

AGS

ANNUAL REPORT — 1980



AGS Computers, Inc.
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March 1981

AGS reported record revenues and earnings in 1980. Revenues rose for the fourteenth consecutive year to \$14.1 million from \$13.9 million in 1979. Net profits after taxes increased to \$546,710 (\$.65 per share) from \$466,850 (\$.55 per share). Profits before taxes passed the \$1 million level for the first time.

During the first quarter of 1981 revenues and profits are expected to rise approximately 70% and 100% respectively. AGS expects the rate of increase in both revenues and profits to continue to accelerate during the remaining part of 1981. AGS' services are provided today at a \$30,000,000 annualized rate by more than 500 employees working from twelve branch offices and six field locations. AGS projects its return (before income taxes) on capital to rise to approximately the 80% level from the 50% level of the last several years. Employee productivity (revenues per employee) should also rise approximately 10% in 1981.

AGS' goal is to continue to be one of the leading companies in the professional computer and technical service fields. AGS believes that to be a leading company it is necessary to have wide geographic coverage and to have a significant market penetration in each area. AGS believes it is critical to offer services in a wide range of disciplines including management consulting, systems analysis and design, programming, engineering and training. AGS has historically concentrated its efforts in providing services to the Fortune/Forbes 1000 companies in such service industries as utilities, banks, insurance companies and brokerage firms. AGS continues to concentrate its efforts in this area, but is establishing a market position in high technology manufacturing industries.

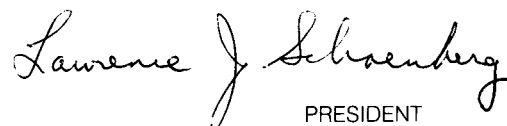
AGS is achieving this plan via both internal and external expansion. AGS intends to continue to open new offices and acquire related businesses. During the first two months of 1981, AGS acquired Eastern Design Company and a controlling interest in Micro Distributors, Inc.

The addition of Eastern Design Company to AGS' corporate umbrella will provide:

- Wider range of engineering and design disciplines to large companies.
- Expanded geographic coverage;
 - A branch office in Westchester
 - Field locations in Vermont and South Carolina
- Expansion of all AGS services into electronics, aerospace and manufacturing companies.
- Entry to the CAD/CAM market through the sale of supporting software and computer services.

Micro Distributors is an East Coast distributor of micro computers. It will enhance:

- AGS' market position in micro-computers which are the fastest growing segment of the computer field.
- Geographic coverage;
 - Office in Washington, D.C. area.
 - Field locations in Georgia, Florida, Pennsylvania.
- The marketing of micro-computers as program development tools and communication links to large companies and their employees.
- The development of relationships with new hardware manufacturers.
- Research and development into;
 - Alternative marketing approaches.
 - Evaluation and packaging of low cost program products.
- The combining of micro-computer distribution and software knowledge in one company will make it easier for AGS/Micro to become a dominant distribution company.


PRESIDENT

AGS COMPUTERS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME AND RETAINED EARNINGS
for the years ended December 31, 1980 and 1979

| | 1980 | 1979 |
|--|---------------------|---------------------|
| Revenues from sales and services | \$13,977,185 | \$13,771,635 |
| Other income, principally interest | 143,424 | 103,514 |
| | <u>14,120,609</u> | <u>13,875,149</u> |
| Cost of sales and services | 10,001,598 | 9,901,060** |
| Selling, general and administrative expenses, including interest of \$22,710 and \$72,942 | 3,087,289 | 2,984,741** |
| | <u>13,088,887</u> | <u>12,885,801</u> |
| Income from continuing operations before income taxes | 1,031,722 | 989,348 |
| Income taxes: | | |
| Federal, including deferred taxes of \$12,000 and \$283,000 | 386,000 | 378,000 |
| State and local, including deferred taxes of \$26,000 and \$60,000 | 83,000 | 106,000 |
| | <u>469,000</u> | <u>484,000</u> |
| Income from continuing operations | 562,722 | 505,348 |
| Loss from operations of discontinued subsidiary, net of applicable income tax benefits of \$12,000 and \$29,000 | 16,012 | 38,498 |
| Net income | 546,710 | 466,850 |
| Retained earnings, beginning of year | 1,865,628 | 1,398,778 |
| Retained earnings, end of year | <u>\$ 2,412,338</u> | <u>\$ 1,865,628</u> |
| Per average share of common stock outstanding (common stock equivalents not materially dilutive): | | |
| Income from continuing operations | \$.67 | \$.60* |
| Loss from operations of discontinued subsidiary | <u>.02</u> | <u>.05*</u> |
| Net income | <u>\$.65</u> | <u>\$.55*</u> |

*After giving retroactive effect to a two for one stock split on January 1, 1980

**Reclassified to conform to 1980 presentation.

See accompanying notes to consolidated financial statements.

AGS COMPUTERS, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS, DECEMBER 31, 1980 and 1979

| ASSETS | 1980 | 1979 |
|---|--------------------|--------------------|
| Current assets: | | |
| Cash, and temporary investments | \$1,029,248 | \$ 615,664 |
| Accounts receivable, less allowance of \$13,513 and \$48,820 | 2,451,720 | 2,200,961 |
| Unbilled services | 277,916 | 269,583 |
| Prepaid expenses and other assets | 243,064 | 281,960 |
| Total current assets | 4,001,948 | 3,368,168 |
| Fixed assets | 312,384 | 335,391 |
| Noncurrent portion of unbilled services | 422,066 | 555,546 |
| Investment in municipal bonds at cost (approximate market \$25,000 and \$32,000) | 50,150 | 50,150 |
| Cost in excess of net assets of subsidiary acquired, net of amortization | 137,867 | 141,600 |
| Other assets | 69,016 | 82,612 |
| | <u>\$4,993,431</u> | <u>\$4,533,467</u> |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Current maturities of long-term debt | \$ 22,925 | \$ 186,200 |
| Accounts payable and accrued expenses | 644,294 | 874,445 |
| Income taxes payable | 356,584 | 115,485 |
| Deferred income taxes | 813,539 | 709,480 |
| Total current liabilities | 1,837,342 | 1,885,610 |
| Long-term debt, less current maturities | 68,927 | 91,852 |
| Deferred income taxes | 218,500 | 284,253 |
| Other liabilities | 102,000 | 51,000 |
| Stockholders' equity: | | |
| Common stock, par value \$.10 per share: authorized 2,000,000 shares; issued 879,000 and 439,500 shares | 87,900 | 43,950 |
| Paid-in capital | 302,079 | 347,383 |
| Retained earnings | 2,412,338 | 1,865,628 |
| | 2,802,317 | 2,256,961 |
| Less 27,630 and 17,315 shares (34,630 after stock split) of treasury stock, at cost | 35,655 | 36,209 |
| Total stockholders' equity | 2,766,662 | 2,220,752 |
| | <u>\$4,993,431</u> | <u>\$4,533,467</u> |

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, 1980 and 1979

| | 1980 | 1979 |
|---|------------------|------------------|
| Source of funds: | | |
| Income from continuing operations | \$562,722 | \$505,348 |
| Depreciation and amortization | 89,106 | 75,107 |
| Deferred hiring costs | 13,714 | (55,158) |
| Deferred income taxes, non-current | (65,753) | 53,253 |
| Unbilled services, non-current | 133,480 | (104,309) |
| Working capital from continuing operations | <u>733,269</u> | <u>474,241</u> |
| Loss from discontinued operations | (16,012) | (38,498) |
| Depreciation | — | 8,991 |
| Working capital used by discontinued operations | <u>(16,012)</u> | <u>(29,507)</u> |
| Total working capital provided from operations | 717,257 | 444,734 |
| Other liabilities | 51,000 | 51,000 |
| Stock options exercised (9,600 and 1,300 shares) | 10,550 | 1,700 |
| Total sources | <u>778,807</u> | <u>497,434</u> |
| Use of funds: | | |
| Additions to fixed assets, net | 62,366 | 55,985 |
| Increase in other assets | 118 | 2,345 |
| Current installments on long-term debt | 22,925 | 273,806 |
| Purchase of treasury stock | 11,350 | 11,500 |
| Total uses | <u>96,759</u> | <u>343,636</u> |
| Increase in working capital | <u>\$682,048</u> | <u>\$153,798</u> |
| Increases (decreases) in the components of working capital are as follows: | | |
| Cash and temporary investments | \$413,584 | \$402,916 |
| Accounts receivable, net | 250,759 | 168,487 |
| Unbilled services | 8,333 | (41,602) |
| Prepaid expenses and other assets | (38,896) | (201,217) |
| Note payable-bank | | 100,000 |
| Current maturities of long-term debt | 163,275 | 261,882 |
| Accounts payable and accrued expenses | 230,151 | (151,936) |
| Income taxes payable | (241,099) | (94,985) |
| Deferred income taxes | (104,059) | (289,747) |
| Increase in working capital | <u>\$682,048</u> | <u>\$153,798</u> |

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, 1980 and 1979, and the related consolidated 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, 1980 and 1979 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 16, 1981

COOPERS & LYBRAND

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.

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

Cost in excess of net assets of subsidiary acquired is being amortized over a forty-year period.

Deferred hiring costs, consisting principally of recruitment advertisements and 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 in recognizing revenues and expenses for tax and financial accounting purposes. The current deferred income taxes of \$813,539 and \$709,480 at December 31, 1980 and 1979, respectively, are shown as current liabilities although not payable within one year of the respective year-end dates. Investment tax credits (approximately \$3,200 - 1980 and \$6,200 - 1979) are reflected as a reduction of Federal income taxes in the year realized.

Unbilled Services:

Unbilled services at December 31, 1980 and 1979 include, respectively, \$422,066 and \$555,546 (noncurrent portion) and \$247,754 and \$217,000 (current portion) arising under the terms of a fixed price contract whereby the Company developed a computer system for a customer. The contract provides for monthly payments by the customer of \$21,100 per month through December, 1983.

Fixed assets:

| | 1980 | 1979 |
|---|-----------|-----------|
| Fixed assets consist of: | | |
| Furniture and equipment | \$332,628 | \$312,157 |
| Computer equipment | 66,327 | 65,091 |
| Capitalized computer lease | 148,132 | 148,132 |
| Leashold improvements | 45,785 | 45,785 |
| | 592,872 | 571,165 |
| Less: accumulated depreciation and amortization | 280,488 | 235,774 |
| | \$312,384 | \$335,391 |

Long-Term Debt:

| | 1980 | 1979 |
|--|-----------|-----------|
| Long-term debt consists of the following: | | |
| 6% note arising from acquisition of a subsidiary | | \$162,540 |
| Capitalized lease obligation | \$ 90,179 | 109,308 |
| Miscellaneous | 1,673 | 6,204 |
| | 91,852 | 278,052 |
| Less: Current maturities | 22,925 | 186,200 |
| | \$ 68,927 | \$ 91,852 |

Aggregate maturities of long-term debt at December 31, 1980 are: \$23,611, 1982; \$26,232, 1983; and \$19,084, 1984.

Other Obligations:

In connection with the acquisition of a subsidiary the principal officers signed covenants, subsequently amended, not to compete with the Company through December 31, 1985 and 1986. In consideration therefore the officers will receive, provided they do not engage in competitive activities, \$72,100 each year 1982 - 1984, and \$50,850 in 1985 and 1986 for an aggregate of \$318,000. Such

amounts are being accrued ratably from date of acquisition through December 31, 1986.

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 reflect the increased number of shares 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 60,000 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 60,000 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 the terms fixed by the Board of Directors, options become exercisable one year from date of grant and in all cases expire five years from date of grant.

At December 31, 1980, options for 18,000 and 52,200 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 | |
|-------------------------------------|------------------|----------|
| | 1980 | 1979 |
| Shares under option at January 1, | | |
| \$.625 - \$4.00 a share | 39,400 | 54,400 |
| Granted \$4.75 a share | 1,800 | — |
| Exercised \$.625 - \$2.25 a share | (9,600) | (2,600) |
| Cancelled \$.625 - \$2.25 a share | (3,600) | (12,400) |
| Shares under option at December 31, | | |
| \$.625 - \$4.75 | 28,000 | 39,400 |

At December 31, 1980, options for 26,200 shares were exercisable.

No charges were made to income in connection with the aforementioned stock option plans since all options granted in 1980 were at market.

Paid-in capital was charged \$1,354 (1980) and \$1,017 (1979) with the difference between the exercise price and the cost of treasury shares issued in connection with the exercise of stock options.

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 exclusive of \$14,000 of sublease rental income, by years, required under such leases that have an initial non-cancellable lease term in excess of one year as of December 31, 1980 are: 1981, \$166,000; 1982, \$140,000; 1983, \$98,000; 1984-1987, \$72,000; 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, 1980 is as follows:

| | |
|--|-----------|
| Minimum annual lease payments of \$29,775 through August, 1984 | \$109,070 |
| Less: Amount representing interest | 18,891 |
| Present value of minimum lease payments | \$ 90,179 |

The second computer equipment lease is an operating lease with an affiliated partnership which requires future minimum annual ren-

tal payments of \$65,300 in 1981 and \$38,100 in 1982, subject to cancellation provisions.

Total rental expense charged to income in 1980 and 1979, reduced in 1980 by sublease income of \$12,000, approximated \$181,000 and \$176,000, 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 \$156,000 and \$137,000 in 1980 and 1979, respectively.

Discontinued Operation:

During 1979, the Company discontinued the operations of its computer equipment sales subsidiary.

The rented facilities were sub-leased at no loss to the Company and assets were sold or transferred to the parent without loss.

Results of operations of the subsidiary where revenues aggregated \$257,000 in 1979 are classified as discontinued operations in the accompanying statements of income and retained earnings.

Company Operations:

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

for the year ended December 31, 1980:

| | Consulting Programming and Management Services | Business Forms | Consolidated |
|--|---|---------------------------|---------------------|
| Sales and services to unaffiliated customers | \$11,977,187 | \$ 1,999,998 | \$13,977,185 |
| Operating profit | \$ 1,415,484 | \$ 113,238 | \$ 1,528,722 |
| General corporate expenses | | | 497,000 |
| Income before income taxes | | | \$ 1,031,722 |
| Identifiable assets | \$ 4,735,851 | \$ 257,580 | \$ 4,993,431 |
| Additions to fixed assets | \$ 61,583 | \$ 783 | \$ 62,366 |
| Depreciation expense | \$ 84,803 | \$ 570 | \$ 85,373 |

for the year ended December 31, 1979:

| | Consulting Programming and Management Services | Business Forms | Consolidated |
|--|---|---------------------------|---------------------|
| Sales and services to unaffiliated 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 |

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

Revenues from sales and services to a group of customers under common control were \$3,377,000 and \$671,000 in 1980 and \$2,477,000 and \$740,000 in 1979 of the revenues of the consulting and the business forms operations, respectively.

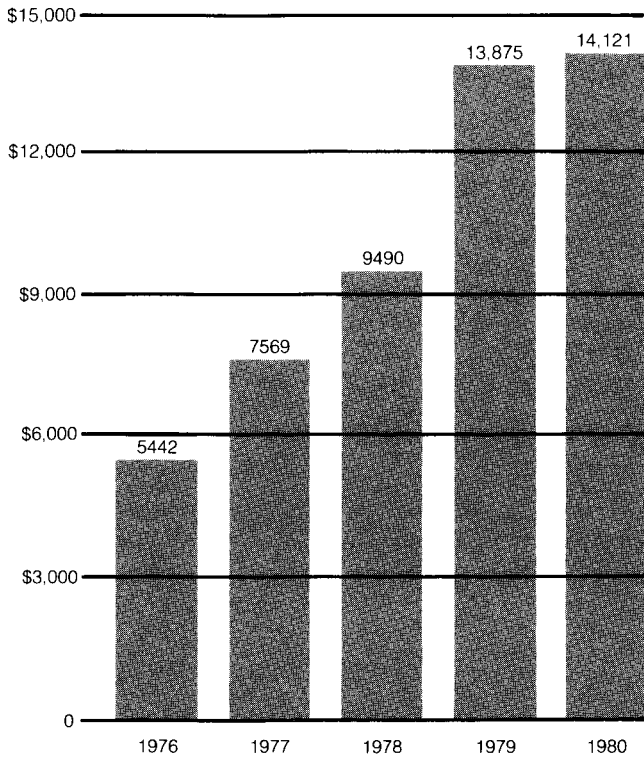
Subsequent Events:

In January 1981, the Company acquired for \$581,000, a 50.5%

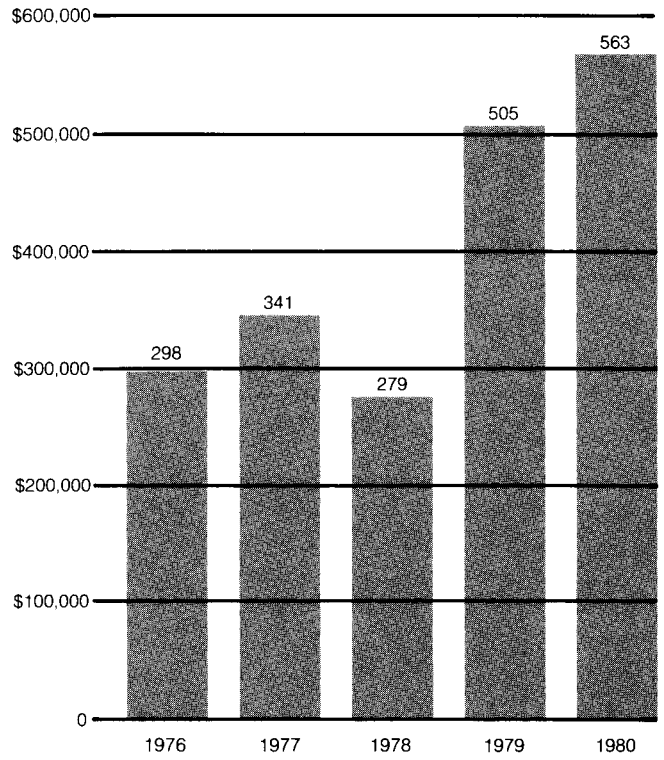
interest in the capital stock of a company engaged in the distribution of micro computer equipment. Of the purchase price, \$200,000 was paid in January, 1981 and the balance of \$318,000 is payable at the end of March, 1981.

In February 1981, the Company acquired for \$1,900,000 the business and certain selected assets and liabilities of an engineering and technical services company. Of the purchase price, \$1,000,000 was paid in February, 1981 and the balance of \$900,000 is payable without interest in December, 1981.

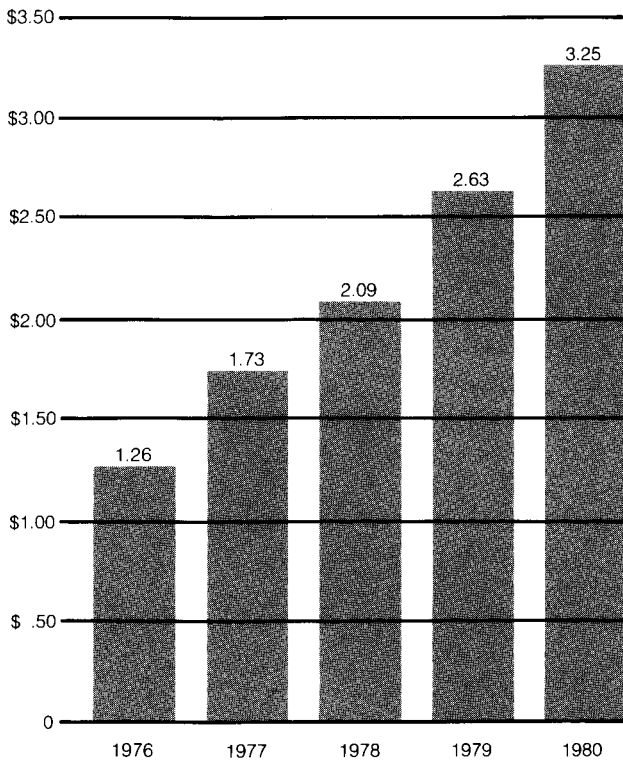
REVENUES



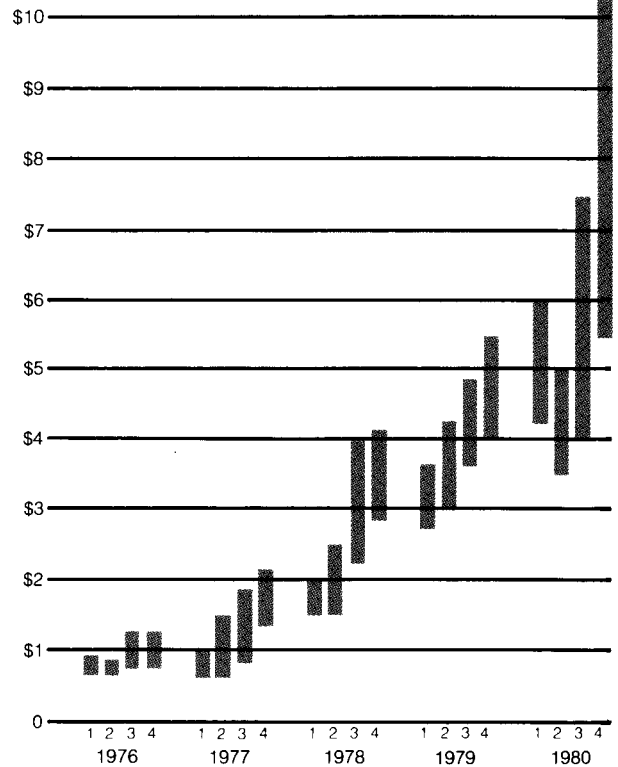
NET PROFITS AFTER TAXES (Continuing Operation)



BOOK VALUE PER SHARE (Adjusted for 2 for 1 Stock Split on 1/1/80)



BID AND ASKED PRICES (Adjusted For 2 for 1 Stock Split on 1/1/80)



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 ENGINEERING

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 based 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.

DISTRIBUTION

AGS System Forms offers its clients a unique approach to their business forms needs. Its services range from forms design and consultation work to forms management programming. They offer their clients a complete Line of Business Form products, computer speciality items, handling equipment and office supplies.

Micro Distributors, Inc. is a wholesale distributor and servicer of micro-computer hardware and software to computer system houses and retail stores.

AGS PROVIDES SERVICES IN: Alabama, *Colorado, *Connecticut (Bridgeport, Hartford), District of Columbia, *Florida, *Georgia, *Illinois, †Indiana, Kentucky, *Maryland, *Massachusetts, Michigan, Minnesota, †New Hampshire, *New Jersey, *New York (New York City, Long Island, Westchester), North Carolina, Ohio, †Pennsylvania, †Rhode Island, †South Carolina, †Vermont, Virginia, *London, England.

*BRANCH OFFICE
†FIELD OFFICE

OFFICERS AND DIRECTORS

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Joseph Abrams
Executive Vice President,
Secretary & Director

Anthony F. Stepanski
Senior Vice President & Director

Peter G. Graf
Director

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Vice President

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Vice President

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Vice President

Philip H. DePasquale
Branch Development Director &
Assistant to the President

Mario Incalicchio
Controller

DIVISIONAL DIRECTORS

Hannah Abrams
New York

William Anderson
Denver

George McMahon
Long Island

Frances R. Mann
Connecticut

Richard Nackson
Chicago

Michael Post
New Jersey

SUBSIDIARIES

PHD Systems Inc.
Russell S. Dunkel, Jr., President
John Berrigan, Vice President
Richard Walsh, Vice President

Eastern Design Company, Inc.
Kurt Hurst, President

AGS Information Services, Inc.
Frank Tantillo, Managing Director

Micro Distributors, Inc.
H. Dennis Moore, President

AGS System Forms, Inc.
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Michael Kolba, Vice President

AGS Computers Ltd.

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