimum annual rental payments of \$65,300 through 1981 and \$38,100 in 1982, subject to cancellation provisions.

Total rental expense charged to income in 1979 and 1978 approximated \$176,000 and \$119,000, respectively.

#### **Profit Sharing:**

The Company has a profit sharing plan covering all employees with one year of continuous employment. The annual contributions under the plan are determined by the Board of Directors, subject to limitations. Such contributions amounted to \$137,000 and \$75,000 in 1979 and 1978, respectively.

#### **Discontinued Operation:**

During 1979, the Company discontinued the operations of its computer equipment sales subsidiary. The rented facilities were subleased at no loss to the Company and assets were sold or transferred to the parent without loss.

Results of operations of the subsidiary for 1979 and 1978 are classified as discontinued operations in the accompanying statements of income and retained earnings and consist of the following:

	1979		1978
Net sales	\$256,761	\$1,	068,198
Cost and expenses	324,259	1,0	022,328
Income tax benefit (expense)	29,000	(	17,000)
Income (loss) from operations	(\$ 38,498)	\$ _	28,870

#### **Company Operations:**

Information about the Company's continuing operations in different industries is as follows:

	Programming and Management	Business	
Sales and services to unaffiliated	Services	Forms	Consolidated
customers	\$11,586,231	\$2,198,918	\$13,771,635
Operating profit	\$ 1,340,113	\$ 133,235	\$ 1,473,348
General corporate expenses			484,000
Income before income taxes			\$ 989,348
Identifiable assets	\$ 4,260,954	\$ 272,513	\$ 4,533,467
Additions to fixed assets	\$ 69,260	\$ 704	\$ 69,964
Depreciation expense	\$ 70,861	\$ 512	\$ 71,373
for the year ended December 31, 1978:	Consulting,		
	Programming		
	and Management	Business	
Color and convince to weather d	Services	Forms	Consolidated
Sales and services to unaffiliated customers	\$7,609,498	\$1,881,000	\$9,449,445
Operating profit	\$ 750,124	\$ 96,262	\$ 846,386
General corporate expenses	<del></del>		382,900
Income before income taxes			\$ 463,486
Identifiable assets	\$3,268,552	\$ 393,941	\$3,662,493
Additions to fixed assets	\$ 93,189	\$ 460	\$ 93,649
Depreciation expense	\$ 64,441	\$ 352	\$ 64,793

Consulting,

The Company operates in two industries: consulting, programming and management services and distribution of specialized business forms.

Identifiable assets by industry are those assets which are used in the Company's operations in each industry and do not include the assets in 1978 applicable to the discontinued operations of a subsidiary. Revenues arising from numerous contracts with a group of customers under common control account for \$2,477,000 and \$740,000 in 1979 and \$1,787,000 and \$648,000 in 1978 of the sales of consulting, programming and management services industry and the business forms industry, respectively.

#### **AGS SERVICES**

**Applications Development** 

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

**Communications and Engineering** 

AGS provides design, engineering and implementation services for the development of communication networks, devices and hardware interfaces.

**Systems Education and Training** 

AGS Systems Education and Training provides education services for users of large-scale computer systems. The services include surveys of training programs and materials and the conducting of the courses on a lecture, workshop and tutorial basis.

**System Products** 

AGS designs, programs and integrates computer/sensor bases systems. These products are generally sold on a turn-key basis.

**Information Systems** 

AGS provides a facility management service for foundations and various nonprofit institutions. The availability of our own facility provides a marketing advantage for our other divisions. AGS offers a more complete added-value service in the application development, education and system product areas. This facility is also used for internal training, development and administrative purposes.

**Brokerage Services** 

AGS System Forms offers a personalized, professional service for the entire spectrum of the tasks required for the design and sale of business forms.

#### **OFFICES**

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375 North Broadway Jericho, N.Y. 11753 (516) 822-1630

10 Middle Street Bridgeport, Connecticut 06604 (203) 366-9341

342 North Main Street West Hartford, Connecticut 06117 (203) 366-9341

12 Lakeside Office Park Wakefield, Massachusetts 01880 (617) 245-3013

1385 South Colorado Boulevard Denver, Colorado 80222 (303) 758-8882

1301 West 22nd Street Oakbrook, Illinois, 60574 (312) 920-8972

London, England

#### **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 Levine Vice-President

Martin Cook Vice-President

Robert V. Trocchio Vice-President

Mario Incalicchio Controller

#### **DIVISIONAL DIRECTORS**

Hannah Abrams New York

William Anderson Denver

George McMahon Long Island

Fran Mann Connecticut

Michael Post New Jersey

H. Duane Storms Corporate

Robert Weiss Connecticut

#### **SUBSIDIARIES**

AGS/PHD Systems Inc. Philip H. DePasquale, President Russell S. Dunkle, Jr., Vice-President

AGS System Forms, Inc. John E. Kridel, President Armen Kachoogian, Vice-President

AGS Information Services, Inc. Frank Tantillo, Managing Director

AGS Ltd.