

*"Our goal is to be the number
one company in delivering automation
solutions to the finance, telecommunications
and computer industries. We have the technical
skill, market position, management depth
and financial resources to achieve it."*

AGS Computers, Inc.
1985 Annual Report

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CORPORATE PROFILE

AGS Computers, Inc. provides automation solutions to the telecommunications, finance and computer industries. Offering commercial systems development services, software products and microcomputer distribution, the company is a leader in each of the market niches in which it operates.

FINANCIAL HIGHLIGHTS

	<u>1985</u>	<u>1984</u>	<u>% Increase</u>
Sales	\$279,182,000	\$221,631,000	26.0%
Net income	7,493,000	5,839,000	28.3
Net income per share	\$1.43	\$1.11	28.8

TO OUR SHAREHOLDERS

Dear Shareholder:

In 1985, we achieved another record year for earnings and revenues — the seventh consecutive year in which both earnings and revenues exceeded the previous year's level.

We are especially proud of our record performance during a year that provided a number of challenges. We grew considerably in 1985, and we believe the record results show the fundamental strength of our business.

Looking Forward To 1986

We remain committed to being the leading company in delivering automation solutions to the telecommunications, finance and computer industries. Though we enter 1986 with some concerns over the economic environment, we are confident that we are well-positioned to achieve continued success. There are several fundamental reasons for our confidence:

- The business we are in and the functions we perform are part of an industry projected to grow much faster than the economy as a whole.
- The industries we serve are among the fastest-growing in our economy, and our clients are the premier companies within those industries.
- We have built leadership positions in the markets we serve, while our overall market share is small enough to permit substantial opportunities for growth.
- We have a strong management team, and the capital to finance our continued growth.

In the coming year, we plan to continue our focused acquisition program. Since 1978, we have consistently pursued complementary acquisitions that move us towards our goal of providing truly comprehensive automation solutions.

Two acquisitions made after year-end illustrate the pattern we continue to follow:

Through Microamerica, our microcomputer distribution subsidiary, we have agreed to acquire Compuserve, Canada's

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largest distributor of microcomputer products. The combined entity will broaden Microamerica's market leadership, and will also provide the foundation for expansion into other international markets.

We have also agreed to purchase Genasys Corporation, a systems development company that serves the Federal government market. This will give us efficient and timely access to a new market for our systems development services. This market is estimated to be almost as large as the commercial markets we already serve.

Some 1985 Accomplishments

In 1985, Microamerica maintained and extended its position as the nation's preeminent distributor of microcomputer related products. Named by a respected computer publication as the number one company in its field, it continued to demonstrate its special management strengths by posting large profit gains during a year that proved extremely difficult for most of its competitors. The acquisition of CompuServe will enable our distribution subsidiaries to become an even more important resource to microcomputer suppliers faced with delivering a flood of new products to a highly fragmented market.

During 1985, we continued to build our systems development skills, while broadening the range of services we provide to a growing array of clients. At the same time, we developed some promising software products as an outgrowth of our systems development work.

One such product is a Risk Asset Management System (RAMS) developed by our Software Design Associates subsidiary.



*Lawrence J. Schoenberg (r.)
Chairman,
Chief Executive Officer*

*Joseph Abrams
President,
Chief Operating Officer*

Currently in use by two major New York banks, RAMS is a highly integrated on-line database management system that allows immediate access to information about the risk exposures of bank portfolios.

Our software products offer a number of opportunities for us to gain leverage from our technical skills and from our broad applications experience in systems development. We will discuss further the connections between our software products and our systems development services within the annual report's narrative section.

During the year, we maintained and expanded our relationships with key clients such as AT&T and IBM, as well as with other large computer companies and major financial institutions.

We continued to broaden our corporate presence by opening five new offices in 1985. We also substantially expanded the executive staff within our corporate offices and within our operating companies. Both steps represent an investment in our ability to continue growing profitably.

Our sales passed \$279 million in 1985, with more than \$117 million coming from software and systems development, and \$161 million from microcomputer distribution. Sales grew \$58 million last year — an amount that by itself places us among the largest companies in the computer services industry.

As we have grown to our present size, we have created leadership positions in all the markets we serve. We continue to find that many of our corporate skills are transferable within each market, allowing us to provide a wider range of services and products to each of them.

Our size often serves as a distinct advantage when we are competing for large projects. Our market position also insulates us somewhat from market forces that might affect more severely some competitors who occupy a secondary position. In addition, our participation in several different markets provides a measure of protection from forces at work in any one of the individual markets — a kind of portfolio effect which

has proven to be helpful in maintaining our pattern of consistent growth.

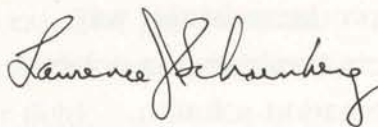
Looking At Our Record

Our operating results reflect a pattern of rapid and consistent growth. Over the past five years, net profits have grown at a 67% annual rate, and in 1985, our return on shareholders' equity was 36% pre-tax.

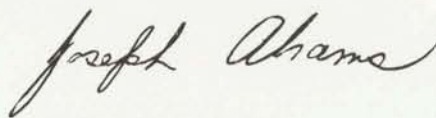
Perhaps most important, our growth has been carried out in a careful and understandable manner. We have set meaningful goals, and have consistently met or exceeded them. Simply put, we've done what we've said we would do.

We attribute our accomplishments in large measure to our 2,300 skilled and enthusiastic staff members. They can all be proud of AGS's continuing record of success, and we thank them for their efforts. We also want to add our thanks to our customers and to our shareholders for their continuing support.

Yours sincerely,



Lawrence J. Schoenberg
*Chairman,
Chief Executive Officer*



Joseph Abrams
*President,
Chief Operating Officer*

SOFTWARE

AGS Computers helps companies make more effective use of their computer systems by providing professional services for systems development, as well as software products that have been designed to suit the special needs of our clients.

Our role has evolved as businesses' needs for improved management information have evolved. Our growth has been further stimulated as large companies have implemented end-user front-office applications which inevitably require that their data processing solutions meet their specific needs more closely. In fact, the largest companies with the most sophisticated data processing operations are exactly the companies that continually require new and more advanced solutions. These large and advanced data processing users are at the heart of the key markets we serve — the telecommunications, finance and computer industries.

Our systems development work accounts for the majority of our revenues in this \$117 million sector of our business, and makes us one of the largest professional services companies in the commercial custom-development area. The skills we bring to bear on systems development also create parallel opportunities in the use of our software products. In this way, AGS's services and software products combine in a cohesive approach to provide an overall automation solution.

Systems Development And Software Products: The Interplay

We continue to seek and develop opportunities to gain leverage from our technical expertise and broad applications experience. There are many examples of this leverage in the interplay between our systems development work and the development of software products.

Our special expertise in building large-scale, high-transaction information processing systems has led to many long-term systems development relationships with the country's largest banks.

REVENUES
Software (\$ Millions)

