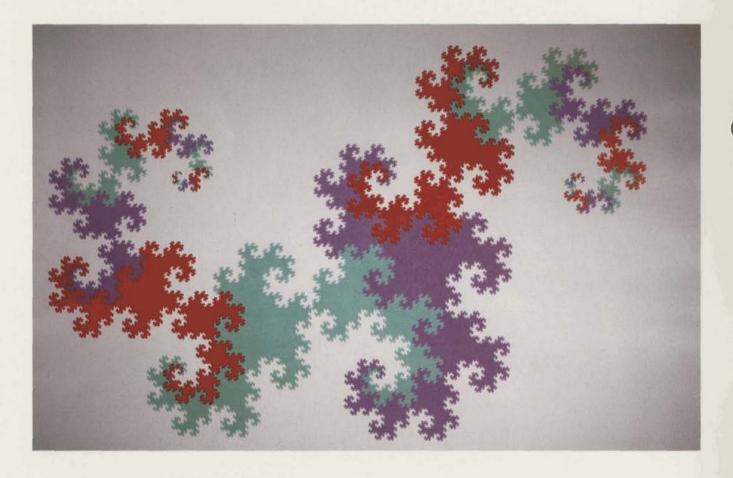


Contents Corporate Profile Highlights of Financial Information Letter To Our Shareholders 4 **AGS Projects** 10 **AGS Products** 12 Management's Discussion Financial Statements 14 23 Shareholder Information 24 Board of Directors/Management Corporate Offices inside back cover



Computer artist Doug McKenna used UNIXTM to create this "fractal dragon," based on a mathematical formula, which illustrates the basic fractal property that the larger pattern is composed of increasingly smaller elements, all with the same shape.

Corporate Profile

AGS has been in the forefront of computer technology for seventeen years, providing automation solutions for America's largest telecommunications, finance and high technology corporations. The Company provides software development services, builds and markets software products and distributes microcomputers with the related peripherals and software packages.

AGS is America's largest custom software company serving the commercial market. The Company analyzes customer information requirements, develops specifications and designs and implements automation solutions.

AGS designs, markets and supports proprietary software packages for use in banking as well as in planning and managing the development of data processing and research and development projects. The Company is the market leader in project management software, and its major bank packages are industry standards.

AGS is the nation's largest distributor of microcomputers. The Company selects the best price/performance products and distributes those hardware and software products to computer retailers and other companies who deliver specialized computer systems.

Selected Financial Information (in thousands of dollars except per share data)

		AND DESCRIPTIONS OF THE PERSON NAMED IN COLUMN		
Five	Year Summa	ıry		
1983	1982	1981	1980	1979
\$145,911	\$65,026	\$38,773	\$16,983	\$15,664
5,785	2,484	1,796	570	483
1.25	.73	.57	.19	.16
68,853	33,800	15,042	5,959	5,244
35,222	10,059	5,416	2,896	2,409
	1983 \$145,911 5,785 1.25 68,853	1983 1982 \$145,911 \$65,026 5,785 2,484 1.25 .73 68,853 33,800	\$145,911 \$65,026 \$38,773 5,785 2,484 1,796 1.25 .73 .57 68,853 33,800 15,042	1983 1982 1981 1980 \$145,911 \$65,026 \$38,773 \$16,983 5,785 2,484 1,796 570 1.25 .73 .57 .19 68,853 33,800 15,042 5,959

To Our Shareholders

"AGS substantially exceeded its own growth rate as well as that of the industry." Dear Shareholder:

We are pleased to report that AGS' financial results continued to set new records. In 1983, revenues increased by 124% to \$146 million, net profits rose 131% to \$5.8 million, and earnings per share were \$1.25, an increase of 71% despite a 35% increase in the average number of shares outstanding.

AGS increased its equity base by 250% to \$35 million through the sale of common shares, the conversion of its convertible bonds and its net profits. We recently entered into a \$25 million long-term credit facility loan with a group of banks which will enable AGS to finance its currently planned growth.

Year In Review

AGS' 1982 Annual Report outlined five goals for 1983 and our performance during the year met or exceeded our objectives.

Maintaining financial growth record

We substantially exceeded our own growth rate as well as that of the industry. Profits and revenues have grown at more than a 100% compounded rate over the last four years. Return on equity was 57% in 1983.

Systems development focus and geographic coverage We increased our percentage of business with telecommunications, finance and high technology clients. New offices were opened in East

Fishkill, New York and Orlando, Florida.

Integration of operating units We completed the integration of our two project management software companies. Microamerica, which we acquired in March, 1983, took over operations of the three existing microcomputer distribution centers.

UNIX software

We announced and demonstrated our new Smart-C® software development product.

Microcomputer market share and geographic coverage Our growth rate was almost five times the 50% industry rate during the year, and a new center was opened in the Chicago area.

Review of Operations

AGS strengthened its market position in each area of its business through internal growth and acquisitions.

In Systems Development, we expanded our UNIX based business with AT&T, and the breakup of the AT&T System enhanced our opportunities to provide an even broader range of services. AGS became the first software company selected by AT&T to provide customized software for users of Net 1000. In addition, we received a substantial contract from a major computer company to automate a manufacturing plant using robotics.

In January 1984 AGS acquired Software Design Associates, making us the largest builder of custom software serving the commercial market. This acquisition continues our efforts to focus on telecommunications, finance and high technology companies. It adds new offices in Philadelphia, Phoenix, Washington, D.C. and London, England and significantly expands our activities in the New York metropolitan and Chicago areas.

The Software Products Group continued to make gains through product innovations. We completed development of the first in a series of products for the UNIX marketplace; introduced a project management software package utilizing the IBM-PC and began the design of a PC based system methodology product. The acquisition of DISC, Inc. gave us entry into the financial services marketplace, which is the largest user of software products.

"Our marketing focus on telecommunications, finance and high technology companies will continue as we take AGS to its next level of growth."

AGS' Microamerica subsidiary became the largest independent distributor of microcomputers operating seven facilities with two more scheduled for opening in the first half of 1984.

Outlook

AGS will continue to grow rapidly, with expansion coming from all three business areas; systems development, software products and microcomputer distribution. Our strong relationship with our customer base will continue to be intrinsic to our success. Utilizing this relationship, we shall provide complete automation solutions involving our comprehensive technical expertise.

The senior management team, which itself has been significantly expanded through internal growth and acquisitions, will continue to concentrate on coordinating our profit centers, increasing middle management capability and providing the plan to take AGS to its next level of growth. In view of the financial results achieved during AGS' seventeen year history, we are confident that we can continue to maintain a rate of growth in excess of the computer services industry.

We thank our employees and shareholders for their continued support.

Lawrence J. Schoenberg

Chairman & Chief Executive Officer

Joseph Abrams

President & Chief Operating Officer



Problem

AT&T Bell Laboratories needs an easy-to-use, readily transportable sales demonstration and training tool.

Solution

AGS builds a portable microcomputer software system.

When AT&T Bell Laboratories needed a new system for sales demonstrations, which could also serve for client training, AGS built the system.

At its office in Mountainside, N.J., AGS software specialists worked with Bell Labs engineers to develop a product that would meet AT&T's demanding criteria.

A lightweight microcomputer system was chosen for the task. Self-contained and easily portable, it would simplify client demonstrations at remote sites. The user would also enjoy greater logistical freedom, because the stand-alone microcomputer would not require a communications link to a main computer.

As a training tool, the interactive single-user system is particularly valuable, tolerating common learning errors without interrupting the flow of any existing processing of the real system.

An added bonus of the AGS-developed system is its extensive use of color graphics in the demonstration mode. With color and visual emphasis of commands, the user more readily understands the actual results of inputs to the system.

Problem

The Treasury Department of the United Nations Development Programme needs a completely integrated cash management system to cut costs and increase efficiency of its international financial operations.

Solution

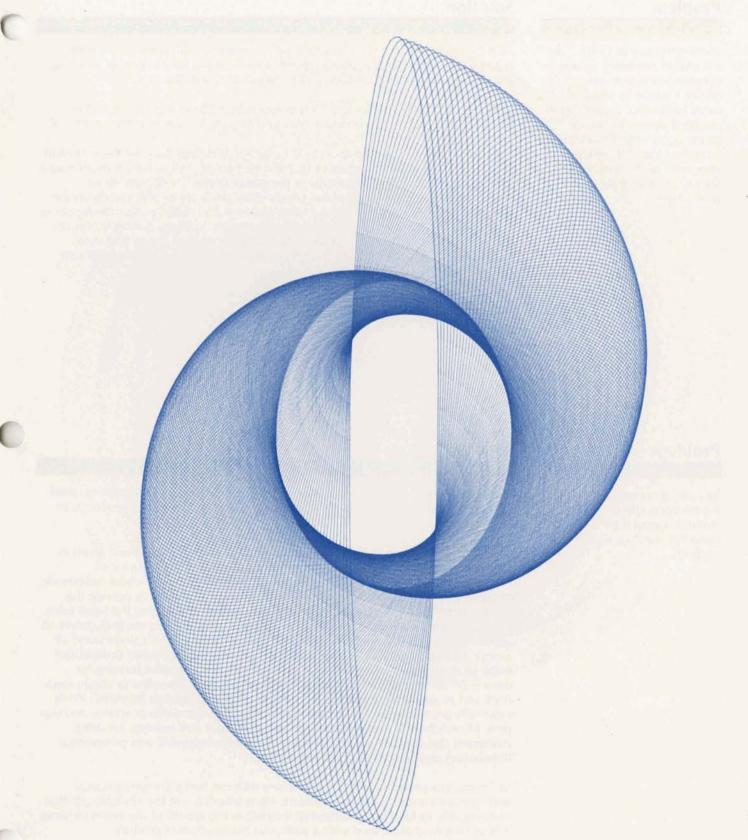
AGS works with Chemical Bank to develop and implement a computer system capable of handling complex transactions involving currencies from 160 countries.

When the United Nations Development Programme needed a cash management system to monitor and process the receipt and disbursement of funds for development projects from a host of participating countries, AGS met the challenge.

Cooperating with Chemical Bank's cash management consulting services, AGS implemented a fully integrated system installed on IBM hardware using CICS and DL/1 to meet exacting demands and enhance the Programme's earning capacity.

In addition to processing pledges, and tracking receipts of monies in more than 160 currencies, the system enabled the Treasury Section to manage and control disbursements via more than 400 U.S. and foreign banks. The system itself generated required notifications to the banks to transfer funds or investments, or confirm the purchase or sale of currency.

The AGS system also provided facilities to manage all available assets, and forecast currency availability and utilization to service field offices as efficiently as possible.



Problem

The emergence of UNIX ™ as a standard operating system (a computer program which makes it easier to use computer hardware), and "C" as a standard programming language accelerates the need for a product that will enable computer users to increase their C programming productivity.

Solution

AGS Computers, Inc., introduces Smart-C®, a powerful, full screen intelligent editor which simplifies the development of applications for a variety of mini and microcomputer systems, including DEC VAX 11/780 and IBM PC's.

Smart-C, the first in a series of AGS developed Smart-Tools was introduced in January, 1984 at the International Conference of UNIX Users in Washington, D.C.

Smart-C, broadens the appeal of the C language, which to date, has been primarily aimed at very senior programmers. Utilizing Smart-C, a relatively inexperienced technician can fully take advantage of the power of the C language. As an advanced editor, Smart-C increases programmer productivity and speeds up the system development cycle by preventing common and subtle programming errors. Provided with full support including documentation, training, quarterly updates and hotline service, Smart-C encourages standardization of layout and style, recognized within the software industry as a prerequisite to simplified software maintenance.

Problem

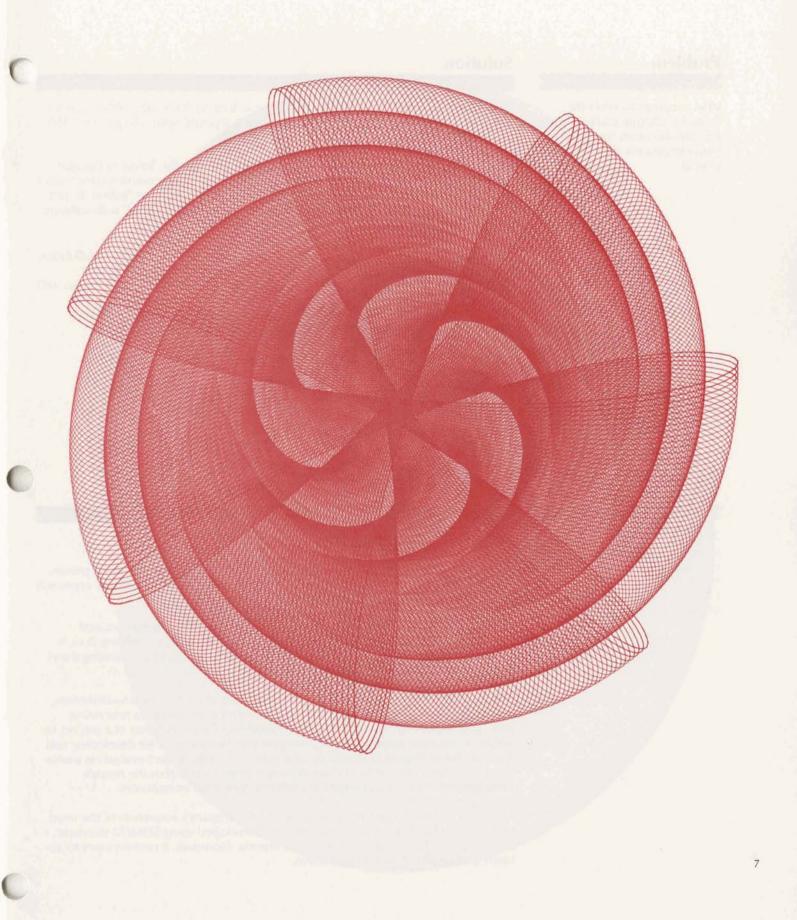
Increasing competitiveness in the microcomputer industry mandates greater emphasis on customer training, service and support.

Solution

Microamerica, an AGS company, develops MicroSchool, a sales marketing, product and technical information curriculum, to provide unparalleled service to its customer base.

Recognizing the need to elevate customer service and support to new levels in order to maintain its position as the industry's number one distributor of microcomputers, Microamerica took action. Establishing MicroSchool nationwide, Microamerica conceived a thoroughly professional curriculum to provide the highest possible levels of service, training and support. Presenting the latest sales, marketing, product and technical information, MicroSchool thoroughly covers all aspects of the product line. MicroSchool enables dealers to fully understand all aspects of products purchased, providing customers with a distinct competitive edge. In conjunction with manufacturers, MicroSchool provides training for dealers on specific products, as well as a forum for manufacturers to obtain feedback and to guarantee that their products are sold and used as intended. While externally promoting and maintaining enduring high standards of service and support, MicroSchool is used internally to enhance sales staff training, ensuring customers that they are dealing with the most knowledgeable and professional distribution representation in the industry.

Microamerica provides its 7,500 customers with the best price/performance market driven microcomputer products. Microamerica is in the enviable position of being able to help its customers participate in the growth of the entire industry, without the risks associated with a particular manufacturer's product obsolescence.



Problem

VISA proposes to enter the Travelers Cheque market, but no software exists for issuing banks to process their own checks.

Solution

Applying its account reconciliation expertise in time to meet the needs of a new market, DISC, Inc., an AGS Company, designs a separate system to process VISA Travelers Cheques.

When VISA encountered unexpected difficulties entering the Travelers Cheque market due to a lack of available software, DISC applied its account reconciliation expertise to prepare a preliminary design of the Travelers Cheque System. In just 60 days, detailed system design and programming were completed, with software in place for two original users as well as two additional customers.

Today, the DISC Travelers Cheque System encompasses more than 15 installations, representing over 20 VISA issuing institutions, issuers, and additional major Travelers Cheque processors who rely on the system to process U.S. dollars as well as foreign currency travelers checks. Currently in place in Europe, the United Kingdom, the Mideast, Far East, South America and Mexico, DISC is the only company in the marketplace offering a Travelers Cheque System.

Problem

Zurich-American needs a system to manage and plan for its computer development resources in order to allocate them according to corporate objectives.

Solution

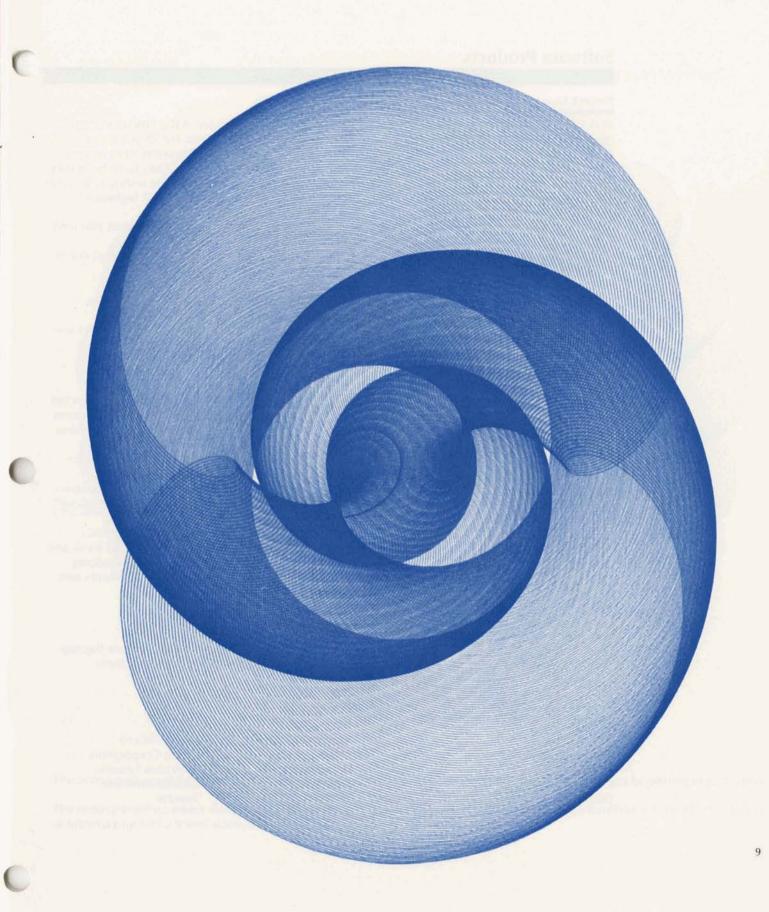
AGS installs SDM 70 and PAC II.

When Zurich-American, part of one of the world's ten leading insurance groups, sought to replace its outmoded time-keeping system and uncoordinated approach to its computer development activities, AGS had the answer.

Its SDM 70/PAC II combination provided a standard and integrated project/ resource management system and development methodology, enabling Zurich-American to plan and control computer development resources, allocating them as necessary according to changing corporate needs.

This combination provided a successful framework to meet company objectives, achieving a high degree of satisfaction both to end users and data processing groups. In particular, the SDM 70 system guides in the preparation of a project by project evaluation assessment and then provides the structure for developing and maintaining each project during its total useful life. This project evaluation assessment provides a vehicle for the prioritization of projects within the project management system and permits appropriate allocation of resources.

The SDM 70/PAC II system has heightened the company's awareness of the need to plan. Standardized milestones have been developed using SDM/70 to create meaningful and consistent management reports. Moreover, it permits users to actually participate on the project teams.



Software Products

Project Management and System Methodology

AGS Management Systems has become recognized as the world's leader in the project management and systems development methodology field with over 2,000 clients. For 15 years, our packages have been utilized in a variety of applications for business and government to increase productivity by improving the project planning and implementation process. They have been used in applications as diverse as the training of pilots for the NASA space shuttle; the testing of features for new model trucks and the planning and maintenance for municipal parks and highways.

Project Management Systems

- PAC MICRO designed for the IBM PC to allow users to quickly understand project planning and control regardless of previous computer experience.
- PAC and PC/70 Systems are automated project management systems for mini and mainframe computers which plan, budget, monitor and manage any type of project.

Systems Development Methodology

 SDM/70 and SDM/S provide project managers, system planners, analysts, programmers, auditors and others involved in the system development process, with the procedures, guidelines, and aids required to successfully accomplish their work. Both methodologies use the IBM PC/XT to offer their advantages on-line.

Financial Systems

AGS, through its subsidiary DISC, Inc. develops unique and innovative software products directed toward financial applications that are either under-automated or lacking a comprehensive system approach. With over 250 clients in the banking and financial community, our products combine state-of the-art technology with user friendliness.

- Account Reconciliation Package (ARP) reconciles customer accounts and their own house liability accounts.
- Retirement Reporting System (RRS) handles all reporting and accounting requirements under the IRA/Keogh laws.
- Travelers Check System (TCS) processes VISA travelers cheques for all issuing banks.
- Federal Reserve/Correspondent Bank Account Reconciliation System (FEDREC/DUEREC)
 automates the record keeping associated with funds transfer between a commercial bank and
 the Federal Reserve Systems, as well as between commercial bank and its correspondents.
- Combined Interest Reporting System (IRS) combines all interest and dividend payments and calculates withholding taxes for all individual accounts for reporting to the IRS.

UNIX/"C" Language

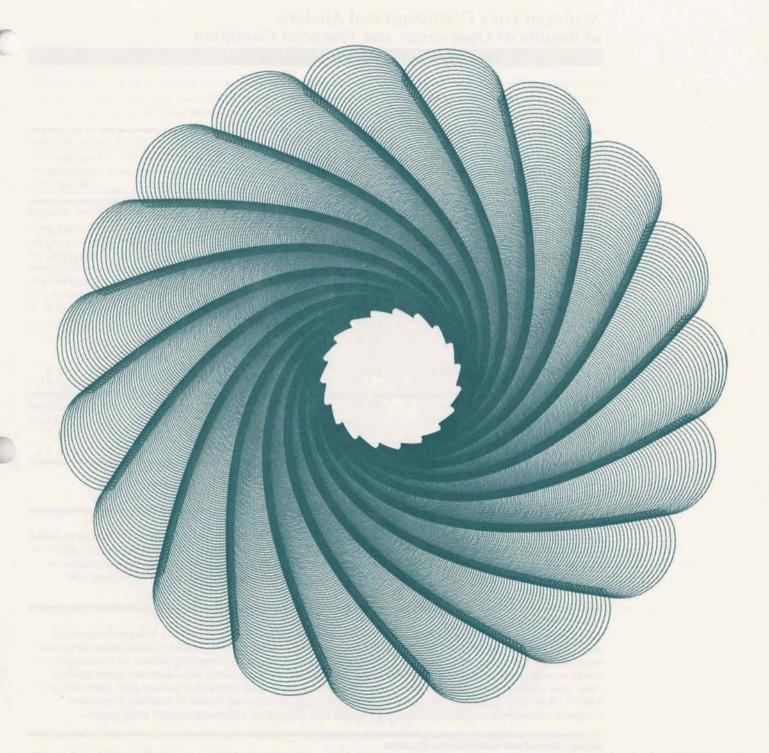
Smart-C is a system to assist in developing programs in the "C" language and to increase the productivity of programmers working with "C" and running under the UNIX operating system.

Microcomputer Products

Among the companies we represent are:

Altos Computer Systems Amdek Corporation Anadex Dataproducts Diablo Systems

Hayes Microcomputer Products Maxell Corporation of America NEC Home Electronics (USA) NEC Information Systems Okidata Corporation Orange Micro Qume Corporation TeleVideo Systems Toshiba America Transtar



The computer's potential as an artist's tool to create an extraordinary variety of attractive designs is just beginning to be tapped.

The original graphics which illustrate our 1983 Annual Report were created by Robert Sussman, a fourth-year student in the school of engineering and applied science at the University of Virginia.

Management's Discussion and Analysis of Results of Operations and Financial Condition

The following table sets forth for the periods indicated the percentages which certain income and expense items bear to revenues and the percentage increase of such items as compared to the prior year:

	Percentag	ge of Revenues		Period to Period Increase	
	For the years ended December 31,			1983 compared	1982 compared
	1983	1982	1981	to 1982	to 1981
Revenues:					
Services and software					
packages	36.9%	57.2%	66.3%	44.5%	44.8%
Product sales	62.7	42.3	33.3	232.9	112.9
Interest income	.4	.5	.4	88.8	105.0
Total revenues	100.0	100.0	100.0	124.4	67.7
Cost of services and software					
packages	21.9	37.5	40.9	31.1	53.5
Cost of product sales	53.5	35.1	27.6	241.4	113.7
Total costs	75.4	72.6	68.5	132.9	77.7
Selling, general and					
administrative expenses	16.5	18.8	22.0	97.5	43.5
Interest expense	.7	1.2	.8	29.0	138.6
Total costs and expenses	92.6	92.6	91.3	124.4	70.2
Income before income taxes	7.4	7.4	8.7	124.5	43.3
Income taxes	3.4	3.6	4.1	115.5	48.1
Net income	4.0%	3.8%	4.6%	132.9%	38.3%

Revenues

The Company's revenues from services and software packages increased 45% in each of the last two years. The increases came mainly from expansion of existing operations, and to lesser extent, from price increases. Microcomputer sales showed very significant growth over the last three years. The growth rate accelerated in 1983 due to an acquisition in March. The internal growth came from a broad-based industry-wide demand and the expansion of the geographic territory covered.

Gross Profit

The gross profit margin on services and software rose 6.1 percentage points to 40.6% in 1983. This percentage is 2.4 percentage points higher than the 1981 figure. This improvement is mainly derived, in 1983, from the higher percentage of software packages sales, which in turn have a significantly higher margin. The remaining differences are caused by the mix of services in each year. The gross profit margin in the Company's major service area, computer system development, have improved throughout the three year period. The microcomputer distribution business gross profit margin fell from 17.2% in 1981 to 16.9% in 1982 and to 14.8% in 1983. The reduction was caused by increased competition, changes in product mix and some of the costs associated with merging our two microcomputer profit centers.

Selling, General and Administrative Expenses

These costs have decreased at a continuous rate over a period of time starting before the three years analyzed in this discussion. The percentage is now 16.5% compared to 22% in 1981. This has been primarily achieved from the economies of size, especially in the area of corporate expenses. In addition, the microcomputer distribution business has a lower selling cost.

Income Taxes

The income tax rate has fallen slightly to 47% compared to 49% and 47% the last two years. The rate is favorably impacted by the research and development and investment tax credits offset by the overall increase in state tax rates.

Inflation

The Company's business has not been impacted by inflation. It has been able to adjust its rates for services in light of inflationary pressures. Due to the rapid inventory turnover of its products, inflation has not been a factor in the product sales segment.

Liquidity and Capital Resources

The Company has sufficient financial resources to meet its anticipated requirements. Its February, 1984 bank agreement provides for a \$25 million credit facility. The major use of this credit is to finance acquisitions. \$15 million of this credit has been used to date. Working capital requirements for the Company's internal growth and operations have been satisfied principally from funds generated from operations, and it is anticipated that such funds will continue to be sufficient for the Company's internal needs. Cash generated from operations exceeded net income because the income tax accrual is significantly greater than the actual tax payments. This difference is created primarily by the use of the cash basis for tax reporting.

During the last three years the figures were:

	1983	1982	1981
Tax Accrued	\$5,065,000	\$2,350,000	\$1,587,000
Tax Paid	\$3,221,000	1,332,000	760,000

Acquisitions

The Company acquired two companies in 1982 and two more in 1983.

	Kever	lues
	1983	1982
1981 Base 1982 Acquisitions	\$86,091,000*	\$58,230,000 6,796,000
1983 Acquisitions	59,820,000	
Total	\$145,911,000	\$65,026,000

^{*}The Company cannot segregate the 1983 results of acquisitions made prior to 1983 because of the merging of four acquisitions into a combined software products operating unit and a microcomputer distribution company.

Consolidated Balance Sheets

December 31	1983	1982
Assets		
Current Assets		
Cash and temporary investments	\$ 4,313,000	\$ 6,884,000
Accounts receivable-trade, less allowances of		
\$1,120,000 and \$337,000	21,612,000	11,277,000
Inventories	13,648,000	3,499,000
Prepaid expenses and other assets	2,991,000	1,180,000
Total current assets	42,564,000	22,840,000
Fixed assets	3,259,000	2,349,000
Software products	5,462,000	932,000
Costs in excess of net assets of subsidiaries acquired	16,376,000	6,578,000
Other assets	1,192,000	1,101,000
	\$68,853,000	\$33,800,000
Liabilities and Stockholders' Equity		
Current liabilities		
Notes payable	\$10,630,000	\$ 982,000
Current maturities of long-term debt	194,000	222.000
Accounts payable and accrued liabilities	14,454,000	6,919,000
Deferred income	1,655,000	812,000
Income taxes payable	313,000	634,000
Deferred income taxes payable	5,254,000	2,590,000
Total current liabilities	32,500,000	12,159,000
Deferred income taxes	208,000	59,000
Long-term debt, less current maturities	221,000	9,866,000
Other liabilities	702,000	1,657,000
Total liabilities	33,631,000	23,741,000
Stockholders' equity:		
Common stock, par value \$.10 per share: authorized 8,000,000 shares in 1983 and 1982;		
issued 5,222,000 and 3,646,000	522,000	364,000
Paid-in capital	22,068,000	2,848,000
Retained earnings	12,632,000	6,847,000
Total stockholders' equity	35,222,000	10,059,000
Total stockholders equity		
	\$68,853,000	\$33,800,000

Consolidated Statements of Income

AGS Computers, Inc. and Subsidiaries

For the years ended December 31,	1983	1982	1981
Revenues:			
Services and software packages	\$53,773,000	\$37,203,000	\$25,701,000
Product sales	91,515,000	27,493,000	12,911,000
Interest income	623,000	330,000	161,000
	145,911,000	65,026,000	38,773,000
Costs and expenses	The state of		
Cost of services and software packages	31,937,000	24,365,000	15,873,000
Cost of product sales	78,008,000	22,845,000	10,691,000
	109,945,000	47,210,000	26,564,000
Selling, general and administrative expenses	24,133,000	12,220,000	8,507,000
Interest expense	983,000	762,000	319,000
	135,061,000	60,192,000	35,390,000
Income before income taxes	10,850,000	4,834,000	3,383,000
Income taxes	5,065,000	2,350,000	1,587,000
Net income	\$5,785,000	\$2,484,000	\$1,796,000
Net income per share:			
Primary	\$1.25	\$.73	\$.57
Fully diluted	\$1.20	\$.73	\$.57
Weighted average shares outstanding:	2 222 222	Chi IW Shees	
Primary	4,609,000	3,419,000	3,174,000
Fully diluted	5,072,000	3,419,000	3,174,000

Consolidated Statements of Changes in Cash Position

AGS Computers, Inc. and Subsidiaries

For the years ended December 31,	1983	1982	1981
Sources of Cash:			
From operations			
Net income	\$5,785,000	\$2,484,000	\$1,796,000
Charges (credits) to income not affecting cash:			
Depreciation and amortization	1,983,000	731,000	257,000
Deferred income taxes	2,554,000	664,000	954,000
Increase in accounts receivable	(7,367,000)	(2,225,000)	(2,529,000
Increase in prepaid expenses	(881,000)	(253,000)	(139,000
Increase in accounts payable and accrued			
expenses	1,886,000	278,000	3,276,000
(Decrease) increase in deferred income	(1,416,000)	(74,000)	264,000
(Decrease) increase in income taxes payable	(710,000)	354,000	(127,000
Total from operations	1,834,000	1,959,000	3,752,000
Sale of common stock to public	8,094,000		
Common stock issued on conversion of			
debentures	8,672,000	534,000	
Common stock issued upon acquisition of			
subsidiaries	2,492,000	1,624,000	
Stock options exercised	120,000	1,000	84,000
Sale of common stock to officer			640,000
Increase in long-term debt	12,000	10,248,000	839,000
Increase (decrease) in notes payable	2,770,000	(22,000)	245,000
Decrease (increase) in notes receivable from			
officer		640,000	(640,000
Other		221,000	238,000
Total sources of cash	23,994,000	15,205,000	5,158,000
Uses of cash: Acquisition of subsidiaries	9 297 000	3,818,000	2 125 000
	8,387,000		2,135,000
Payment of long-term debt Additions to fixed assets, net	9,708,000	2,790,000	89,000 980,000
Increase in inventories	1,331,000	780,000	
Increase in other assets	4,697,000	1,269,000 590,000	1,800,000 281,000
Additions to software products	82,000 2,230,000	212,000	201,000
Decrease in other liabilities	130,000	32,000	35,000
Total uses of cash	26,565,000	9,491,000	5,320,000
(Decrease) increase in cash and temporary			
investments	(\$2,571,000)	\$5,714,000	(\$ 162,000)

AGS Computers, Inc. and Subsidiaries

Consolidated Statements of Stockholders' Equity

For the years ended December 31, 1981, 1982, and 1983

	Commo	n Stock			Treasur	y Stock
	Shares	Amount	Paid-in Capital	Retained Earnings	Shares	Cost
Balance, December 31, 1980 Net income	1,024,000	\$102,000	\$263,000	\$2,567,000 1,796,000	26,630	\$36,000
Common stock sold to officer Stock options exercised	80,000	8,000	632,000 49,000		(25,600)	(35,000)
Three for one stock split	2,208,000	221,000	(221,000)		2,060	(33,000)
Balance, December 31, 1981 Net income	3,312,000	331,000	723,000	4,363,000 2,484,000	3,090	1,000
Common stock issued Stock options exercised Common stock issued upon	283,000	28,000	1,596,000		(2,400)	(1,000)
conversion of debentures	51,000	5,000	529,000			
Balance, December 31, 1982 Net income	3,646,000	364,000	2,848,000	6,847,000 5,785,000	690	0
Common stock sold	575,000	58,000	8,036,000			
Common stock issued	127,000	13,000	2,479,000			
Stock options exercised	19,000	2,000	118,000		(690)	
Common stock issued upon						
conversion of debentures	855,000	85,000	8,587,000			

Balance, December 31, 1983 5,222,000 \$522,000 \$22,068,000 \$12,632,000 0

Notes to the Consolidated Financial Statements

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 packages are recognized after substantial completion of the Company's obligations under the terms of its contracts. Revenues from maintenance contracts are recognized ratably over the term of each contract. Product sales, costs of products 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.

Costs in excess of net assets of subsidiaries acquired are being amortized over forty-year periods. Accumulated amortization aggregated \$494,000 and \$174,000 at December 31, 1983 and 1982, respectively.

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 \$5,254,000 and \$2,590,000 at December 31, 1983 and 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 \$2,753,000 (1983), \$1,986,000 (1982) and \$1,151,000 (1981).

Costs of software product enhancements with an established market are deferred and amortized over their estimated useful lives, generally five years.

Software products at December 31, 1983 include \$3,758,000 arising from the purchase of subsidiaries and are stated net of accumulated amortization of \$737,000.

Primary net income per share is based on the weighted average number of shares of common stock outstanding, adjusted for a three-for-one split paid October 1, 1981. Dilution resulting from stock options outstanding is not significant. Fully diluted net income per share assumes conversion on January 1, 1983 of all convertible debentures into common stock; for this calculation net income is increased by the after tax interest of the debentures.

Note B - Fixed Assets:	•	
December 31,	1983	1982
Fixed assets consist of:		
Furniture and equipment	\$2,898,000	\$1,606,000
Computer equipment	1,497,000	1,103,000
Capitalized equipment leases	136,000	451,000
Leasehold improvements	470,000	241,000
	5,001,000	3,401,000
Less: accumulated depreciation and amortization	1,742,000	1,052,000
	\$3,259,000	\$2,349,000

Accumulated amortization of capitalized leases aggregated \$38,000 and \$156,000 at December 31, 1983 and 1982, respectively.

Note C - Notes Payable

Notes payable at December 31, 1983 and 1982 include amounts payable to banks under lines of credit, in the amounts of \$5,200,000 and \$982,000, respectively and notes to former stockholders of two companies acquired in 1983 of \$5,430,000 (See Note K).

At December 31, 1983 and 1982, the Company and its subsidiaries had lines of credit with various banks aggregating \$8,500,000 and \$9,350,000 respectively, with interest ranging from prime (at December 31, 1983) and 0% to 2-1/2% (at December 31, 1982) above the banks' prime lending rates. The weighted average interest rate at December 31, 1983 and 1982 was 11.0% and 11.6% respectively.

Short-term borrowings averaged (on a month-end basis) \$2,106,000 (1983), \$767,000 (1982), and \$500,000 (1981) at a monthly weighted average interest rate of 10.8%, 15.3%, and 20.8%, respectively. The maximum amount of short-term borrowings at any month-end was \$5,200,000 (1983), \$1,672,000 (1982) and \$930,000 (1981).

Note D - Long-Term Debt:		
December 31,	1983	1982
Long-term debt consists of the following:		
12% convertible subordinated debentures		\$ 9,435,000
Other, principally capital lease obligations	\$415,000	653,000
	415,000	10,088,000
Less: current maturities	194,000	222,000
	\$221,000	\$ 9,866,000

During October 1982 the Company, through a public offering, issued \$10,000,000 of its 12% convertible subordinated debentures due 2002. The debentures which were convertible into common stock of the Company at any time prior to maturity at \$11 per share, were called for redemption by the Company on October 1, 1983.

Maturities of the non-current portion of long-term debt at December 31, 1983 are as follows:

1985	\$121,000	
1986	62,000	
1987	15,000	
1988	16,000	
1989 and thereafter	7,000	
	\$221,000	

In February 1984, the Company increased its credit facilities to \$25,000,000. The facility, which is at prime, is comprised of a \$15,000,000 5 year term loan and a \$10,000,000 revolving credit agreement funding into a 3 year term loan. The agreement prohibits cash dividends and requires that the Company maintain several financial ratios, including a limitation on the ratio of total liabilities to net worth. This credit facility is intended to supercede all of the Company's previous credit arrangements (See Note C).

Note E - Income Taxes:			
The provisions for income taxes consist of the following:			
Years ended December 31,	1983	1982	1981
Currently payable:			
Federal	\$1,731,000	\$1,216,000	\$ 389,000
State and local	780,000	470,000	244,000
	2,511,000	1,686,000	633,000
Deferred:			
Federal	2,228,000	615,000	843,000
State and local	326,000	49,000	111,000
	2,554,000	664,000	954,000
	\$5,065,000	\$2,350,000	\$1,587,000

Deferred income taxes arose principally from the reporting of income on the cash basis of accounting for income tax purposes.

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:

Years ended December 31,	1983	1982	1981
Provision computed at the Federal statutory income tax rate	\$4,968,000	\$2,325,000	\$1,623,000
State and local income taxes, net of Federal tax benefit	597,000	281,000	192,000
Research and development credit	(320,000)	(220,000)	(73,000
Investment tax credit	(356,000)	(68,000)	(108,000
Other	176,000	32,000	(47,000
As Reported	\$5,065,000	\$2,350,000	\$1,587,000

Note F - Accounts Payable and Accrued Liabilities:		
Accounts payable and accrued liabilities consist of:		
December 31,	1983	1982
Accounts payable to vendors	\$ 9,620,000	\$3,931,000
Accrued interest and withheld payroll taxes	238,000	475,000
Accrued payroll, vacation and bonus expenses	2,669,000	1,178,000
Other	1,927,000	1,335,000
	\$14,454,000	\$6,919,000

Note G - Stock Plans:

During 1982, the Company adopted an incentive stock option plan ("ISOP") which authorized the granting of options for 250,000 shares. The options may be granted at not less than the market price of the shares at date of grant and are generally exercisable over a 10 year period. At December 31, 1983, options for 174,765 shares were outstanding under the ISOP.

During 1982, the Company's 1974 qualified stock option plan was terminated. At December 31, 1983 options for 9,500 shares remain outstanding under this plan.

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 expired in 1982 is as follows:

	Number of Shares		
Years ended December 31,	1983	1982	1981
Shares under option at beginning of period (\$.50-\$10.00 a share)	123,430	25,500	85,800
Granted (\$3.50-\$28.75)	106,446	102,430	16,500
Exercised (\$.50-\$10.00)	(19,847)	(2,400)	(76,800)
Cancelled (\$.53-\$16.00)	(25,764)	(2,100)	37,1-1,0-1,0-1
Shares under option at end of period (\$.50-\$28.75 a share)	184,265	123,430	25,500

At December 31, 1983 and 1982 options for 23,213 and 8,500 shares, respectively, were exercisable.

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

During 1983, the Company adopted an employee stock purchase plan (ESPP) which authorizes the granting of 250,000 shares of stock to all full-time employees of the Company and its subsidiaries at price not less than 85% of the market value at date of grant. Options to purchase 50,000 shares under this plan were authorized of which 33,363 shares at \$17.75 per share had been subscribed to as of December 31, 1983. Shares are issuable at the termination of the purchase period, August 31, 1984, to all employees then remaining in the plan.

During 1983, the Company adopted an employee stock ownership purchase plan under which all qualified employees of the Company and its subsidiaries are granted shares of stock equal in value to .5% of their annual compensation. In connection with this plan, an expense of \$134,000 was reflected in the statement of income for the year ended December 31, 1983.

Note H - Commitments:

The Company is obligated under operating lease agreements, for its offices, warehouse facilities, and other equipment. In addition, the Company leases equipment under capital leases. A number of leases require that the Company pay additional rents due to increased operating costs to the lessor. The minimum aggregate rentals payable under all operating leases at December 31, 1983 are as follows:

1984	\$1,728,000	
1985	1,555,000	
1986	1,252,000	
1987	1,103,000	
1988	678,000	
1989 and beyond	576,000	
	\$6,892,000	

The future minimum lease payments at December 31, 1983 under the capital leases, together with the present value of the net minimum lease payments, are as follows:

\$159,000	
138,000	
57,000	
354,000	
68,000	
\$286,000	
	138,000 57,000 354,000 68,000

Total rental expense charged to income approximated \$1,760,000 (1983), \$1,011,000 (1982) and \$460,000 (1981). Independent financial institutions provide financing for some purchases of microcomputers for customers, which under certain conditions must be repurchased by the Company. Repurchases made under these agreements amounted to approximately \$32,000 during 1983.

Note I - Profit Sharing:

The Company has profit sharing plans covering substantially all employees of the parent and certain of its subsidiaries. The annual contributions under the plans are determined by the Board of Directors. Such contributions amounted to \$198,000 (1983), \$221,000 (1982) and \$234,000 (1981). Profit sharing contributions are funded as accrued.

Note J - 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 K - Businesses Acquired:

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 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 \$342,000) and by investing \$562,000 directly into Micro Distributors, Inc. In 1983, the Company further increased its investment in Micro Distributors, Inc. to 100% by purchasing for 123,000 shares of Common Stock (market value \$2,381,000) the interests of certain minority shareholders. 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 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 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.

In September 1982, the Company purchased for \$2,000,000 in cash and 240,000 shares of Common Stock (market value \$1,281,000) all the common stock of Atlantic Software, Inc., which designs, manufactures and licenses proprietary software products.

In March 1983, the Company agreed to acquire all the issued and outstanding shares of stock of Microamerica Distributing Co., Inc. which is an independent distributor of microcomputers, peripherals and software. On March 22, 1983 the Company closed on the purchase of the stock for \$3,900,000 in cash and notes payable of approximately \$1,400,000 due on January 3, 1984.

In June 1983, the Company purchased for approximately \$7,179,000 (of which \$3,915,000 is payable in April 1984) DISC, Inc., which designs proprietary software products. The purchase agreement calls for additional payments if pre-tax income, as defined, exceeds certain minimum amounts during the three year period following acquisition; under this aspect of the agreement an additional \$589,000 was accrued at December 31, 1983.

Except as noted above, these acquisitions 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 approximate \$16,700,000 and is being amortized over forty-year periods.

The unaudited pro forma consolidated results of operations of the Company as if Micro Distributors, Inc., Erdman, Anthony Associates and Atlantic Software, Inc. had been acquired on January 1, 1981 and Microamerica Distributing Company, Inc. and DISC, Inc. had been acquired on January 1, 1982 are as follows:

Years ended December 31,	1983	1982	1981
Revenues	\$155,400,000	\$113,047,000	\$49,499,000
Cost of services and product sales	117,467,000	85,593,000	32,811,000
Selling, general and administrative expenses	27,193,000	22,203,000	13,382,000
Income taxes	5,053,000	2,638,000	1,552,000
Net income	5,687,000	2,613,000	1,754,000
Net income per share			
Primary	1.21	.74	.53
Fully diluted	1.16	.74	.53

Note L - Quarterly Financial Information

Unaudited quarterly financial data for the 1983 year is as follows:

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Revenues	\$25.016.000	\$35.536.000	\$38,775,000	\$46.584.000
Gross profit	6,232,000	8,333,000	9,821,000	11,580,000
Net income	938,000	1,091,000	1,560,000	2,196,000
Net income per share*	.23	.24	.34	.44

^{*}Net income per share would have decreased by \$.02, \$.01, and \$.02 in the first three quarters, respectively, had the convertible subordinated debentures been converted as of January 1, 1983.

Note M - Company Operations		of to an fallance		
Information about the Company's operations (principally fro	Services and Software Packages	Microcomputer And Other Products	Cons	olidated
Year Ended December 31, 1983:	2211121212130			
Revenues	\$53,773,000	\$91,515,000	\$145	288.000
Operating profit	\$ 9,733,000	\$ 2,714,000	.00.00.0000	447.000
General and corporate expenses Interest income Interest expense	\$ 9,733,000	5 2//14,000	(1,	,237,000 623,000 (983,000
Income before income taxes				850,000
Identifiable assets:			+ 10	030,000
Operations	\$32,737,000	\$33,617,000	\$ 66,	354,000
Corporate (principally cash and temporary investments)			2,	499,000
Total			\$ 68,	853,000
Addition to fixed assets	\$ 562,000	\$ 769,000	\$ 1.	331,000
Depreciation and amortization of fixed assets	\$ 622,000	\$ 353,000	\$	975,000
Year ended December 31, 1982:	and a subjection			
Revenues	\$37,203,000	\$27,493,000	\$ 64.	696,000
Operating profit	\$ 4,804,000	\$ 1,496,000	\$ 6,	300,000
General and corporate expenses Interest income Interest expense				034,000 330,000 762,000
Income before income taxes			\$ 4,	834,000
Identifiable assets: Operations	\$19,560,000	\$ 7,507,000	\$ 27.	067,000
Corporate (principally cash and temporary investments)			6.	733,000
Total			\$ 33,	800,000
Addition to fixed assets	\$ 448,000	\$ 332,000	\$	780,000
Depreciation and amortization of fixed assets	\$ 456,000	\$ 80,000	\$	536,000
Year ended December 31, 1981:				
Revenues	\$25,701,000	\$12,911,000	\$ 38,	612,000
Operating profit	\$ 3,649,000	\$ 702,000	\$ 4,	351,000
General and corporate expenses Interest income Interest expense				810,000 161,000 319,000
Income before income taxes			\$ 3,	383,000
Identifiable assets – operations	\$10,647,000	\$ 4,395,000	\$ 15,	042,000
Additions to fixed assets	\$ 849,000	\$ 131,000	\$	980,000
Depreciation and amortization of fixed assets	\$ 179,000	\$ 25,000	\$	204,000

The Company operates in two industries: Computer services and software packages and distribution of microcomputers and other products.

Revenues to a group of customers under common control were \$14,909,000 and \$179,000 (1983), \$9,719,000 and \$853,000 (1982), and \$5,911,000 and \$856,000 (1981) of the revenues of the services and microcomputer segments, respectively.

Note N - Subsequent Events

In January 1984, the Company acquired Software Design Associations, Inc. (SDA), a software services company head-quartered in New York City, for \$12,700,000. The unaudited pro forma consolidated revenues and net income of the Company as if SDA had been acquired on January 1, 1983 would have been \$166,111,000 and \$5,541,000, respectively.

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, 1983 and 1982, and the related consolidated statements of income, stockholders' equity and changes in cash position for the years ended December 31, 1983, 1982 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 statements of income, stockholders' equity and changes in cash position for the year ended December 31, 1981 of International Systems, Inc. (ISI), a consolidated subsidiary, which statements reflect total revenues constituting 13 percent 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 related to the amounts included for ISI, is based solely upon the report of the other auditors.

In our opinion, based upon our examinations 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, 1983 and 1982 and the consolidated results of their operations and changes in their cash position for the years ended December 31, 1983, 1982 and 1981, in conformity with generally accepted accounting principles applied on a consistent basis.

Newark, New Jersey February 24, 1984 Coopers & Lybrand

Stock Market Information

	Bid Pr	Bid Price	
	High	Low	
Year ended December 31, 1983:			
First Quarter	\$21.25	\$14.00	
Second Quarter	29.25	15.50	
Third Quarter	31.50	25.00	
Fourth Quarter	28.75	23.25	
Year ended December 31, 1982:			
First Quarter	\$ 9.88	\$ 8.50	
Second Quarter	10.00	9.00	
Third Quarter	9.75	7.25	
Fourth Quarter	18.50	9.25	

The table sets forth the quarterly high and low bid prices for the Common Stock since January 1, 1982 and closing sale prices since May 10, 1983.

The Company has not paid any cash dividends since 1972 and does not have current plans for the payment of cash dividends. The present policy of the Company is to reinvest earnings in the operation and expansion of its business.

The Company's Common Shares are traded in the Over-the-Counter market (NASDAQ National Market, Symbol AGSC).

The table sets forth the quarterly high and low bid prices for the Common Stock since January 1, 1982 and closing sale prices since May 10, 1983.

Form 10-K Available

A Form 10-K Annual Report is filed with the Securities and Exchange Commission that contains certain additional information. A copy of this Form 10-K may be obtained without charge by any shareholder upon written request to: Shareholder Relations, AGS, 1139 Spruce Drive, Mountainside, New Jersey 07092.

Transfer Agent

Registrar & Transfer Company, 10 Commerce Drive, Cranford, New Jersey 07016

AGS Computers, Inc.

Corporate Officers and Directors

Lawrence J. Schoenberg

Chairman, Chief Executive Officer, Treasurer and Director

Peter Graf

Director, Managing Partner, Joseph Graf & Company, C.P.A.'s

Joseph Abrams President, Chief Operating Officer, Secretary and Director

Arnold H. Kroll
Director, Managing Director
L.F. Rothschild, Unterberg, Towbin
Investment Bankers

Divisional Officers

Software Products

Anthony F. Stepanski

Executive Vice President

and Director

Executive Officers

Albert M. Harris Joseph S. Herbets H. Allen Luray Richard W. Thatcher, Jr.

Operating Management

Michael Berry Margaret Brosso Harvey Dennenberg Stanley Kopp Michael Marcus Gerald Markowitz John Snyder Elizabeth Stevens James Sullivan

Systems Development

Executive Officers

Anthony F. Stepanski Edwin L. Anthony Russell Dunkle, Jr. Paul B. Erdman Jay N. Goldberg Seth A. Hanover Kurt Hurst David Levine

Operating Management

Martin Aronow John Berrigan Allan L. Blake Jonathan Burley Martin Cook Ronald Episcopo Richard Hampson Richard Huntley Mario Incalicchio Douglas Jerger James Kane William Kirschner John Kridel Frances R. Mann Abbate S. Potenza Paul Rosenthal Robert Trocchio Richard Walsh

Distribution

Executive Officers

Gordon B. Hoffstein Michael Kolba H. Dennis Moore

Operating Management

Paul Barker
Peter Brumme
John Connors
Douglas Johnson
Armen Kachoogian
Raymond McGovern
Karen Minardi
Robert Muccini
Kenneth Perrin
Jack Littman-Quinn

AGS Computers, Inc. & Subsidiaries

Systems Development

AGS Systems Development 1139 Spruce Drive Mountainside, New Jersey 07092

Eastern Design Co., Inc. 30 Glenn Street White Plains, New York 10603

Erdman, Anthony and Associates, Inc. 242 Andrews Street Rochester, New York 14604-0589

PHD Systems, Inc. 12 Lakeside Office Park Wakefield, Massachusetts 01880

SDA Federal Systems, Inc. 7500 Greenway Center Drive Greenbelt, Maryland 20770

Software Design Associates, Inc. 71 Fifth Avenue New York, New York 10003

Software Products

AGS Management Systems, Inc. 880 First Avenue King of Prussia, Pennsylvania 19406

DISC, Inc. 3837 Naylors Lane Baltimore, Maryland 21208

Distribution

AGS System Forms, Inc. 1139 Spruce Drive Mountainside, New Jersey 07092

Microamerica Inc. 1377 Main Street Waltham, Massachusetts 02154

SoftwareAmerica, Inc. 5001 H Forbes Boulevard Lanham, Maryland 20706

Offices

Arizona (Phoenix) California (Los Angeles, Carson, San Francisco) Colorado (Denver) Connecticut (Bridgeport, Farmington, Norwalk) Florida (Tampa, Orlando) Georgia (Atlanta, Norcross) Illinois (Chicago, Oak Brook, Schaumburg) Maryland (Baltimore, Greenbelt, Lanham, Rockville) Massachusetts (Framingham, Wakefield, Waltham) Minnesota (Minneapolis) New Jersey (Mountainside, Union) New York (East Fishkill, Garden City, Jericho, New York City, Rochester, White Plains) Pennsylvania (Harrisburg, King of Prussia, Philadelphia) Texas (Dallas, Richardson) Virginia (Arlington) Washington, D.C.

Great Britain Switzerland

Representatives in 20 additional cities.

