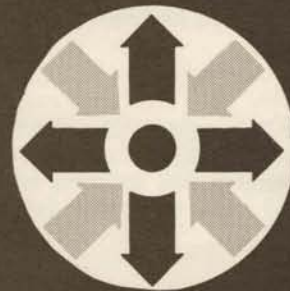


AGS Computers Inc.



1972 Annual Report

AGS COMPUTERS, INC.

2005 ROUTE 22 • UNION, NEW JERSEY 07083 • (201) 687-9200

TO OUR SHAREHOLDERS:

The year 1972 saw AGS meet its projected goals in profits, revenues and expansion of its service capabilities. The financial figures were highlighted by net profits of \$.62 per share before income taxes and \$.30 per share after taxes, a 35% increase in revenues to \$1,371,768 and a cash dividend of \$.20 per share.

AGS substantially expanded the breadth of its services and the number of clients for which it performed these services. Consulting, designing, programming and managing services provided the bulk of the revenues. Education started to become a financially meaningful contributor and engineering services were rapidly expanded. The latter gained further momentum in February, 1973 with the addition to the staff of Joseph J. Cunningham as Director of Engineering and Communications. These expanded services are now provided in a packaged inter-disciplinary form. The combining of programming (software) and engineering (hardware) services adds a synergistic element and transforms AGS into a developer of products, as well as expanding its professional services. The development of turn-key systems invariably requires consulting capabilities to plan the product, engineering knowledge to enable the various data collection devices to be interconnected, communications expertise to properly transmit the data, system designing and programming capability to manipulate the data, managerial talents to control the project and education services to train the customer in the use of the products.

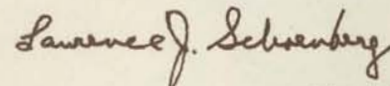
AGS' products include measurement devices for communication terminal response time, data compression, and intelligent terminals for the collection, transmission and editing of data. AGS has become an industry leader in the specialized areas of point-of-sale systems, communications, data collection, advanced system engineering education and telephone company applications.

AGS entered a new area of the data processing field in January 1973 with the creation of AGS System Forms, Inc. John E. Kridel, formerly Eastern Regional Manager of Control Data Corporation's Business Products Group, heads the five-man sales and support operation. AGS System Forms, Inc. emphasizes in its marketing efforts its responsiveness to design, delivery and general service requirements.

AGS will stress, in 1973, the expansion of its services and products. This will establish a foundation for the continued growth of the company and provide flexibility to shape and adapt to the dynamic change that certainly will occur in the computer field in the next several years.

A description of the services and products currently offered by AGS follows this letter.

Lawrence J. Schoenberg



President

CONSULTING SERVICES

AGS assists client companies in the basic decision-making processes of computer related projects. AGS develops and conducts surveys and feasibility studies, evaluates the generated data, and presents comprehensive reports highlighting the available alternatives and when applicable, the preferred solutions. The consulting group also audits computer installations and the associated client personnel, and develops programming and installation standards.

DESIGN SERVICES

AGS system designers develop a project from conception through the creation of detail system specifications. The design process starts with the definition of the problem, an analysis of its background, and then a study of the specific requirements presented by the client. A system design and a project plan is created based upon an analysis of this data and detail system specifications are generated including a system test, conversion and training plan.

PROGRAMMING SERVICES

AGS programmers develop detailed program specifications from system design requirements. Programmers write, test and document program code to translate these requirements into a computer recognizable format. Programs are written in many different computer languages to run under diverse operating systems on computers of varying size and manufacture.

ENGINEERING SERVICES

AGS engineers design computer related equipment. The emphasis is in the development of communication units, hardware interfaces, peripheral devices and measurement of the efficiency of hardware and communication lines. The engineers also participate with professionals from other AGS disciplines to create hardware/software products.

MANAGERIAL SERVICES

AGS provides management for projects and installations which use various combinations of AGS, client and third party personnel. The project managerial services are provided as part of the standard contract administration and as an independent service. This service includes the use of AGS' formalized planning procedures. The facility management services range from controlling an industry-wide data base to providing computer installation supervision and support personnel to the total management of a client data processing organization.

EDUCATION SERVICES

AGS conducts training programs in the form of courses and seminars for users of large-scale computer systems. These training programs are normally developed by AGS and are subsequently taught at a client site. AGS develops its courses in a modular manner to allow for the insertion and deletion of standards or material particularly related to a specific client. Current assignments call for providing advanced training in new language and operation system facilities and management information systems. AGS utilizes its own services to maintain and enhance the skills of its general staff and to ensure a professional and consistent approach to client requirements.

HARDWARE / SOFTWARE PRODUCTS

AGS produces system products for sale by its own marketing force and under contract to other vendors. AGS currently has products to measure response time in communication terminals; intelligent terminals to simplify data collection and editing; turn-key systems which provide the interface between remote terminals, communication lines and large scale computers (front end systems); and a data compression system.

BUSINESS FORMS PRODUCTS

AGS System Forms, Inc. offers a professional personalized service for the design and sale of business form. Creativity in forms design is stressed to insure greater forms utility while reducing the cost and calendar time required to deliver the product. The product line includes the most basic continuous stock form, snap-set or continuous form, register ticket and sales book to complex specialized OCR or multipart carbonless paper business forms.

STATEMENTS of INCOME and DEFICIT
for the years ended December 31, 1972 and 1971

	1972	1971
Revenues	\$1,371,768	\$1,018,634
Costs and expenses:		
Cost of services	724,216	569,624
Selling, general and administrative	374,450	352,481
	1,098,666	922,105
	273,102	96,529
Provision for taxes on income (includes state and local, 1972, \$28,000 and 1971, \$11,000)	139,900	46,000
Income from continuing operations before extraordinary charge	133,202	50,529
Loss from discontinued operations (net of related income tax bene- fit, \$35,000) (Note 2)		37,475
Income before extraordinary charge	133,202	13,054
Extraordinary provision for loss on investments		6,000
Net income	133,202	7,054
Deficit, beginning of year	(79,398)	(86,452)
	53,804	(79,398)
Cash dividend (\$.20 per share) (Note 5)	87,900	
Deficit, end of year	(\$ 34,096)	(\$ 79,398)
Per average share of common stock and common stock equi- valents outstanding:		
Income from continuing opera- tions before extraordinary charge	\$.30	\$.11
Loss from discontinued operations		.08
Income before extraordinary charge	.30	.03
Extraordinary charge		.01
Net income	\$.30	\$.02

See notes to financial statements.

AGS COMPUTERS, INC.
BALANCE SHEETS, December 31, 1972 and 1971

ASSETS:	<u>1972</u>	<u>1971</u>
Current assets:		
Cash	\$123,960	\$ 55,220
Certificates of deposit, at cost	50,000	52,578
Accounts receivable	245,504	166,988
Marketable securities, at cost (approximates market)	50,250	
Other	10,732	5,433
Total current assets	<u>480,446</u>	<u>280,219</u>
Furniture and equipment, leasehold improvements and automobiles, at cost, less accumulated deprecia- tion and amortization (1972-\$27,425, 1971-\$14,874) (Note 1)	47,035	42,361
Other investments, at cost, less in 1971 provision for loss, \$69,000 (Notes 2 and 3)	19,000	19,000
Other assets	11,871	11,882
	<u>\$558,352</u>	<u>\$353,462</u>
LIABILITIES and STOCKHOLDERS' EQUITY:		
Current liabilities:		
Accounts payable and accrued expenses	\$ 41,627	\$ 80,004
Unearned service fees	10,388	
Accrued income taxes	155,368	18,791
Total current liabilities	<u>207,383</u>	<u>98,795</u>
Stockholders' equity:		
Common stock, par value \$.10 per share, authorized 1,000,000 shares; issued and outstanding 439,500 shares (Notes 3, 5, and 6)	385,065	334,065
Deficit, as annexed	(34,096)	(79,398)
	<u>350,969</u>	<u>254,667</u>
	<u>\$558,352</u>	<u>\$353,462</u>

See notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

1. The Company provides professional services related to information systems in the computer software field. Revenues are recorded and expenses are charged to operations as services are performed.

Depreciation of furniture and equipment is computed on the straight-line method based on three to ten years estimated useful lives. Leasehold improvements are amortized over the life of the lease.

2. The Company owns 144,242 unregistered shares of IAC Computer Systems, Inc. (IAC), representing approximately 18% of the outstanding shares. These shares were acquired in the sale of the business of the Company's wholly-owned subsidiary, Duo Computer Corp. (Duo), to Players' Computer, Inc. (Players) in 1971 for \$9,000 of 6% notes and 5,000 shares of capital stock of Players and the subsequent acquisition of Players by IAC in 1972. On December 31, 1972 the bid price for IAC registered shares was \$1.75. IAC has the option until May, 1973 to acquire 40% of the shares held by the Company for \$25,000. These notes and stock are valued at the net book value of the assets transferred to Players (\$9,000) and are included in other investments at December 31, 1972 and 1971. Continuing operations do not include the operating results of Duo, which have been segregated, and are set forth separately under the caption "loss from discontinued operations."

3. In 1972, three officers of the Company (who are also directors and majority stockholders) paid \$69,000 to the Company, in satisfaction of their guarantee of investments, against which a reserve had been provided in prior years. The payment, net of applicable income tax effect, was accounted for as a capital contribution (\$51,000).

4. The Company leases premises under agreements that provide for the payment of minimum annual rentals aggregating approximately \$54,000 through May 31, 1974, \$41,000 through June 30, 1975 and \$33,000 thereafter through June 30, 1979. Certain of these premises are sublet at annual rentals of approximately \$27,000 through June 30, 1973 and \$12,600 thereafter through June 30, 1975.

5. In 1972 and 1971 the Company paid dividends of \$87,900 (\$.20 per share) and \$101,085 (\$.23 per share), respectively. The dividends were authorized by the Board of Directors as distributions of net income for 1972 and capital for 1971. The three officers referred to in Note 3 own 67% of the outstanding common stock.

6. The Company has a qualified stock option plan under which 20,000 shares of common stock are reserved for issuance to officers and employees at prices not lower than the fair market value at dates options are granted. Options are exercisable one year from date of grant in accordance with terms fixed by the Board of Directors, but in all cases expire five years from date of grant. During 1972, options to purchase 13,600 shares at prices ranging from \$1.75 to \$2.25 per share were granted and during 1972 and 1971, options were terminated for 3,450 and 10,500 shares, respectively, at prices ranging from \$1.75 to \$4.50 per share. At December 31, 1972, options to purchase 15,500 shares at prices ranging from \$1.75 to \$4.50 per share were outstanding of which 2,800 were exercisable. At December 31, 1972 and 1971, 4,500 shares and 14,650 shares, respectively, were reserved for the granting of future options.

In 1971, the Company established a nonqualified stock option plan under which 30,000 shares of common stock were reserved for issuance to Company officers and employees at prices not less than 75% of the fair market value on date of grant. Options become exercisable in three equal annual installments commencing one year from date of grant in accordance with terms fixed by the Board of Directors, but in all cases expire ten years from date of grant. During 1972 and 1971, options were granted to purchase 7,300 and 13,950 shares, respectively, at prices ranging from \$1.00 to \$2.00 per share and options to purchase 300 and 3,550 shares, respectively, at prices ranging from \$1.00 to \$1.50 were terminated. At December 31, 1972, options to purchase 17,400 shares at prices ranging from \$1.00 to \$2.00 per share were outstanding of which 3,467 were exercisable. At December 31, 1972 and 1971, 12,600 shares and 19,600 shares, respectively, were reserved for the granting of future options.

During 1972 and 1971 no options were exercised and no charges were made to income in connection with the above described stock options since the amount of related compensation was not material.

In connection with a public offering in 1969, warrants to purchase 15,000 shares of common stock at a price of \$3.85 per share were issued to the underwriters and others. The warrants expire the earlier of May 21, 1974 or nine months after the effective date of an appropriate filing under the securities Act of 1933 permitting the public offering of the warrants. The warrants became exercisable on May 21, 1970.

**STATEMENTS of CHANGES in FINANCIAL POSITION
for the years ended December 31, 1972 and 1971**

	1972	1971
Source of funds:		
Net income	\$133,202	\$ 7,054
Depreciation	13,030	10,789
Extraordinary provision for loss on noncurrent investments		6,000
	146,232	23,843
Working capital provided from operations		
Capital contribution by officers, net of applicable income tax effect (Note 3)	51,000	
Other, net	11	(6,229)
	197,243	17,614
Application of funds:		
Dividends (Note 5)	87,900	101,085
Additions to fixed assets, net of dispositions, \$1,306	17,704	
	105,604	101,085
Increase (decrease) in working capital	\$ 91,639	(\$ 83,471)
Changes in the components of working capital are as follows:		
Increase (decrease) in working capital:		
Cash	\$ 68,740	\$ 8,586
Certificates of deposit	(2,578)	52,578
Accounts receivable	78,516	(45,128)
Marketable securities	50,250	
Due from officers		(100,000)
Other current assets	5,299	(7,927)
Note payable to bank		20,000
Accounts payable and accrued expenses	38,377	4,190
Unearned service fees	(10,388)	
Accrued income taxes	(136,577)	(15,770)
	\$ 91,639	(\$ 83,471)
See notes to financial statements.		

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Board of Directors and
Stockholders of AGS Computers, Inc.:

We have examined the balance sheet of AGS COMPUTERS, INC. as of December 31, 1972 and the related statements of income and deficit and changes in financial position for the year then ended. Our examination was 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 previously examined and reported upon the financial statements of the Company for the year ended December 31, 1971.

In our opinion, the aforementioned financial statements present fairly the financial position of AGS Computers, Inc. at December 31, 1972 and 1971 and the results of its operations and changes in financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

New York, New York
February 22, 1973.

LYBRAND, ROSS BROS. & MONTGOMERY

AGS COMPUTERS, INC.

OFFICERS AND DIRECTORS

Lawrence J. SchoenbergPresident & Director
Joseph AbramsExecutive Vice-President,
Secretary & Director
Peter G. Graf.....Treasurer & Director
Anthony F. StepanskiSenior Vice-President & Director
David B. LevineVice-President
Victor L. Lurie.....Director

COUNSEL

Greenbaum, Wolff & Ernst

AUDITORS

Lybrand, Ross Bros. & Montgomery

REGISTRAR & TRANSFER AGENT

Registrar & Transfer Company

CORPORATE OFFICE

2005 Route 22 — Union, New Jersey 07083

BRANCH OFFICE

292 Madison Avenue — New York, New York 10017

AGS SYSTEM FORMS, INC.

2005 Route 22 — Union, New Jersey 07083

John E. Kridel, Vice-President & General Manager