

AGS

ANNUAL REPORT 1981



SELECTED AGS DATA

	1980	1981	%Change
Revenues	\$16,983,000	\$38,773,000	+128%
Income Before Taxes and Minority Interests	1,028,000	3,528,000	+243%
Net Income	570,000	1,796,000	+215%
Earnings Per Share	<u>\$.19</u>	<u>\$.57</u>	+200%
Employee Productivity	\$ 60,000	\$ 74,000	+ 23%
Return on Investment	24.2%	64.3%	+170%

1st Quarter (unaudited)

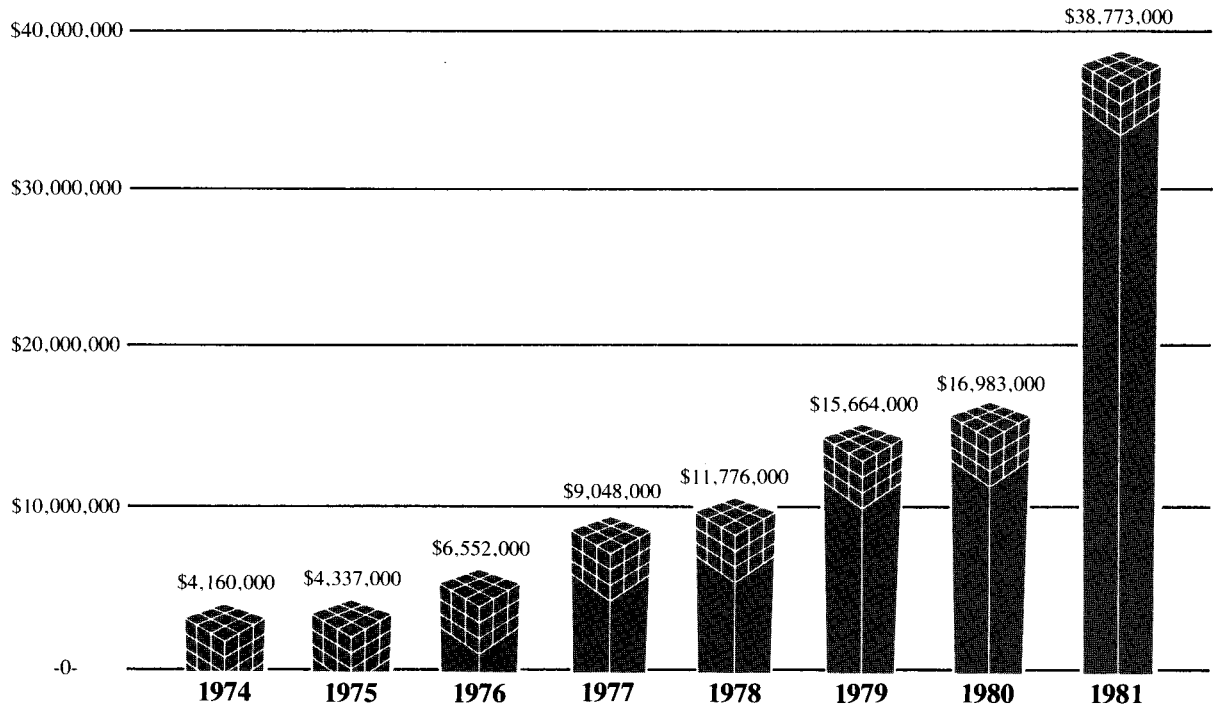
	1981	1982	%Change
Revenues	\$6,773,000	\$15,230,000	+125%
Income Before Taxes and Minority Interests	613,000	1,285,000	+110%
Net Income	294,000	600,000	+104%
Earnings Per Share	<u>\$.10</u>	<u>\$.18</u>	+ 80%
Employee Productivity	\$ 62,000	\$ 87,000	+ 40%

COMPOUNDED GROWTH RATES

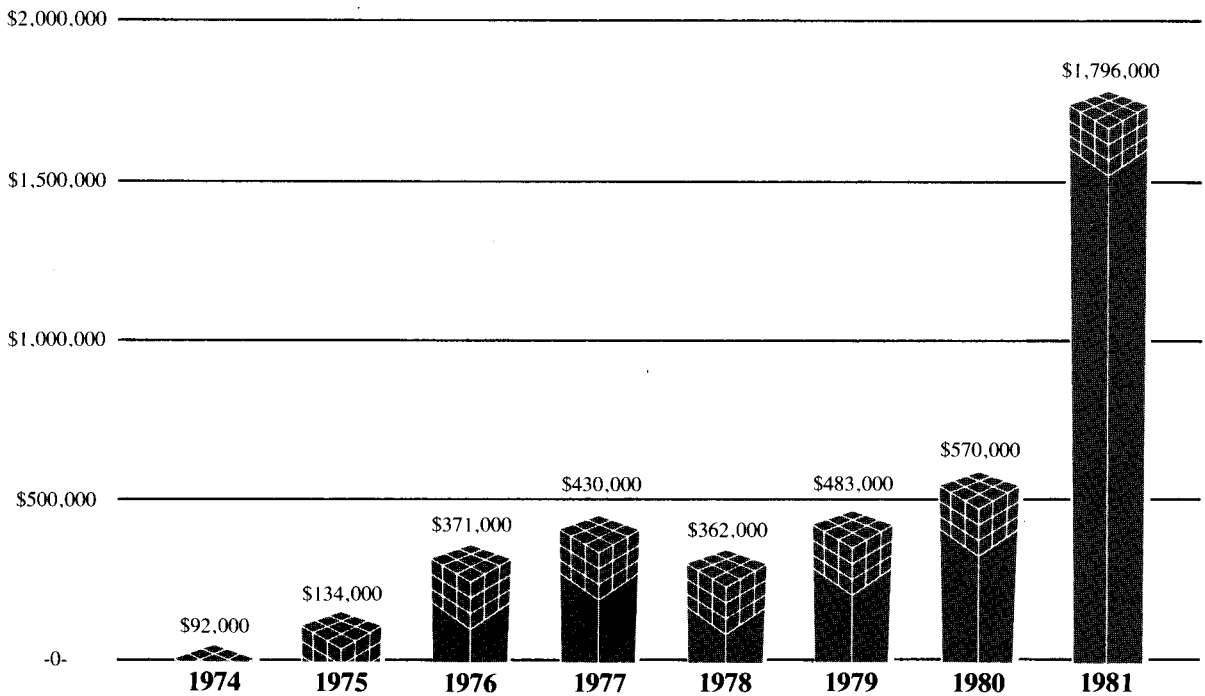
	1 Year	5 Years	10 Years
Revenue	+128%	+45%	+39%
Income Before Taxes and Minority Interests	+243	+37	+40
Net Income	+215	+34	+32
Earnings Per Share	+200	+39	+35

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REVENUES



NET INCOME





AGS Computers, Inc.
1135 Spruce Drive
Mountainside, New Jersey 07092
(201) 654-4321

April 1982

To our Shareholders:

1981 was a year in which, to use the lingo of the day, we put it all together. The financial results were of record proportions and were continued in the first quarter of 1982. Our management, technical, research, and marketing capabilities were strengthened and expanded. Our acquisition program bore fruit.

Our industry has grown to a size measured in tens of billions of dollars per year and is growing at a rate of 25% per year. Yet, the largest independent company in the industry does not have a 5% share of the market.

We continue to believe that leadership in the computer service industry requires offering a full range of coordinated capabilities. Our market niche is in the building and marketing of systems for computer users. We emphasize developing applications for the large service industries (communication, banks, insurance companies). Service businesses are among the fastest growing segments of our economy and are relatively less affected by economic conditions.

Our strategy is to provide high value-added services by stressing the full complement of services necessary to automate the revenue producing areas of an organization's activities.

We are already one of the largest companies in our segment of the industry. We intend to be in geographic, industry and application areas, where we can have a growing leadership position.

In a dynamically growing and changing industry where no one company has a large overall share, it is important to move quickly and effectively. We therefore have an aggressive acquisition program to give us as quickly as possible, the critical mass in sub markets.

Today, AGS is strategically poised to effectively utilize its substantial size, experienced management team, and strong financial position to rapidly expand the full range of computer-related services we provide.

Lawrence J. Schoenberg
Chairman & Chief Executive Officer

Joseph Abrams
President & Chief Operating Officer



AGS' BUSINESS

General

The Company provides professional computer software and engineering services and proprietary software products to meet data processing, engineering and project management requirements of large commercial and financial institutions. In addition, the Company is a leading independent distributor of microcomputers, related peripheral equipment and packaged software in the southeastern and mid-Atlantic United States.

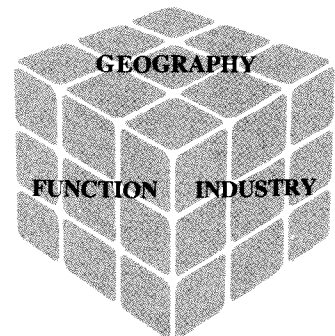
The computer industry has been characterized by continual change. Technological advances resulting in increased computing power as well as significant reductions in the cost of computer hardware has led to the rapid growth of interactive or real time computer systems, which have the ability to supply timely information compared to batch processing. Corporate managers are becoming increasingly aware of the importance of computers as an integral management tool, not only in day-to-day operations, but for the more complex forecasting, budgeting and strategic planning functions. This has led to an increasing demand for computer software specifically designed to meet the diverse requirements of users. The Company believes it is able to supply the expertise to solve data processing problems, from conception through implementation, in an efficient and timely fashion.

A staff of over 600 professionals performs computer systems analysis and design, markets packaged software products and provides specialized engineering and consulting services principally to large commercial and financial institutions. The software industry is comprised of different levels of services. The Company specializes in providing higher level, customized application software services. By focusing on higher level computer development assignments, the Company's strategy is to offer its clients the capability to assume complete responsibility for the design and implementation of an information processing system. While almost all the Company's clients employ an in-house professional staff, the Company believes its services are utilized to obtain faster, more efficient service and to obtain additional technical skills or expertise which are not readily available in a timely fashion or which do not justify permanent personnel increases.

The Company's microcomputer products distribution business sells microcomputers, related peripheral equipment and software to computer stores, original equipment manufacturers and systems integrators. Demand for microcomputer products has grown rapidly, and the Company's distribution business has expanded significantly over the last two years. The Company intends to utilize its distribution capabilities to sell microcomputer software products developed by its professional staff; however, to date no software has been produced for distribution.

The Company's two principal business segments are: Computer and Engineering Services and Microcomputer and Other Products.

*PUTTING FULL
SERVICE TOGETHER*





Computer and Engineering Services

The three product lines of Computer and Engineering Services are: Systems Development, Training and Consulting; Software Products; and Engineering Services.

Systems Development, Training and Consulting

Systems development consists of analyzing a client's information processing requirements, developing specifications for software which satisfies the client's needs and designing and implementing the software. In general, the Company focuses on designing complete application software solutions for its clients. The Company believes that by offering total systems development packages it can better meet its clients' data processing needs. However, at times, the Company will provide only limited services, such as implementing projects that have been designed by the client or simply providing contract personnel to work at the direction of the client's in-house staff.

The Company has a professional staff of approximately 275 persons providing services in this area. Substantially all the Company's systems development services are performed on clients' premises as part of projects varying in length from a period of a few months to many years. The majority of the Company's systems development work is done for large telecommunications and insurance companies and banks. For its largest client, Bell Laboratories, the Company was engaged in 25 projects principally related to the Bell System's entry into unregulated markets.

The Company's training services assist users of large-scale computer systems by developing qualified in-house personnel for computer operations and train project managers in planning and managing complex projects. Principal training activities provided during 1981 and 1982 included training in entry level programming, data base management and assembler languages for clients such as The Chase Manhattan Bank, Commercial Union Corp. and Manufacturers Hanover Trust Company.

The Company also provides consulting services, including conducting feasibility studies, evaluating alternatives and making recommendations with respect to the development of computer systems and the management of projects.

The Company provides training and consulting services both as separate products and in support of its systems development work and its standard software products. Although sales of training and consulting services as separate products contributed only a minor portion of the Company's revenues, the Company considers them to be significant because they may lead to systems development work and sales of the Company's proprietary software products.

A high proportion of the Company's systems development, training and consulting business comes from clients for which the Company has previously performed services. Approximately 90% of its 1980 clients were also clients during 1981, and approximately 90% of its 1981 clients have been clients thus far during 1982.





Software Products

The Company designs, markets and maintains proprietary software products for use in project management. The Company's software products aid in the planning and control of complex projects by keeping track of activities, resources and expenses and forecasting completion dates and the effect that various changes will have on the project. The Company has entered into approximately 850 licenses of its software products for use in a variety of fields including development of data processing systems, construction and engineering, research and product development, government contracting and maintenance planning. The Company often provides consulting and training services in connection with its software products sales.

The Company currently markets the following software products:

PAC I. PAC I is designed for scheduling a single, small to medium sized construction or engineering project. The program includes a schedule and cost control system, which utilizes critical path scheduling techniques for the proper allocation and timing of project resources. PAC I operates on Digital Equipment Corp. computer models PDP-11/34 and 11/70.

PAC II. PAC II incorporates all the components of PAC I and in addition includes comprehensive fiscal budgeting features that monitor current costs and provide cash flow projections. PAC II enables users to budget, analyze and report on any type of project. PAC II operates on a wide variety of computers, including IBM, Honeywell Inc., Control Data Corp. and Burroughs Corporation. PAC II systems are used in a variety of fields, including research and product development, government contracting, development of data processing systems and maintenance planning, and they have been installed with American Telephone & Telegraph Company, Ford Motor Company and Burroughs Corporation, among others.

PAC Macro. PAC Macro allows the PAC II system to be used to plan multiple projects within a single department or among various departments and provides the user with simulation scheduling and planning tools to allocate resource assignments among a mix of projects. PAC Macro operates on IBM and Univac computers.

PAC III. PAC III is a highly sophisticated system for planning and controlling complex multi-location projects. It is designed for use with large construction and engineering projects, as well as in manufacturing, shipbuilding and other fields. PAC III operates on IBM computers. PAC III systems have been installed with General Motors Corporation, Deere & Company and Continental Illinois National Bank and Trust Company of Chicago, among others.

The Company also markets a number of proprietary software product options, such as graphic displays and report writing systems, which can be used with the Company's software products.

The Company believes that there is a significant potential market for its proprietary software products, primarily because of the growing number and complexity of projects.



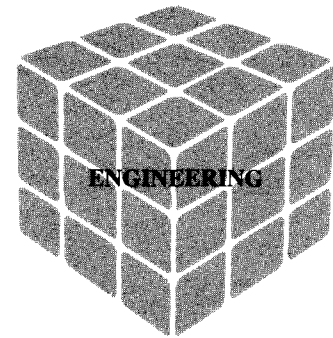
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Engineering Services

The Company provides project engineering services and engineering and technical support services. Engineering services are provided throughout the northeastern United States, principally in New York and Pennsylvania.

Project engineering services include planning, site evaluation, surveying and mapping, environmental assessment, developing contract plans and specifications, materials testing, construction inspection and overall project management. The majority of the Company's project engineering service work has been done for state and local governments in connection with construction of transportation facilities, urban development projects, dams, tunnels, sewage and solid waste facilities and buildings. The Company also provides project engineering services to Federal agencies, private companies and architects and developers. There are currently approximately 30 clients utilizing the Company's project engineering services.

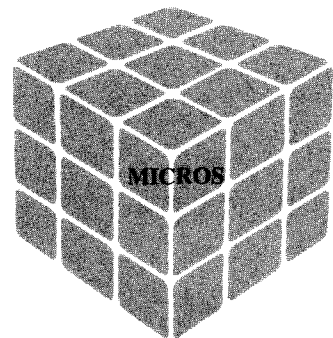
Large companies utilize the Company's engineering and technical support staff to work on particular projects requiring a larger technical staff than would be justified on a permanent basis. The use of temporary personnel to supplement in-house staff on a project basis has been a standard practice in the engineering field since World War II. Approximately 30 clients, including Nestle Company, Inc. and General Foods Corporation, are currently utilizing 140 of the Company's technical personnel on a contract basis.



Microcomputer and Other Products

The Company, through its 67% owned subsidiary, Micro Distributors, Inc., is an independent distributor of microcomputer products, including microcomputers, related peripheral equipment and software, in the mid-Atlantic and southeastern United States. The Company's line of products includes those manufactured by Altos, Atari, NEC, North Star, Televideo, OKI and Visicorp. The Company's principal customers are computer stores, original equipment manufacturers and systems integrators. Peripheral equipment accounts for almost one-half of the Company's sales, with microcomputers accounting for somewhat less than peripherals and software accounting for only a small portion. The Company also provides technical support and marketing assistance to its computer store customers and services the equipment which it sells.

AGS expects that microcomputer software primarily developed by its own staff will be of increasing importance. The Microcomputer and Other Products segment of the Company also designs and sells customized business forms principally through the Company's New York and New Jersey offices.



REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Stockholders and Board of Directors of
AGS COMPUTERS, INC.:

We have examined the consolidated balance sheets of AGS Computers, Inc. and Subsidiaries as of December 31, 1980 and 1981, and the related consolidated statements of income, stockholders' equity and changes in financial position for the years ended December 31, 1979, 1980 and 1981. 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. We did not examine the financial statements of International Systems, Inc. (ISI), a consolidated subsidiary, which statements reflect total assets constituting 16 percent and 15 percent, respectively, and total revenues constituting 11 percent, 17 percent and 13 percent, respectively, of the related consolidated totals. These statements were examined by other auditors whose report thereon has been furnished to us, and our opinion expressed herein, insofar as it relates to the amounts included for ISI, is based solely upon the report of the other auditors.

In our opinion, based upon our examination and the report of the other auditors, the consolidated financial statements referred to above present fairly the consolidated financial position of AGS Computers, Inc. and Subsidiaries at December 31, 1980 and 1981 and the consolidated results of their operations and changes in their financial position for the years ended December 31, 1979, 1980 and 1981, in conformity with generally accepted accounting principles applied on a consistent basis.

COOPERS & LYBRAND

Newark, New Jersey
March 3, 1982

AGS COMPUTERS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

	For the Years Ended December 31,			For the Three Months Ended March 31,	
	1979	1980	1981	1981	1982
				(unaudited)	
Revenues:					
Services	\$13,355,000	\$14,830,000	\$25,701,000	\$ 4,975,000	\$ 8,759,000
Product sales	2,199,000	2,000,000	12,911,000	1,745,000	6,383,000
Interest income	110,000	153,000	161,000	53,000	88,000
	<u>15,664,000</u>	<u>16,983,000</u>	<u>38,773,000</u>	<u>6,773,000</u>	<u>15,230,000</u>
Costs and Expenses:					
Cost of services	8,947,000	9,484,000	15,873,000	3,071,000	5,232,000
Cost of product sales ..	1,655,000	1,483,000	10,691,000	1,403,000	5,301,000
	<u>10,602,000</u>	<u>10,967,000</u>	<u>26,564,000</u>	<u>4,474,000</u>	<u>10,533,000</u>
Selling, general and administrative expenses	4,053,000	4,937,000	8,362,000	1,660,000	3,293,000
Interest expense	75,000	51,000	319,000	26,000	119,000
	<u>14,730,000</u>	<u>15,955,000</u>	<u>35,245,000</u>	<u>6,160,000</u>	<u>13,945,000</u>
Income before income taxes and minority interest ...	934,000	1,028,000	3,528,000	613,000	1,285,000
Income taxes (Note F) ...	451,000	458,000	1,587,000	296,000	614,000
Minority interest			145,000	23,000	71,000
Net income	<u>\$ 483,000</u>	<u>\$ 570,000</u>	<u>\$ 1,796,000</u>	<u>\$ 294,000</u>	<u>\$ 600,000</u>
Net income per share of Common Stock (Note A)	<u>\$.16</u>	<u>\$.19</u>	<u>\$.57</u>	<u>\$.10</u>	<u>\$.18</u>

See accompanying notes to consolidated financial statements.

AGS COMPUTERS, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

ASSETS

	December 31,		March 31,
	1980	1981	1982
			(unaudited)
Current assets:			
Cash and temporary investments	\$1,332,000	\$ 1,170,000	\$ 1,004,000
Accounts receivable-trade, less allowances of \$14,000, \$215,000 and \$280,000 (Note E)	2,709,000	5,796,000	7,453,000
Unbilled services (Note B)	278,000	253,000	253,000
Inventories		2,230,000	2,580,000
16% note receivable from officer due May 15, 1982		640,000	640,000
Prepaid expenses and other assets	375,000	502,000	618,000
Total current assets	4,694,000	10,591,000	12,548,000
Fixed assets (Note C and E)	569,000	1,355,000	1,731,000
Noncurrent portion of unbilled services (Note B)	422,000	219,000	162,000
Cost in excess of net assets of subsidiaries, net of amortiza- tion of \$11,000, \$64,000 and \$87,000 (Note M)	138,000	2,446,000	3,590,000
Other assets	136,000	431,000	272,000
	\$5,959,000	\$15,042,000	\$18,303,000

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities:			
Notes payable—bank (Note D)		\$ 280,000	\$ 280,000
Current maturities of long-term debt (Note E)	\$ 70,000	306,000	799,000
Accounts payable and accrued liabilities (Note G) ...	905,000	4,770,000	5,618,000
Customers' deposits	352,000	616,000	445,000
Income taxes payable	358,000	280,000	304,000
Deferred income taxes (Note A)	813,000	1,821,000	2,195,000
Total current liabilities	2,498,000	8,073,000	9,641,000
Long-term debt, less current matutities (Note E)	244,000	859,000	1,597,000
Deferred income taxes (Note A)	219,000	164,000	130,000
Other liabilities	102,000	67,000	58,000
Minority interest	—	463,000	519,000
Total liabilities	3,063,000	9,626,000	11,945,000
Commitments, contingencies and other comments (Note J, K, L, M and O)			
Stockholder's equity (Note E, H, I and M):			
Common Stock, par value \$.10 per share:			
Authorized 2,000,000 shares in 1980 and 8,000,000 shares in 1981 and 1982; issued 1,024,000, 3,312,000 and 3,354,700	102,000	331,000	335,000
Paid-in capital	263,000	723,000	1,061,000
Retained earnings	2,567,000	4,363,000	4,963,000
	2,932,000	5,417,000	6,359,000
Less: 26,630, 3,090 and 2,490 shares of treasury stock, at cost	36,000	1,000	1,000
Total stockholders' equity	2,896,000	5,416,000	6,358,000
	\$5,959,000	\$15,042,000	\$18,303,000

See accompanying notes to consolidated financial statements.

AGS COMPUTERS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY FOR THE YEARS ENDED DECEMBER 31, 1979, 1980 AND 1981 AND (unaudited) FOR THE THREE MONTHS ENDED MARCH 31, 1982

	Common Stock		Paid-In Capital	Retained Earnings	Treasury Stock	
	Shares	Amount			Shares	Cost
Balance, December 31, 1978 as previously reported	439,500	\$ 44,000	\$ 348,000	\$1,398,000	16,115	\$ 28,000
Adjustment for pooling of interests (Note M)	72,500	7,000	51,000	116,000		
As restated	512,000	51,000	399,000	1,514,000	16,115	28,000
Net income				483,000		
Stock options exercised			(1,000)		(1,300)	(3,000)
Purchase of treasury stock					2,000	11,000
Purchase of treasury stock by pooled company prior to merger			(1,000)			
Balance, December 31, 1979	512,000	51,000	397,000	1,997,000	16,815	36,000
Two-for-one stock split	512,000	51,000	(51,000)		16,815	
Net income				570,000		
Stock options exercised			(1,000)		(9,600)	(11,000)
Purchase of treasury stock					2,600	11,000
Purchase of treasury stock by pooled company prior to merger			(82,000)			
Balance, December 31, 1980	1,024,000	102,000	263,000	2,567,000	26,630	36,000
Net income				1,796,000		
Common Stock sold to officer	80,000	8,000	632,000			
Stock options exercised			49,000		(25,600)	(35,000)
Three-for-one stock split	2,208,000	221,000	(221,000)		2,060	
Balance, December 31, 1981	3,312,000	331,000	723,000	4,363,000	3,090	1,000
Unaudited:						
Net income				600,000		
Common Stock issued (Note M)	42,700	4,000	338,000			
Stock options exercised					(600)	
Balance, March 31, 1982 (unaudited)	<u>3,354,700</u>	<u>\$335,000</u>	<u>\$1,061,000</u>	<u>\$4,963,000</u>	<u>2,490</u>	<u>\$ 1,000</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,			For the Three Months Ended March 31,	
	1979	1980	1981	1981	1982
	(unaudited)				
Source of working capital:					
From operations:					
Net income	\$483,000	\$570,000	\$1,796,000	\$ 294,000	\$ 600,000
Items not affecting working capital:					
Minority interest in net income of subsidiary			145,000	23,000	71,000
Depreciation and amortization	116,000	142,000	257,000	47,000	127,000
Deferred hiring costs	(56,000)	15,000	(12,000)	(2,000)	
Deferred income taxes, non-current	53,000	(66,000)	(55,000)	(24,000)	(34,000)
Unbilled services, non-current	(104,000)	133,000	203,000	51,000	57,000
Working capital provided from operations	492,000	794,000	2,334,000	389,000	821,000
Stock options exercised	2,000	10,000	84,000	1,000	
Increase in long-term debt	177,000	81,000	839,000	23,000	
Sale of Common Stock to officer			640,000		
Issuance of Common Stock in exchange for share of minority interest in subsidiary					342,000
Investment by minority shareholder in subsidiary			93,000		
Total	671,000	885,000	3,990,000	413,000	1,163,000
Application of working capital:					
Acquisition of subsidiaries:					
Excess of cost over net assets acquired			2,361,000	2,232,000	1,167,000
Minority interest			(225,000)	(170,000)	15,000
Long-term debt			(82,000)	(82,000)	(1,250,000)
Fixed assets, net			8,000	8,000	279,000
Other assets			4,000	4,000	
			2,066,000	1,992,000	211,000
Decrease (increase) in other liabilities	(51,000)	(51,000)	35,000	11,000	9,000
Additions to fixed assets, net	286,000	117,000	980,000	103,000	201,000
Increase (decrease) in other assets	11,000	2,000	281,000	8,000	(159,000)
Current installments of long-term debt	309,000	70,000	306,000	16,000	512,000
Purchase of treasury stock	11,000	11,000			
Purchase of treasury stock by subsidiary prior to merger	1,000	82,000			
Total	567,000	231,000	3,668,000	2,130,000	774,000
Increase (decrease) in working capital	\$104,000	\$654,000	\$ 322,000	\$(1,717,000)	\$ 389,000

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,			For the Three Months Ended March 31,	
	1979	1980	1981	1981	1982
	(unaudited)				
Increases (decreases) in components of working capital are as follows:					
Cash and temporary investments	\$519,000	\$509,000	\$ (162,000)	\$ (1,071,000)	\$ (166,000)
Accounts receivable—trade, net	166,000	325,000	3,087,000	1,446,000	1,657,000
Unbilled services	(42,000)	8,000	(25,000)	1,000	
Inventories			2,230,000	673,000	350,000
Note receivable from officer			640,000		
Prepaid expenses and other assets	(176,000)	44,000	127,000	32,000	116,000
Notes payable—bank	100,000		(280,000)	(1,665,000)	
Current maturities of long-term debt	227,000	152,000	(236,000)	10,000	(493,000)
Accounts payable and accrued liabilities	(252,000)	182,000	(3,865,000)	(869,000)	(848,000)
Customers' deposits	(55,000)	(220,000)	(264,000)	(38,000)	171,000
Income taxes payable	(93,000)	(242,000)	78,000	42,000	(24,000)
Deferred income taxes	(290,000)	(104,000)	(1,008,000)	(278,000)	(374,000)
Increase (decrease) in working capital	\$104,000	\$654,000	\$ 322,000	\$ (1,717,000)	\$ 389,000

See accompanying notes to consolidated financial statements.

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

(Information pertaining to the three-month periods
ended March 31, 1981 and 1982 is unaudited)

Note A—Significant Accounting Policies:

The financial statements include the accounts of the Company and its wholly-owned and majority-owned subsidiaries, after elimination of all significant intercompany accounts and transactions.

Service revenues arising from time and material contracts are recognized as services are rendered. Revenues from sales of software (included in service revenues) are recognized after substantial completion of the Company's obligations under the terms of its contracts. Revenues from product sales, costs of product sales and related selling expenses are recorded when delivery is made to the customer.

Fixed assets are recorded at cost. Depreciation is computed principally on the straight line method based on estimated useful lives. Leasehold improvements are amortized over the life of the lease, or their estimated useful lives, whichever is shorter.

Cost in excess of net assets of subsidiaries acquired is being amortized over forty-year periods.

Inventories, consisting of microcomputer systems, peripherals and computer parts, are stated at the lower of cost or market; cost is determined by the first-in first-out (FIFO) method.

Deferred income taxes are provided for timing differences primarily arising from reporting a significant portion of the Company's income on the cash basis of accounting for income tax reporting purposes. The current deferred income taxes of \$813,000, \$1,821,000 and \$2,195,000 at December 31, 1980 and 1981, and March 31, 1982, respectively, are shown as current liabilities although not payable within one year of their respective year end dates. Investment and research and development tax credits are reflected as a reduction of federal income taxes in the year realized.

Research and development costs, which are charged to operations, amounted to \$519,000 (1979), \$662,000 (1980), \$1,151,000 (1981), \$181,000 (3 mos. 1981) and \$527,000 (3 mos. 1982).

Per share of Common Stock calculations are based on the weighted average number of shares outstanding—2,962,000 (1979), 2,970,000 (1980), 3,174,000 (1981), 2,957,000 (3 mos. 1981) and 3,352,000 (3 mos. 1982), adjusted to reflect a two-for-one split paid on January 1, 1980, and three-for-one split paid on October 1, 1981. Dilution resulting from stock options outstanding is not material.

Note B—Unbilled Services:

Unbilled services consist of amounts earned but not billable under the terms of a contract which provides for monthly payments by the customer of \$21,000 through December 1983.

Note C—Fixed Assets:

	<u>December 31,</u>		<u>March 31,</u>
	<u>1980</u>	<u>1981</u>	<u>1982</u>
Fixed assets consist of:			
Furniture and equipment	\$460,000	\$ 775,000	\$1,034,000
Computer equipment	284,000	884,000	1,063,000
Capitalized computer lease	148,000	148,000	148,000
Leasehold improvements	63,000	84,000	126,000
	<u>955,000</u>	<u>1,891,000</u>	<u>2,371,000</u>
Less: accumulated depreciaton and amortization	386,000	536,000	640,000
	<u>\$569,000</u>	<u>\$1,355,000</u>	<u>\$1,731,000</u>

Accumulated amortization of a capitalized lease aggregates \$83,000, \$104,000 and \$109,000 at December 31, 1980 and 1981 and March 31, 1982, respectively.

Note D—Notes Payable—Bank:

At December 31, 1981 and March 31, 1982 the Company and its subsidiaries have lines of credit aggregating \$1,350,000, with interest ranging from ½% to 1% (at December 31, 1981) and ¼% to ½% (at March 31, 1982) above the bank's prime lending rate (16.3% at December 31, 1981 and 16.5% at March 31, 1982).

Short-term borrowings averaged (on a month-end basis) \$193,000 (1979), \$500,000 (1981), \$277,000 (3 mos. 1981) and \$322,000 (3 mos. 1982) at a monthly weighted average interest rate of 17.7%, 20.8%, 19.4% and 17.3%, respectively. The maximum amount of short-term borrowings at any month-end was \$650,000 (1979), \$930,000 (1981), \$830,000 (3 mos. 1981) and \$405,000 (3 mos. 1982). There were no short-term borrowings in 1980.

Note E—Long-Term Debt:

	<u>December 31,</u>		<u>March 31,</u>
	<u>1980</u>	<u>1981</u>	<u>1982</u>
Long-term debt consists of the following:			
Note payable due in quarterly installments of \$75,000 plus interest at 1¼% over prime, commencing April 1, 1982*		\$ 900,000	\$ 900,000
Note payable due in quarterly installments of \$104,000 plus interest at 2% over prime, commencing April 1, 1982**			1,250,000
12% note, collateralized by equipment (cost \$164,000), payable in monthly installments of \$3,000 through December 1984	\$142,000	106,000	97,000
12% subordinated debentures redeemed in 1981	80,000		
14% installment notes payable in monthly installments through 1984		80,000	74,000
Other, principally capital lease obligations	92,000	79,000	75,000
	<u>314,000</u>	<u>1,165,000</u>	<u>2,396,000</u>
Less: current maturities	70,000	306,000	799,000
	<u>\$244,000</u>	<u>\$ 859,000</u>	<u>\$1,597,000</u>

* Represents a refinancing in January 1982 of a short-term note arising from an acquisition during 1981. Under the terms of the note, accounts receivable of approximately \$647,000 at December 31, 1981 and \$567,000 at March 31, 1982, and the capital stock of Eastern Design Company, Inc. are pledged as collateral and the Company is restricted from the payment of dividends until the note is repaid.

** Collateralized by accounts receivable of \$1,089,000 and the capital stock of Erdman, Anthony Associates.

Maturities of the non-current portion of long-term debt are as follows:

	<u>December 31, 1981</u>	<u>March 31, 1982</u>
1983	\$385,000	\$ 810,000
1984	381,000	776,000
1985	93,000	11,000
	<u>\$859,000</u>	<u>\$1,597,000</u>

Note F—Income Taxes:

The provisions for income taxes consist of the following:

	<u>Year Ended December 31,</u>			<u>Three Months Ended March 31,</u>	
	<u>1979</u>	<u>1980</u>	<u>1981</u>	<u>1981</u>	<u>1982</u>
Currently payable:					
Federal	\$ 59,000	\$362,000	\$ 389,000	\$ 25,000	\$185,000
State and local	49,000	58,000	244,000	17,000	89,000
	<u>108,000</u>	<u>420,000</u>	<u>633,000</u>	<u>42,000</u>	<u>274,000</u>
Deferred:					
Federal	283,000	12,000	843,000	211,000	300,000
State and local	60,000	26,000	111,000	43,000	40,000
	<u>343,000</u>	<u>38,000</u>	<u>954,000</u>	<u>254,000</u>	<u>340,000</u>
	<u>\$451,000</u>	<u>\$458,000</u>	<u>\$1,587,000</u>	<u>\$296,000</u>	<u>\$614,000</u>

A reconciliation of the provisions for taxes on income at the applicable federal statutory income tax rate to the tax provisions as reported is as follows:

	Year Ended December 31,			Three Months Ended March 31,	
	1979	1980	1981	1981	1982
Provision computed at the federal statutory income tax rate.....	\$430,000	\$473,000	\$1,623,000	\$282,000	\$591,000
State and local income taxes, net of federal tax benefit	59,000	45,000	192,000	32,000	70,000
Surtax exemption	(22,000)	(23,000)	(57,000)	(13,000)	(5,000)
Research and development credit			(73,000)		(69,000)
Investment tax credit	(14,000)	(7,000)	(108,000)		(2,000)
Other	(2,000)	(30,000)	10,000	(5,000)	29,000
As reported	<u>\$451,000</u>	<u>\$458,000</u>	<u>\$1,587,000</u>	<u>\$296,000</u>	<u>\$614,000</u>

Note G—Accounts Payable and Accrued Liabilities:

Accounts payable and accrued liabilities consist of:

	December 31,		March 31,
	1980	1981	1982
Accounts payable to vendors	\$264,000	\$2,849,000	\$3,555,000
Accrued interest		116,000	222,000
Accrued and withheld payroll taxes	37,000	168,000	296,000
Accrued payroll, vacation and bonus expenses	374,000	760,000	683,000
Other	230,000	877,000	862,000
	<u>\$905,000</u>	<u>\$4,770,000</u>	<u>\$5,618,000</u>

Note H—Common Stock:

On September 8, 1981, the stockholders of the Company approved an increase in the number of authorized shares of Common Stock from 2,000,000 to 8,000,000.

During 1979 International Systems, Inc., a company acquired under a pooling of interests in February 1982 (Note M), offered to redeem its capital stock from all stockholders other than officers for \$2.50 per share in cash or \$4.00 per share in 12% debentures. During early 1980, 20,480 shares were redeemed for \$79,600 of debentures and \$1,250 in cash.

Note I—Stock Option Plans:

Under the Company's 1974 qualified stock option plan, options could be granted to officers and employees to purchase an aggregate of 180,000 shares of Common Stock through 1984 at prices not lower than fair market value at dates options are granted. During May 1982, the plan was terminated and no additional options may be granted.

See "Management—Stock Options and Other Plans" elsewhere in this Prospectus for information concerning a plan adopted, subject to stockholders approval, in February 1982.

Certain information with respect to options granted (after giving effect to all stock splits) under the above noted plans and a non-qualified plan that expires in 1981 is as follows:

	Number of Shares			
	Year ended December 31,			Three Months
	1979	1980	1981	Ended March 31, 1982
Shares under option at beginning of period (\$0.21—\$1.58 a share)	165,000	120,000	85,800	25,500
Granted (\$1.58—\$10.00 a share)		5,400	16,500	48,350
Exercised (\$0.21—\$1.50 a share)	(7,800)	(28,800)	(76,800)	(600)
Cancelled (\$0.21—\$0.75 a share)	(37,200)	(10,800)		(300)
Shares under option at end of period (\$0.21—\$10.00 a share)	<u>120,000</u>	<u>85,800</u>	<u>25,500</u>	<u>72,950</u>

At December 31, 1981 and March 31, 1982 options for 6,000 and 11,200 shares, respectively, were exercisable.

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

Note J—Leases:

The Company is obligated under operating lease agreements, principally on its office and warehouse facilities. A number of leases require that the Company will pay additional rents due to increased operating costs to the lessor. The minimum aggregate rentals payable under all operating leases are as follows:

	<u>December 31, 1981</u>	<u>March 31, 1982</u>
1982	\$ 524,000	
1983	458,000	\$ 561,000
1984	155,000	440,000
1985	119,000	129,000
1986	111,000	106,000
1987	99,000	177,000
Total minimum lease payments	<u>\$1,466,000</u>	<u>\$1,413,000</u>

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

	<u>December 31, 1981</u>	<u>March 31, 1982</u>
Minimum annual lease payment of \$29,775 through August, 1984	\$ 79,000	\$ 71,000
Less: Amount representing interest . .	<u>10,000</u>	<u>8,000</u>
Present value of minimum lease payments	<u>\$ 69,000</u>	<u>\$ 63,000</u>

The second computer equipment lease is an operating lease with an affiliated partnership with rental payments of \$65,000 per annum through 1981 and \$38,000 in 1982.

Total rental expense charged to income approximated \$242,000 (1979), \$269,000 (1980), \$460,000 (1981), \$77,000 (3 mos. 1981) and \$162,000 (3 mos. 1982).

Note K—Profit Sharing:

The Company has profit sharing plans covering substantially all employees of the parent and of certain of its subsidiaries. The annual contributions under the plans are determined by the Board of Directors. Such contributions amounted to \$167,000 (1979), \$196,000 (1980), \$234,000 (1981), \$57,000 (3 mos. 1981) and \$72,000 (3 mos. 1982). Profit sharing contributions are funded as accrued.

Note L—Litigation:

Management and legal counsel are of the opinion that pending litigation will not have a material adverse effect on the financial position of the Company.

Note M—Business Acquired:

In February 1982, the Company acquired all the capital stock of International Systems, Inc. (ISI), a seller of computer software products, in exchange for 435,000 shares of the Company's Common Stock. This acquisition has been accounted for as a pooling of interests and, accordingly, the results of operations of ISI are included for all periods.

Separate results of operations of the combined entities for the years 1979, 1980 and 1981 and for the three months ended March 31, 1981 and 1982 are as follows:

	Years Ended December 31,			Three Months Ended March 31,	
	1979	1980	1981	1981	1982
Revenues:					
AGS Computers, Inc. and subsidiaries	\$13,875,000	\$14,120,000	\$33,881,000	\$5,874,000	\$13,595,000
ISI	1,789,000	2,863,000	4,892,000	899,000	1,635,000
Net Income:					
AGS Computers, Inc. and subsidiaries	467,000	547,000	1,396,000	275,000	427,000
ISI	16,000	23,000	400,000	19,000	173,000

During 1981 the Company purchased (i) the business of Eastern Design Company, Inc., a provider of engineering and technical personnel, for \$1,871,000 and (ii) a 54% interest in Micro Distributors, Inc., a distributor of microcomputers, for \$880,000. In January and May 1982, the Company increased its investment in Micro Distributors, Inc. to approximately 67% by issuing to minority shareholders 42,700 shares of Common Stock (market value of \$342,000) and by investing \$562,000 directly into Micro Distributors, Inc.

In January 1982, the Company purchased for approximately \$530,000 in cash and a note, a 99% interest in a group of companies (Erdman, Anthony Associates) which conduct a professional engineering and design business. In connection therewith, the acquired companies borrowed \$1,250,000 from a bank, guaranteed by the Company.

These acquisitions (other than ISI) have been accounted for as purchases; accordingly, results of operations of the acquired companies are included in the accompanying financial statements since their respective dates of acquisition. The excess of purchase price over net assets of businesses acquired at dates of acquisition approximated \$2,362,000 in 1981 and \$1,167,000 in 1982, and is being amortized over a forty-year period.

See "Business-Acquisitions" for information relating to the proposed acquisition of Atlantic Software, Inc. for \$4,350,000.

The pro forma consolidated results of operations of the Company as if Eastern Design Company Inc. and Micro Distributors, Inc. had been acquired on January 1, 1980, and Erdman, Anthony Associates had been acquired on January 1, 1981, are as follows:

	Years Ended December 31,		Three Months Ended March 31,
	1980	1981	1981
Revenues	\$25,298,000	\$44,438,000	\$9,110,000
Cost of services and product sales .	17,931,000	30,376,000	5,970,000
Selling, general and administrative expenses	6,087,000	10,723,000	2,536,000
Income taxes	580,000	1,514,000	289,000
Minority interest	43,000	143,000	21,000
Net income	657,000	1,682,000	294,000
Net income per share22	.53	.10

Note N—Company Operations:

Information about the Company's operations (all from domestic operations) is as follows:

	<u>Computer and Engineering Services</u>	<u>Microcomputer and Other Products</u>	<u>Consolidated</u>
Year Ended December 31, 1979:			
Revenues	\$13,355,000	\$ 2,199,000	\$15,554,000
Operating profit	<u>\$ 1,250,000</u>	<u>\$ 133,000</u>	\$ 1,383,000
General and corporate expenses			(484,000)
Interest income			110,000
Interest expense			(75,000)
Income before income taxes			<u>\$ 934,000</u>
Identifiable assets	<u>\$ 4,971,000</u>	<u>\$ 273,000</u>	<u>\$ 5,244,000</u>
Addition to fixed assets	<u>\$ 299,000</u>	<u>\$ 1,000</u>	<u>\$ 300,000</u>
Depreciation and amortization of fixed assets	<u>\$ 102,000</u>	<u>\$ 1,000</u>	<u>\$ 103,000</u>
Year Ended December 31, 1980:			
Revenues	\$14,830,000	\$ 2,000,000	\$16,830,000
Operating profit	<u>\$ 1,312,000</u>	<u>\$ 111,000</u>	\$ 1,423,000
General and corporate expenses			(497,000)
Interest income			153,000
Interest expense			(51,000)
Income before income taxes			<u>\$ 1,028,000</u>
Identifiable assets	<u>\$ 5,702,000</u>	<u>\$ 257,000</u>	<u>\$ 5,959,000</u>
Addition to fixed assets	<u>\$ 116,000</u>	<u>\$ 1,000</u>	<u>\$ 117,000</u>
Depreciation and amortization of fixed assets	<u>\$ 137,000</u>	<u>\$ 1,000</u>	<u>\$ 138,000</u>
Year Ended December 31, 1981:			
Revenues	\$25,701,000	\$12,911,000	\$38,612,000
Operating profit	<u>\$ 3,649,000</u>	<u>\$ 702,000</u>	\$ 4,351,000
General and corporate expenses			(665,000)
Interest income			161,000
Interest expense			(319,000)
Income before income taxes and minor- ity interests			<u>\$ 3,528,000</u>
Identifiable assets	<u>\$10,647,000</u>	<u>\$ 4,395,000</u>	<u>\$15,042,000</u>
Additions to fixed assets	<u>\$ 849,000</u>	<u>\$ 131,000</u>	<u>\$ 980,000</u>
Depreciation and amortization of fixed assets	<u>\$ 179,000</u>	<u>\$ 24,000</u>	<u>\$ 203,000</u>

The Company operates in two industries: Computer and engineering services and distribution of microcomputer products and business forms.

Revenues to a group of customers under common control were \$2,477,000 and \$740,000 (1979), \$3,377,000 and \$671,000 (1980), and \$5,911,000 and \$856,000 (1981) of the revenues of the computer and engineering services and computer products distribution operations, respectively.

Note O—Related Party Transactions:

On January 1, 1982, prior to the merger with the Company, ISI sold its banking and medical software packages (the costs of which were expensed as incurred) to Pearl Data Systems, Inc. (PDS), a newly-formed company owned by the President of ISI. The terms of the agreement call for 25 quarterly installments of \$4,000 with interest on the unpaid balance at 9% commencing July 1, 1982. Income on this transaction will be recognized as collected.

As part of this transaction ISI agreed to lend PDS a maximum of \$100,000 on an as needed basis through December 31, 1982. The total borrowings (\$60,000 at March 31, 1982) are to be repaid in 25 quarterly installments commencing on April 1, 1983 with interest at 9% on the outstanding balance. Effective July 1, 1982, PDS will commence paying interest at 9% on a quarterly basis on outstanding borrowings.



CORPORATE MANAGEMENT

LAWRENCE J. SCHOENBERG
Chairman, Chief Executive Officer, Treasurer and Director
JOSEPH ABRAMS
President, Chief Operating Officer, Secretary and Director
ANTHONY F. STEPANSKI
Executive Vice President and Director

PETER GRAF
Director
ARNOLD H. KROLL
Director
MARIO INCALICCHIO
Controller

SENIOR OPERATIONS MANAGEMENT

EDWIN L. ANTHONY
President, Rochester Engineering
JOHN BERRIGAN
Vice President, Boston
MARTIN COOK
Vice President, Education and Training
PHILIP H. DePASQUALE
Consultant
RUSSELL DUNKLE, JR.
Vice President and President, Boston
PAUL B. ERDMAN
President, Pennsylvania Engineering
JOSEPH HERBETS
President, Software Products

EDWARD HIPP
Vice President, Software Products
KURT HURST
President, White Plains
ARMEN KACHOOGIAN
Vice President, New Jersey Distribution
MICHAEL KOLBA
Vice President, New Jersey Distribution
JOHN KRIDEL
President, New Jersey Distribution
DAVID LEVINE
Vice President and Executive Vice
President, White Plains

H. DENNIS MOORE
President, MICRO Distribution
MICHAEL POST
Vice President
JAMES SULLIVAN
Vice President, Software Products
FRANK TANTILLO
Managing Director, Processing Services
ROBERT TROCCHIO
Vice President
RICHARD WALSH
Vice President, Boston

OFFICES

CALIFORNIA (Los Angeles)
COLORADO (Denver)
CONNECTICUT (Bridgeport)
FLORIDA (Tampa)
GEORGIA (Atlanta)

ILLINOIS (Chicago)
MARYLAND (Rockville)
MASSACHUSETTS (Boston)
MINNESOTA (Minneapolis)
NEW JERSEY (Mountainside)

NEW YORK (Long Island, New York City,
Rochester, White Plains)
PENNSYLVANIA (Harrisburg, Philadelphia)
VIRGINIA (Arlington)
Representatives in 15 additional cities.

