
TWENTY
YEARS OF
ACHIEVEMENT...

AGS

1986 ANNUAL REPORT

Corporate Profile

AGS' 3,000 people provide automation solutions to finance, telecommunications, computer and government organizations.

To develop the right solutions for our clients, we provide an extensive portfolio of:

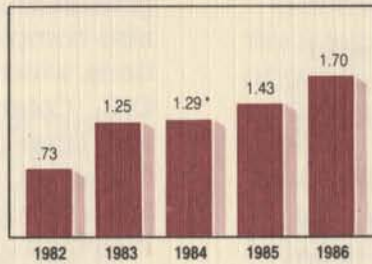
- A. Systems Development and Consulting Services
- B. Software Products and
- C. Microcomputer Distribution Services

AGS is pleased to be recognized as a leader in each of its market niches. For AGS, being a leader means always striving to be the best at what we do, and this continues to be our goal.

Revenues
(\$ in 000's)



Earnings Per Share



*Continuing Operations

Total Assets
(\$ in 000's)



Our People

Our greatest strength for the future is of course our "AGS People". At AGS, we believe the difference is people – our management talent, our dedicated staff and our organization philosophy.

We believe we have a management structure that is well prepared to lead AGS into the 1990's. Executive management has been with the Company since its founding; senior management averages 15 years of experience in the computer services industry; more than 90% of the executives who have joined AGS as a result of acquisitions are still with us. Our operating units are entrepreneurial and profit oriented.

Today AGS people own 40% of the outstanding shares of AGS and are committed to increasing the value of the Company by serving our clients to the best of our ability.



Left to Right:
Joseph Abrams, Lawrence J. Schoenberg

We offer special thanks to our "AGS people", our clients and our shareholders for their contribution to AGS' first twenty years. In the text of this annual report, we describe the strategies that shaped our success in the past and the actions that were responsible for our record performance. It's these strategies that will provide our continuing growth in the years ahead.

Yours sincerely,

LAWRENCE J. SCHOENBERG
*Chairman,
Chief Executive Officer*

JOSEPH ABRAMS
*President,
Chief Operating Officer*

February, 1987

WHO WE ARE

Our Philosophy

The people of AGS have a very straightforward philosophy of doing business.

- **Provide the 'Right' Services!**

For AGS this means

- solving important problems for major clients in growing markets.

- providing cost effective and truly value-added solutions.

- recognizing that its clients have a complex variety of problems which can best be solved with an extensive variety of custom and package solutions.

- **Provide Services 'Right'!**

For AGS this means

- having the right resources...
(people and capital)

- bringing innovative technologies and concepts to the markets it serves, and

- deploying an effective operating style (entrepreneurial, hands-on, close to the client).

- **Strive to be the Best!**

For AGS this means understanding what our clients want, thereby doing our best on their behalf.

Our History

Thanks to our clients, staff and investors, AGS has achieved notable success in its first twenty years.

- In 1967, AGS started with one employee and generated \$51,000 in revenues.
- In 1980, 300 employees generated \$17,000,000.
- In 1986, 3000 people in sixty offices generated \$382,000,000 in revenues.
- Operating profits grew to over \$25,000,000 during this period.

Throughout our first twenty years, we established and followed business princi-

ples that were important and fundamental to achieving our success. These are:

Provide Quality Service

- Solve important problems for clients – 'those that are money-makers'. (This often means building strategic or 'mission-critical' systems for our clients.)
- Build on proven success, i.e., leverage successful markets, clients, services, products and technology.
- Attract and retain superior professional staff.

Maintain Financial Stability and Consistency

- Develop significant business from current clients.
- Focus on clients in growth markets.
- Set realistic plans – short and long range.
- Strive to achieve controlled growth, above the average rate for the total computer services industry.

Make Appropriate Acquisitions

- Strive to achieve proper balance of growth – between internal operations and acquisitions.
- Acquire firms which:
 - meet investment criteria
 - provide complementary products and services
 - Increase AGS' market share
- Work to make acquisitions successful – don't just assume they will be.

How Well Has AGS Stuck To Its Principles?

The record speaks for itself –

Quality Service

- Advanced communication networks, integrated manufacturing systems, cash management systems and unique stock bond trading systems are but a few examples of 'money-making' solutions AGS has recently provided clients.

- At AGS we believe in innovation. We also believe in building on proven success. For example, our successful consulting work at AT&T led us to acquiring Systems Strategies, a communications software firm who subsequently built sophisticated networking software for AT&T. Our successful consulting work with banks and brokerage firms led to the acquisitions of DISC and Vista Concepts, unique specialists in these markets.
- The cover of our first brochure in 1967 defined AGS' people orientation with the following quote: "At AGS, the difference is people." Today that quote is even more applicable. That is why the Company has dedicated significant resources and programs to locating and retaining quality people.

Financial Stability and Consistency

- Current clients provide more than 90 percent of our software business. Our largest have been clients for over ten years.
- Our primary markets – telecommunications, computers, financial (banking, brokerage, insurance), and government are all significant growth markets. Our typical clients – e.g., AT&T, ITT, IBM, DEC, Citicorp, Chase-Manhattan, Merrill-Lynch, Morgan Guaranty, Prudential, Guardian Life, etc. are the leaders in their fields.
- Our revenue growth has been steady at an average compound rate of 58 percent for the last five years; our profits grew at a 37 percent rate for the same period. AGS' average pretax return on investment during this period has been 40 percent. All of these well exceed industry norms. Existing operations have been the foundation for our growth. Carefully selected acquisitions which complement these operations have contributed consistent incremental growth in both

revenues and profits to that foundation.

- Realistic plans are vital to the success of any organization. To AGS, this means setting annual and long range goals which are "a bit of a stretch" but are achievable. It also means not overextending your organization. For example, in 1980 when AGS was a \$17,000,000 company, executive management believed the computer services market offered a significant growth opportunity without taking on undue risk. They assessed the situation and believed AGS could become a \$200,000,000+ company by 1985. In fact AGS achieved more than \$275,000,000 in revenues that year.

Make Appropriate Acquisitions

- To help our acquisitions succeed, AGS relies on three principles:
 1. Give the entrepreneurs running the acquisitions as much freedom and flexibility as possible to build on the success which attracted AGS to them initially.
 2. Provide corporate financial and marketing support whenever appropriate.
 3. Work to leverage the capabilities between the acquisitions and current AGS units to capitalize on solid market opportunities.
- AGS' acquisition program began in 1978 and since that time, we have acquired 15 companies. All of the acquisitions involved privately owned companies and all except one were cash transactions. The results of this approach have been impressive. Every significant acquisition has grown since joining AGS. Our two largest acquisitions have together increased revenues and profits by 2 1/2 times in the past three years and have had a very positive effect on earnings per share.

