As filed with the Securities and Exchange Commission on October 6, 1982

Registration No. 2-77497

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

AMENDMENT NO. 2

TO

FORM S-1

REGISTRATION STATEMENT

UNDER

THE SECURITIES ACT OF 1933

AGS COMPUTERS, INC.

(Exact name of registrant as specified in charter)

1135 Spruce Drive
Mountainside, New Jersey 07092
(201) 654-4321

(Address of principal executive offices)

LAWRENCE J. SCHOENBERG,
Chairman of the Board of Directors
AGS Computers, Inc.
1135 Spruce Drive
Mountainside, New Jersey 07092

(Name and address of agent for service)

Copies to:

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Approximate date of commencement of proposed sale to the public:
As soon as practicable after the Registration Statement becomes effective.

CALCULATION OF REGISTRATION FEE

Title of each class of securities being registered	Amount being registered	Proposed maximum offering price(1)	Proposed maximum aggregate offering price(1)	Amount of registration fee
12% Convertible Subordinated Debentures Due 2002	$10,000,000	100%	$10,000,000	$2,000(2)
Common Stock, $.10 par value ...	(3)	—	—	—

(1) Estimated solely for purposes of calculating the registration fee.
(2) $3,630 was paid upon filing of the Registration Statement on May 13, 1982.
(3) Such indeterminate number of shares as may be issuable upon conversion of the Debentures, including such additional shares as may be issuable as a result of adjustments to the conversion rate.

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the Registration Statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

PROSPECTUS

AGS COMPUTERS, INC.

$10,000,000

12% Convertible Subordinated Debentures Due 2002

Interest Payable on April 1 and October 1 in Each Year

The Debentures are convertible into Common Stock of the Company at any time prior to maturity, unless previously redeemed, at $11 per share, subject to adjustment under certain conditions. There is only a limited market for the Common Stock of the Company, which is traded in the over-the-counter market on the NASDAQ system under the symbol AGSC. On October 5, 1982, the closing bid price of the Common Stock as reported by NASDAQ was $9.25. The Debentures are redeemable on or after October 1, 1983, are subject to the benefits of a sinking fund, and are subordinated as described herein under "Debentures".

It is anticipated that the Debentures will be traded in the over-the-counter market, but will not be quoted in the daily over-the-counter market listing of NASDAQ.

THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION NOR HAS THE COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

	Price to Public(1)	Underwriting Discounts and Commissions(2)	Proceeds to Company(1)(3)
Per Debenture	100%	4%	96%
Total	$10,000,000	$400,000	$9,600,000

(1) Plus accrued interest, if any, from October 14, 1982.

(2) See "Underwriting".

(3) Before deducting expenses estimated at $380,000.

The Debentures are offered by the Underwriter subject to receipt and acceptance of such Debentures by it. The Underwriter reserves the right to reject any order in whole or in part. It is expected that delivery of the Debentures will be made against payment therefor on or about October 14, 1982.

L.F. ROTHSCHILD, UNTERBERG, TOWBIN

The date of this Prospectus is October 6, 1982.

No dealer, salesperson or other person has been authorized to give any information or to make any representation not contained in this Prospectus in connection with the offer made hereby. If given or made, such information or representation must not be relied upon as having been authorized by the Company or the Underwriter. This Prospectus does not constitute an offer to any person in any jurisdiction where such an offer would be unlawful. Neither delivery of this Prospectus nor any sale made hereunder shall under any circumstances create an implication that information contained herein is correct as of any time subsequent to the date hereof.

Until January 4, 1983, all dealers effecting transactions in the Debentures offered hereby, whether or not participating in this distribution, may be required to deliver a Prospectus. This delivery requirement is in addition to the obligation of dealers to deliver a Prospectus when acting as underwriters and with respect to their unsold allotments or subscriptions.

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IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE DEBENTURES OFFERED HEREBY OR THE COMMON STOCK OF THE COMPANY AT LEVELS ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

PROSPECTUS SUMMARY

This summary is qualified in its entirety by the more detailed information and consolidated financial statements appearing elsewhere in this Prospectus.

The Offering

Summary of Terms of Debentures

Conversion Price: $11.00 principal amount of Debentures per share, subject to adjustment.

Subordination: The Debentures will be subordinated in right of payment to the prior payment in full of all Superior Indebtedness of the Company now outstanding or hereafter incurred.

Redemption: The Debentures are redeemable at the option of the Company, as a whole or from time to time in part, during the period beginning October 1, 1983, and ending September 30, 1984, at 110.91% of the principal amount thereof and at decreasing prices through September 30, 1993, and thereafter at 100% of the principal amount thereof, together in each case with accrued interest.

Sinking Fund: The Company is required on each October 1, commencing on October 1, 1993, to retire $834,000 principal amount of Debentures annually and has the option on each such October 1 to retire up to an additional $834,000. In each case, the Sinking Fund redemption price is the principal amount thereof, together with accrued interest.

Trustee: Midlantic National Bank.

Use of Proceeds

To finance software product development and for general corporate purposes, including repayment of bank loans and acquisitions.

Business

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 providing professional computer software services, the Company develops, from conception through implementation, both systems and application software to meet the complete systems development needs of its customers. The Company provides engineering on both a project basis and on a support basis. The Company's proprietary software products are used for project management applications.

Through Micro Distributors, Inc., its 67% owned subsidiary, the Company is a leading independent distributor of microcomputers, related peripheral equipment and packaged software in the southeastern and mid-Atlantic United States.

Selected Financial Information
(in thousands, except per share data)

Income Statement Data:

	Year Ended December 31,					Six Months Ended June 30,	
	1977	1978	1979	1980	1981	1981	1982
						(unaudited)	
Total revenues	$9,048	$11,776	$15,664	$16,983	$38,773	$16,135	$30,879
Net income	430	362	483	570	1,796	721	1,169
Net income per share	$.14	$.12	$.16	$.19	$.57	$.24	$.35
Average shares outstanding	3,026	2,957	2,962	2,970	3,174	3,016	3,352

Balance Sheet Data:

	December 31, 1981	June 30, 1982	
		Actual	As Adjusted(1)
		(unaudited)	
Working capital	$ 2,518	$ 3,554	$10,046
Tangible assets	12,596	14,906	22,655
Total debt	1,445	3,260	12,043
Stockholders' equity	5,416	6,927	8,208

(1) Adjusted to reflect the sale of the Debentures offered hereby, the anticipated use of a portion of the net proceeds to repay bank loans and the acquisition of Atlantic Software, Inc.

THE COMPANY

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 Company's computer software services consist 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 addition, the Company provides engineering services on a project basis and temporary engineering and technical support staff for large companies. Proprietary software packages designed and marketed by the Company are used by managers in planning and controlling complex projects. The Company, through its 67% owned subsidiary, Micro Distributors, Inc., distributes microcomputer products to computer stores, original equipment manufacturers and systems integrators.

The Company was incorporated in New York in 1967. The Company's principal executive office is located at 1135 Spruce Drive, Mountainside, New Jersey 07092, and its telephone number is (201) 654-4321. Unless the context otherwise indicates, all reference in this Prospectus to the "Company" includes AGS Computers, Inc., its subsidiaries and their predecessors.

USE OF PROCEEDS

The estimated net proceeds of the offering by the Company will be $9,220,000. The Company intends to use such net proceeds as follows: approximately $1,500,000 will be used for software product development; and the balance will be used for general corporate purposes, including (i) repayment of $4,000,000 of outstanding bank debt, principally incurred in connection with acquisitions, and (ii) possible business acquisitions. Although the Company is continuously reviewing acquisitions, it is not engaged in negotiations with regard to any other acquisition and there can be no assurance that such acquisitions will be effected.

Until used for the foregoing purposes, the net proceeds will be invested in short-term, interest-bearing securities.

DIVIDEND POLICY

The Company has not paid cash dividends on its Common Stock since 1972. The present policy of the Board of Directors is to retain earnings to provide funds for the operation and expansion of the Company's business. Accordingly, it is anticipated that no cash dividends will be paid to holders of Common Stock in the foreseeable future. The payment of cash dividends is prohibited under its revolving credit agreement. In addition, payment of cash dividends is restricted under the provisions of the Indenture pursuant to which the Debentures are to be issued. (See "Description of Debentures—Restrictions on Dividends").

CAPITALIZATION

The following table sets forth the capitalization of the Company at June 30, 1982, and as adjusted to give effect to (i) the acquisition of Atlantic Software, Inc. doing business as Atlantic Management Systems ("Atlantic"), including the assumption of debt and the issuance of 240,000 shares of Common Stock of the Company in the acquisition, (ii) the sale of the Debentures offered hereby and (iii) the assumed use of a portion of the net proceeds therefrom to repay a portion of the Company's outstanding bank borrowings (see "Use of Proceeds"):

	Outstanding	As Adjusted
Short-term debt:		
Short-term bank debt(1)	$ 530,000	$ 1,111,000
Current maturities of long-term debt	909,000	272,000
Total short-term debt	$1,439,000	$ 1,383,000
Senior long-term debt (less current maturities):		
Long-term debt(2)	$1,821,000	$ 689,000
Revolving credit notes(3)	—	—
Total senior long-term debt	$1,821,000	$ 689,000
12% Convertible Subordinated Debentures Due 2002	$ —	$10,000,000
Stockholders' equity:		
Common Stock, $.10 par value; 8,000,000 shares authorized; 3,354,700 shares issued; 3,594,700 shares issued as adjusted(4)	$ 335,000	$ 359,000
Additional paid-in capital	1,061,000	2,318,000
Retained earnings	5,532,000	5,532,000
Less treasury stock, at cost: 2,490 shares	1,000	1,000
Total stockholders' equity	$6,927,000	$ 8,208,000

(1) Represents loans of a subsidiary of the Company ($530,000) under an informal line of credit, which can be terminated by the bank at any time and permits borrowing of up to $1,000,000 with interest at the bank's prime lending rate (16½% at June 30, 1982). The Company has a line of credit which will terminate on June 30, 1983, and will permit borrowings of up to $2,250,000, with interest at the bank's prime lending rate. The as adjusted amount also includes borrowings of Atlantic under lines of credit permitting borrowings of up to $800,000 with interest at 1% above the banks' prime lending rates (16½% at June 30, 1982).

(2) Includes principally three installment notes payable to banks, two of which were repaid on September 21, 1982, with proceeds of borrowings under a revolving credit agreement. The remaining installment note is due in equal monthly installments of $7,000 through May 1, 1987, bears interest at ¾% above the bank's prime lending rate and is secured by certain equipment of the Company.

(3) The Company borrowed $4,000,000 on September 21, 1982, under its revolving credit agreement, $2,000,000 of which was used for the acquisition of Atlantic and $1,792,000 of which was used to repay long-term debt. The Company anticipates using proceeds from the sale of the Debentures offered hereby to repay such borrowings. Under the agreement the Company may, from time to time, borrow up to $5,000,000 through June 30, 1985. On such date the Company's revolving loans may be converted to a term loan payable in quarterly installments through April 20, 1990. The revolving loans bear interest at ½% above the bank's prime rate and the term loan at ¾% above the bank's prime rate. The Company pays a fee of ½% on the unused portion of the revolving credit commitment and has agreed to maintain compensating balances of 5% of the total revolving credit commitment.

(4) Does not include 1,183,691 shares reserved for issuance, including 250,000 shares reserved for issuance pursuant to the Company's Incentive Stock Option Plan (options for 118,350 being outstanding at the date of this Prospectus), 24,600 shares reserved for issuance pursuant to options

(Footnotes continued on following page)

(Footnotes continued from preceding page)

outstanding under a terminated stock option plan and 909,091 shares reserved for issuance upon conversion of the Debentures. (See Note I to Financial Statements of the Company). Also does not include such indeterminate number of shares as the Company may be required to issue to the two principal shareholders of Atlantic based upon increases in earnings of the Company's software products unit. (See "Business—Acquisitions").

(5) See Notes J and O to Financial Statements of the Company for information regarding leases and other commitments.

PRICE RANGE OF COMMON STOCK

On March 31, 1982, there were approximately 244 stockholders of record. During the 12 months ended March 31, 1982, the transfer agent handled approximately 159 transfers of Common Stock representing approximately 275,000 shares, not all of which represented arm's-length transactions. Thus, there has been only a limited market for the Common Stock. The following table sets forth the quarterly high and low bid prices for the Common Stock since January 1, 1980. These quotations are between dealers, do not reflect retail mark-ups, mark-downs or commissions, and do not necessarily represent actual transactions.

	Bid Price (1)	
	High	Low
1980:		
1st Quarter	$1.67	$1.17
2nd Quarter	1.33	1.17
3rd Quarter	2.17	1.33
4th Quarter	3.00	1.88
1981:		
1st Quarter	3.00	2.67
2nd Quarter	5.33	2.83
3rd Quarter	7.00	4.67
4th Quarter	8.50	6.50
1982:		
1st Quarter	9.88	8.50
2nd Quarter	10.00	9.00
3rd Quarter (through October 5)	9.75	7.25

A recent bid price for the Common Stock is set forth on the cover page of this Prospectus.

(1) Bid prices since June 9, 1982, are as reported by the NASDAQ and from January 1, 1982, to June 9, 1982, are as reported by the National Quotation Bureau, Incorporated. Prior to January 1, 1982, they were collected by the Company from quotations appearing in the Over-The-Counter Pink Sheets and in the Market Chronicle and from W. H. Newbold's Son & Co., Inc., a market-maker for the Common Stock.

SELECTED FINANCIAL DATA

Set forth below is selected financial data with respect to the consolidated statements of income of the Company for the five years ended December 31, 1981, and the six months ended June 30, 1981 and 1982, and the consolidated balance sheets of the Company at December 31 in each of the five years and at June 30, 1982. The financial statements include for all periods the results of International Systems, Inc., acquired in February 1982 in a transaction accounted for as a pooling of interests, and include from the dates of acquisition the operations of Micro Distributors, Inc. (a majority interest in which was acquired in January 1981), Eastern Design Company, Inc. (acquired in February 1981) and a group of affiliated entities, herein referred to as Erdman, Anthony Associates (acquired in January 1982). Such data insofar as it relates to the three years ended December 31, 1981, which has been reported on by Coopers & Lybrand, and the six months ended June 30, 1981 and 1982, is derived from the financial statements included elsewhere herein and is qualified by reference to such financial statements. The financial statements for the six months ended June 30, 1981 and 1982, which have not been examined by independent public accountants, reflect, in the opinion of management, all adjustments (which include only normal recurring adjustments) necessary to present fairly the data for such periods. The Company has not paid any cash dividends in any of the periods for which financial data is presented.

Selected Income Statement Data:
(in thousands, except per share and ratio data)

	Year Ended December 31,					Six Months Ended June 30, (unaudited)	
	1977	1978	1979	1980	1981	1981	1982
Revenues:							
Computer and engineering services	$6,652	$ 8,786	$13,355	$14,830	$25,701	$11,624	$17,554
Microcomputer and other products	2,393	2,949	2,199	2,000	12,911	4,417	13,187
Interest income	3	41	110	153	161	94	138
Total revenues	9,048	11,776	15,664	16,983	38,773	16,135	30,879
Costs and Expenses:							
Cost of computer and engineering services	3,762	5,498	8,947	9,484	15,873	7,308	10,880
Cost of microcomputer and other products	1,824	2,318	1,655	1,483	10,691	3,615	11,045
	5,586	7,816	10,602	10,967	26,564	10,923	21,925
Selling, general and administrative expenses	2,738	3,351	4,053	4,937	8,362	3,640	6,303
Interest expense	18	40	75	51	319	55	206
Total costs and expenses	8,342	11,207	14,730	15,955	35,245	14,618	28,434
Income before income taxes and minority interest	706	569	934	1,028	3,528	1,517	2,445
Income taxes	276	207	451	458	1,587	740	1,159
Minority interest	—	—	—	—	145	56	117
Net income	$ 430	$ 362	$ 483	$ 570	$ 1,796	$ 721	$ 1,169
Net income per share of Common Stock	$ .14	$ .12	$ .16	$ .19	$ .57	$ .24	$ .35
Average shares outstanding	3,026	2,957	2,962	2,970	3,174	3,016	3,352
Ratio of earnings to fixed charges	15.1	7.3	7.0	8.3	8.2	13.9	8.0

Selected Balance Sheet Data:
(in thousands)

	December 31, 1977	1978	1979	1980	1981	June 30, 1982 (unaudite
Working capital	$1,238	$1,438	$1,541	$2,196	$ 2,518	$ 3,554
Tangible assets	2,702	4,290	5,102	5,821	12,596	14,906
Total debt	242	914	455	314	1,445	3,260
Stockholders' equity	1,563	1,938	2,409	2,896	5,416	6,927

Pro Forma Data Reflecting Acquisitions

Set forth below is selected financial data with respect to the pro forma statements of income of th Company, Erdman, Anthony Associates and Atlantic for the year ended December 31, 1981, and th six months ended June 30, 1981, and 1982, and with respect to the pro forma balance sheet of th Company and Atlantic at June 30, 1982. Such data is derived from the pro forma financial statement included elsewhere herein and is qualified by reference to such financial statements. See "Business— Acquisitions" for information regarding Atlantic and the proposed transaction.

Pro Forma Statement of Income Data:
(in thousands, except per share and ratio data)

	Year Ended December 31, 1981	Six Months Ended June 30, 1981	1982
		(unaudited)	
Revenues	$49,499	$22,211	$33,37
Net Income	1,611	681	1,02
Net Income per share	$ .45	$ .21	$ .2
Ratio of earnings to fixed charges	3.6	3.9	4.

Pro Forma Balance Sheet Data:
(in thousands)

	June 30, 198 (unaudited)
Working capital	$ 1,997
Tangible assets	18,835
Total debt	6,044
Stockholders' equity	8,208

MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

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

	Percentage of Revenues				Period to Period Increase (Decrease)		
	For the year Ended December 31,			Six Months Ended June 30,	1980 Compared	1981 Compared	Six Months Ended June 30, 1982
	1979	1980	1981	1982	to 1979	to 1980	compared to 1981
Computer and engineering services	85.3%	87.3%	66.3%	56.9%	11.0%	73.3%	51.0%
Microcomputer and other products	14.0	11.8	33.3	42.7	(9.0)	545.6	198.6
Interest income	.7	.9	.4	.4	39.1	5.2	46.8
Total revenues	100.0	100.0	100.0	100.0	8.4	128.3	91.4
Cost of computer and engineering services	57.1	55.9	40.9	35.2	6.0	67.4	48.9
Cost of microcomputer and other products	10.6	8.7	27.6	35.8	(10.4)	620.9	205.5
Total costs	67.7	64.6	68.5	71.0	3.4	142.2	100.7
Selling, general and administrative expenses	25.9	29.1	21.6	20.4	21.8	69.4	73.2
Interest expense	.4	.3	.8	.7	(32.0)	525.5	274.5
Total costs and expenses	94.0	94.0	90.9	92.1	8.3	120.9	94.5
Income before income taxes and minority interest	6.0	6.0	9.1	7.9	10.1	243.2	61.2
Income taxes	2.9	2.7	4.1	3.7	1.6	246.5	56.6
Minority interest	—	—	.4	.4			108.9
Net income	3.1%	3.3%	4.6%	3.8%	18.0%	215.1%	62.1%

Results of Operations

The following table shows by segment (a) the dollar amounts of revenues attributable to the Company's traditional businesses and its acquired businesses and (b) the percentage increases in those revenues from period to period.

	Revenues					Period to Period Increase (Decrease)		
	For the Years Ended December 31,			Six Months Ended June 30,		1980 Compared	1981 Compared	Six Months Ended June 30, 1982 Compared
	1979	1980	1981	1981	1982	to 1979	to 1980	to 1981
	(in thousands)							
Computer and engineering services								
Company	$11,572	$11,976	$15,579	$ 7,264	$ 8,990	3.5%	30.1%	23.8%
International Systems, Inc.	1,783	2,854	4,825	2,103	2,687	60.1	69.1	27.8
Eastern Design Co.	—	—	5,297	2,257	2,782	—	N.A.	23.3
Erdman, Anthony Associates	—	—	—	—	3,095	—	—	N.A.
Microcomputer and other products								
Company	2,199	2,000	2,424	1,209	1,412	(9.0)	21.2	16.8
Micro-Distributors, Inc.	—	—	10,487	3,208	11,775	—	N.A.	267.1
Total	$15,554	$16,830	$38,612	$16,041	$30,741	8.2%	129.4%	91.6%

The relatively small increase in the Company's traditional system development, consulting anc training services from 1979 to 1980 was due to cost overruns on two fixed-price contracts, which resultec in revenues not being recognized for services being performed, and to a slower rate of expansion Growth in this area during the one-year and six-month period ended June 30, 1982, was due to th expansion of existing operations and an increase in the rates charged for the Company's services. Th increase in revenues of International Systems, Inc. resulted from expansion of existing operations an an increase, above the general inflation rate, in the rates charged for services.

In the products area, the Company's traditional business, consisting of the design and sale o business forms, experienced a decrease in revenues during 1980 due to the loss of a significant order an an increase in 1981 reflecting the regaining of that order. The increase in revenues of Micro Distributors Inc. reflects growth of volume.

The cost of computer and engineering services as a percentage of computer and engineerin services revenues decreased from 67% in 1979, to 64% in 1980 and 61.8% in 1981, due to improve utilization of personnel, and has levelled off in the first half of 1982 at 62.0%. The cost of microcom puter and other products as a percentage of microcomputer and other product revenues has increase from 75.3% and 74.2% in 1979 and 1980 to 82.8% in 1981 and 83.8% in the first six months of 1982 as result of the acquisition of Micro Distributors, Inc. and reflects the lower profit margins of tha operation as compared to the traditional business of that segment, the sale of business forms.

Selling, general and administrative expenses increased percentage-wise in 1980 due to expense incurred in anticipation of a greater rate of growth and decreased in 1981 due to a closer match betwee expenses incurred in anticipation of growth and the growth in revenues experienced by the Company

The income tax rate decreased from 48.3% in 1979 to approximately 45% in 1980 and 1981 due to larger percentage of income being attributable to states with lower tax rates and larger tax credits i 1981.

The Company's business has not been impacted by inflation. It has been able to adjust its rates fo services in light of inflationary pressures. Because of the rapid inventory turnover on its products sale inflation has not been a factor in that segment.

The Company's principal supplier of printers, which accounted for approximately 27% and 22% c sales of the Microcomputer and Other Products segment in 1981 and the first half of 1982, respectivel discontinued sales to the Company after July 31, 1982. Changes in suppliers are a normal risk in th distribution business and, although the Company has alternative sources of supply, it expects th change to have a material effect on the results of the microcomputer distribution business during th balance of 1982. It is not expected, however, to have a material effect on overall consolidated result

The Company expects profits for the third quarter to be slightly lower than the second quarte The third quarter is affected by seasonal factors such as vacations, budget cycles and retail purchasin cycles.

Liquidity

The Company has sufficient financial resources to meet its anticipated requirements. Followin completion of this offering, the Company will have approximately $3,720,000 of net proceeds no allocated for specific use in the Company's business. These unallocated net proceeds, together with th Company's borrowing capacity, will be available for acquisitions. Working capital requirements for th Company's internal growth and operations have been satisfied principally from funds generated fro operations, and it is anticipated that such funds will continue to be sufficient for the Company's intern needs.

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 manufactured by Atari, Altos and OKI, among others, 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. The following table sets forth the revenues for each of the Company's product lines and segments and operating profits for each of the Company's segments during the three years ended December 31, 1981, and six months ended June 30, 1982. See "Management's Discussion and Analysis of Results of Operations and Financial Conditions" with regard to the effects of acquisitions on revenues.

	Year Ended December 31,			Six Months Ended June 30,	
	1979	1980	1981	1981	1982
			(in thousands)		
Revenues from operations:					
Computer and engineering services:					
Systems development, training and consulting	$11,572	$11,976	$15,579	$ 7,264	$ 8,990
Software products	1,783	2,854	4,825	2,103	2,687
Engineering services	—	—	5,297	2,257	5,877
	13,355	14,830	25,701	11,624	17,554
Microcomputer and other products	2,199	2,000	12,911	4,417	13,187
Total	$15,554	$16,830	$38,612	$16,041	$30,741
Operating profit:					
Computer and engineering services	$ 1,250	$ 1,312	$ 3,649	$ 1,530	$ 2,142
Microcomputer and other products	133	111	702	268	748
Total	$ 1,383	$ 1,423	$ 4,351	$ 1,798	$ 2,890

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.

Most of the Company's clients have in-house professional staff. The Company believes that clients with in-house staff utilize its services 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 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. In 1981, Bell Laboratories accounted for approximately 14% of the Company's operating revenues. The loss of Bell Laboratories, which has been a client since 1969, would have an adverse effect in this area of the Company's business. Other software projects completed since the beginning of 1981 or currently under way include a financial reporting system for International Telephone & Telegraph Company and a system for measuring the profitability of large commercial loans for Citibank.

Although the Company is capable of designing and developing systems on various mainframe computers, minicomputers and microcomputers, its experience has principally been with International Business Machines Corporation ('IBM") mainframe computers and Digital Equipment Corp. minicomputers.

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. No client in this area, other than Bell Laboratories, accounted for more than 3% of the Company's operating revenues in 1981.

The Company normally furnishes systems development, training and consulting services under agreements which may be terminated by either party at any time or on short notice and which provide that neither party may hire personnel of the other for a specified period after contract termination. Most of these services are provided on a time and expense basis. Occasionally services are provided on a fixed-price basis, in which case the Company bears a risk of cost overruns. Less than 1% of the dollar volume of existing contracts in this area is on a fixed price basis.

Software Products

The Company designs, markets and maintains proprietary software products for use in project management and on September 21, 1982, acquired Atlantic, which also provides proprietary software products. 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 plans to introduce a new software product, "Office Pro," in the third quarter of 1982. Office Pro, which is in a developmental stage, is expected to provide electronic mail and storage of information, such as office communications, meeting schedules and addresses. The Company is currently evaluating the introduction of additional office related software packages capable of operating on mainframe computers, minicomputers and microcomputers. However, the Company has not developed office related software products other than Office Pro, and no assurance can be given that it will do so in the future.

The Company's software products license grants the licensee the right to use the software indefinitely in return for a single fee paid upon the execution of the license agreement or in return for a monthly fee plus an installation charge. One year of free maintenance is provided after which the licensee may agree to a maintenance plan for an additional fee. Maintenance consists of fixing problems in the installed product, providing enhancements and offering continuous technical advice concerning the use of the product. 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.

No single customer in the Software Products area accounted for more than 1% of the Company's operating revenues in 1981.

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. Projects normally last for a period of about two years. Project engineering services are normally provided on a funded basis, under which the project is funded for a specific amount based upon estimates of the Company's time and expense charges. Occasionally services are provided on a fixed price basis, with the Company bearing the risk of cost overruns.

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 125 of the Company's technical personnel on a contract basis. These services are provided on a time and expense basis under agreements which may be terminated by the client at any time.

No single customer in the engineering services area accounted for more than 3% of the Company's operating revenues in 1981.

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.

Demand for microcomputer products has grown rapidly, and distributors, including the Company, have not always been able to maintain a sufficient inventory of equipment to meet the requirements of their customers. The Company maintains inventory at its warehouses in Maryland and Florida. Most sales by the Company are made on either 15-day net credit terms or for cash. Orders are filled upon receipt or as soon as equipment is available.

The Company's five largest suppliers in 1981 represented approximately 59% of sales by the Company in this area, with the largest representing approximately 28% and the next largest representing 10%. Contracts with suppliers are nonexclusive and are generally for one year. The Company's principal supplier of printers, which accounted for approximately 28% and 22% of sales of the Microcomputer and Other Products segment in 1981 and the first half of 1982, respectively, discontinued sales to the Company after July 31, 1982. Changes in suppliers are a normal risk in the distribution business and, although the Company has alternative sources of supply, it expects this change to have a material effect on the results of the microcomputer distribution business during the balance of 1982. It is not expected, however, to have a material effect on overall consolidated results.

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.

No single customer in the Microcomputer and Other Products segment accounts for more than 3% of the Company's operating revenues in 1981.

Marketing

Computer and Engineering Services. Systems Development, Training and Consulting services and Software Products are marketed by a staff of 24 sales people through offices in 17 cities in the United States and through sales agents in 12 additional cities outside of the United States. In addition, the