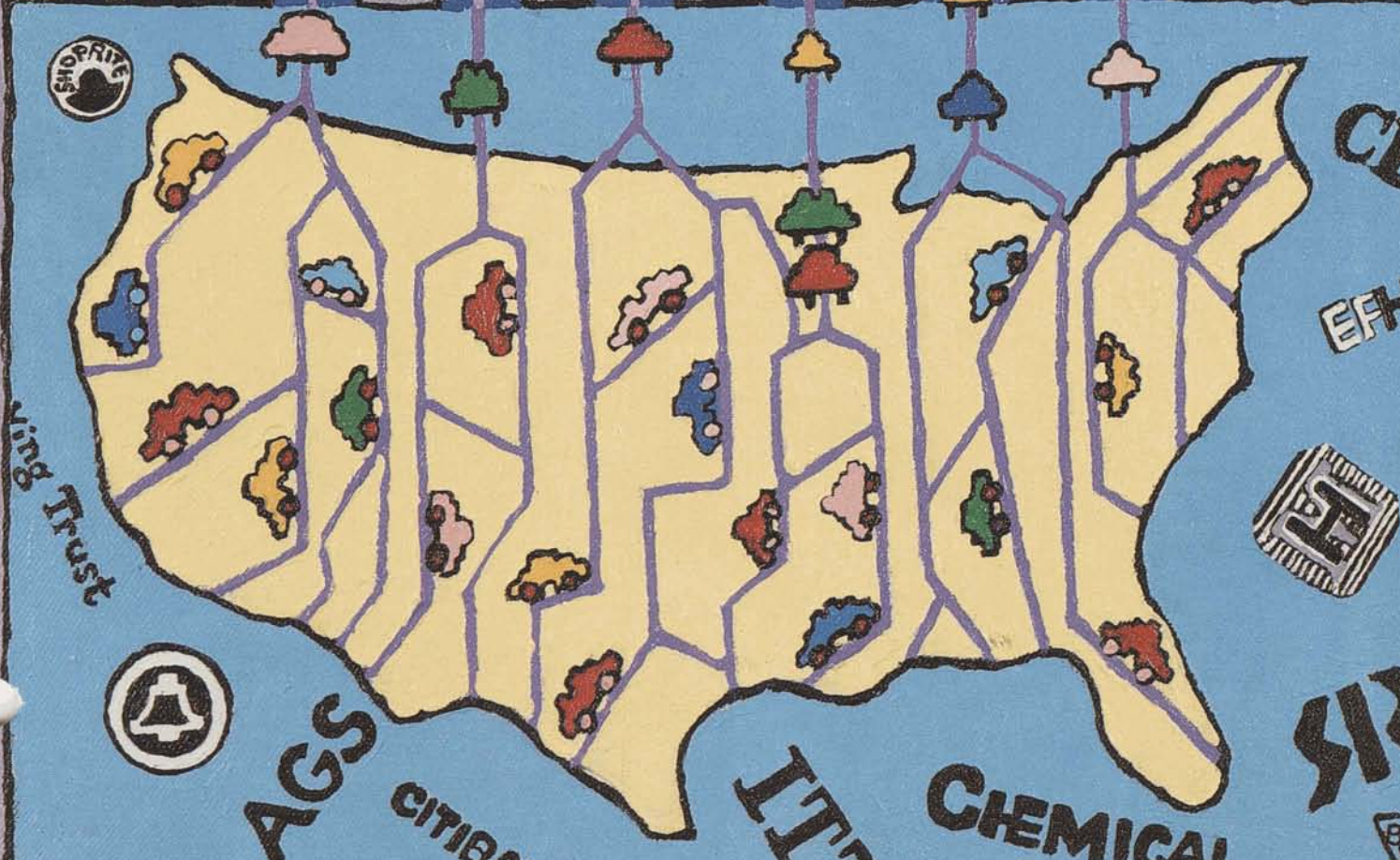


AGS

1982 Annual Report



Corporate Profile

AGS is in the forefront of computer technology, providing software for America's largest corporations for over 15 years. We are a major factor in the fastest growing segments of the computer industry—systems development and software products, and microcomputer hardware and software

In systems development revenues, AGS is one of the top five companies in the United States. We are the leading company in the development of software packages for systems development and project management. In microcomputers, AGS is the largest independent distributor in the United States.

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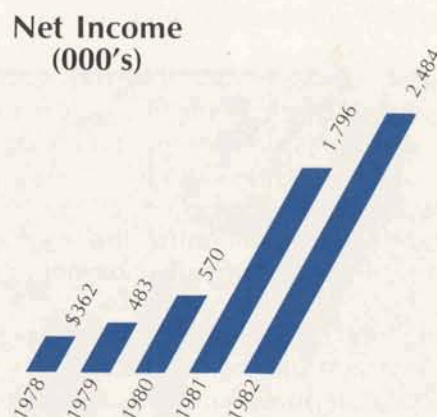
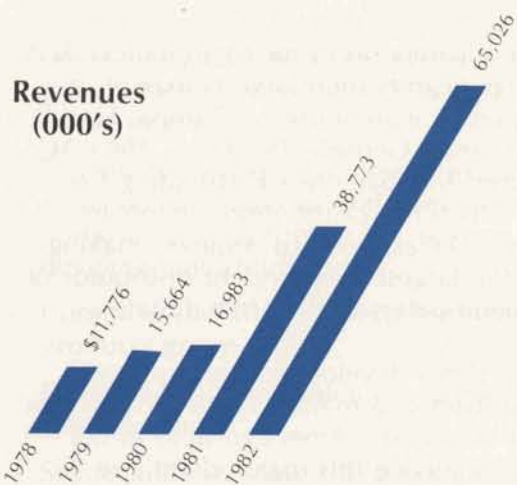
The paintings reproduced in this annual report are interpretations of AGS by noted artist Bill Brockway.

The cover painting depicts in symbolic form the major segments of AGS' operations: Systems Development and Software Products and Microcomputer Distribution. The entire canvas is a computer printout as indicated by red circles outlined in black in the left hand margin. In the lower half of the picture, names and logos of corporations for which AGS provides systems development services surround a map of the United States. Throughout that map AGS' distribution system delivers microcomputer hardware and software products.

Highlights of Financial Information

(in thousands of dollars except per share data)

	1982	1981	% Increase
Total Revenues	\$65,026	\$38,773	68
Net Income	2,484	1,796	38
Net Income Per Share	.73	.57	28
Total Assets	33,800	15,042	125
Stockholders' Equity	10,059	5,416	86



To Our Shareholders

AGS achieved record revenues and profits in 1982, thus continuing the pattern of steady growth that has characterized the Company since its founding in 1967. Revenues were \$65,026,000 an increase of 68% from 1981, while net income increased by 38% to \$2,484,000 and earnings per share went from \$.57 to \$.73.

Operations

AGS is a major factor in the fastest growing segments of the computer industry; systems development and software products, and microcomputer distribution.

In systems development AGS is one of the largest companies, with clients primarily in the service and high technology industries. Within these fields, it has concentrated on financial and telecommunications firms which are fast growing and undergoing deregulation, thereby creating an even greater demand for AGS' services.

AGS' software products group is the world leader in packages for project management and systems development with approximately 1,500 product installations. These packages enhance client productivity by improving the planning and implementation of the systems development process.

AGS' microcomputer distribution group is the largest independent distributor of microcomputer hardware and software, selling the products of over 75 manufacturers to 4,000 computer system houses, vertical market integrators and retail stores.

Significant Corporate Developments

The successful offering of \$10,000,000 of convertible debentures in October 1982, and 575,000 common shares at \$15.25 in January 1983 raised over \$17 million for the Company. These proceeds have provided the Company with a strong capital position that will be used to finance acquisitions and to develop software products.

During 1982 AGS entered the software products business via the acquisition of International Systems and Atlantic Management. The two companies have started to integrate their operations, and expect a substantial introduction of new products over the next two years. Toward this end, research and development expenditures have been doubled to an annualized rate of \$3,000,000.

In the distribution of microcomputers AGS has significantly increased its market area by opening warehouses in Tampa, Florida, and Atlanta, Georgia. In March, 1983 AGS acquired Microamerica Distributing Co., Inc., which has distribution centers in Boston, Dallas, and Los Angeles, making AGS the largest independent distributor of microcomputers in the United States.

Our systems development group established itself as a major supplier to the new AT&T subsidiary, American Bell. In our effort to service this major client, we greatly expanded our UNIX (a trademark of Bell Telephone Laboratories) consulting staff and formed a UNIX products and training division.

Goals

Although the recent recession caused AGS some problems in geographically expanding its systems development operations, we remain confident about our prospects for growth during 1983. The stable growth and profitability from systems development will provide the base for leveraging AGS' software and microcomputer products.

The Company's growth will be achieved internally and through continuing an active acquisition program. In acquisitions, we look for companies that will enable us to obtain market penetration quickly, and to enhance our capabilities of offering complete computer solutions.

During 1983 AGS goals will be to:

- Maintain our overall financial record consistent with a five year compounded growth rate in revenue of 53% and 62% in net income
- Expand our geographic coverage and focus on the financial and telecommunication industries in the systems development group
- Complete the integration of the software products group
- Develop UNIX and microcomputer software products
- Significantly increase the geographic coverage, market share and software percentage of our microcomputer distribution business.

We would like to welcome our many new bond and stockholders. Your investment in AGS is one of our primary concerns, and we will do everything we can to justify your continued confidence.

In closing, we would like to acknowledge the dedication and talent of the more than 800 AGS employees who are primarily responsible for this record year.



Lawrence J. Schoenberg
Chairman & Chief Executive Officer



Joseph Abrams
President & Chief Operating Officer

March, 1983



AGS started in business in 1967 by providing systems and programming support to corporations in New York City. In 1968 our revenues were only \$350,000. Over the ensuing years we gained the experience to formulate a management strategy that has taken AGS to \$65 million in revenues in 1982.

The strategy centered on the concept that industry leadership would accrue to those companies which provided quality services and complete computer solutions.

Today AGS is a major participant in the fastest growing segments of the computer services industry:

- Systems development and software products
- Microcomputer hardware and software distribution

Systems Development: Technical Skills

The computer industry has been characterized by continual change. Technological advances in computer power as well as significant reductions in the cost of computer hardware have led to the growth of interactive or real-time computer systems creating an explosive market for software. The magnitude and complexity of computer software projects, together with the expense of completing projects in-house, are requiring business to turn more and more to firms like AGS. As a supplier of highly qualified software professionals and software products, AGS stands to benefit from the classic supply/demand imbalance. By 1985 it is expected that the computer industry will be facing a supply shortfall of 45 percent in the demand for software specialists.

AGS has been able to attract and keep its staff of over 650 computer professionals by offering compensation far above industry averages. More importantly, AGS challenges these individuals by providing true, long term high technology assignments rather than routine short interval programming jobs.

A competent technical staff in our industry is comparable to the valuable fixed assets and inventory in other business areas. The intellects, training, experience and acquired skills of the staff are our stock-in-trade.

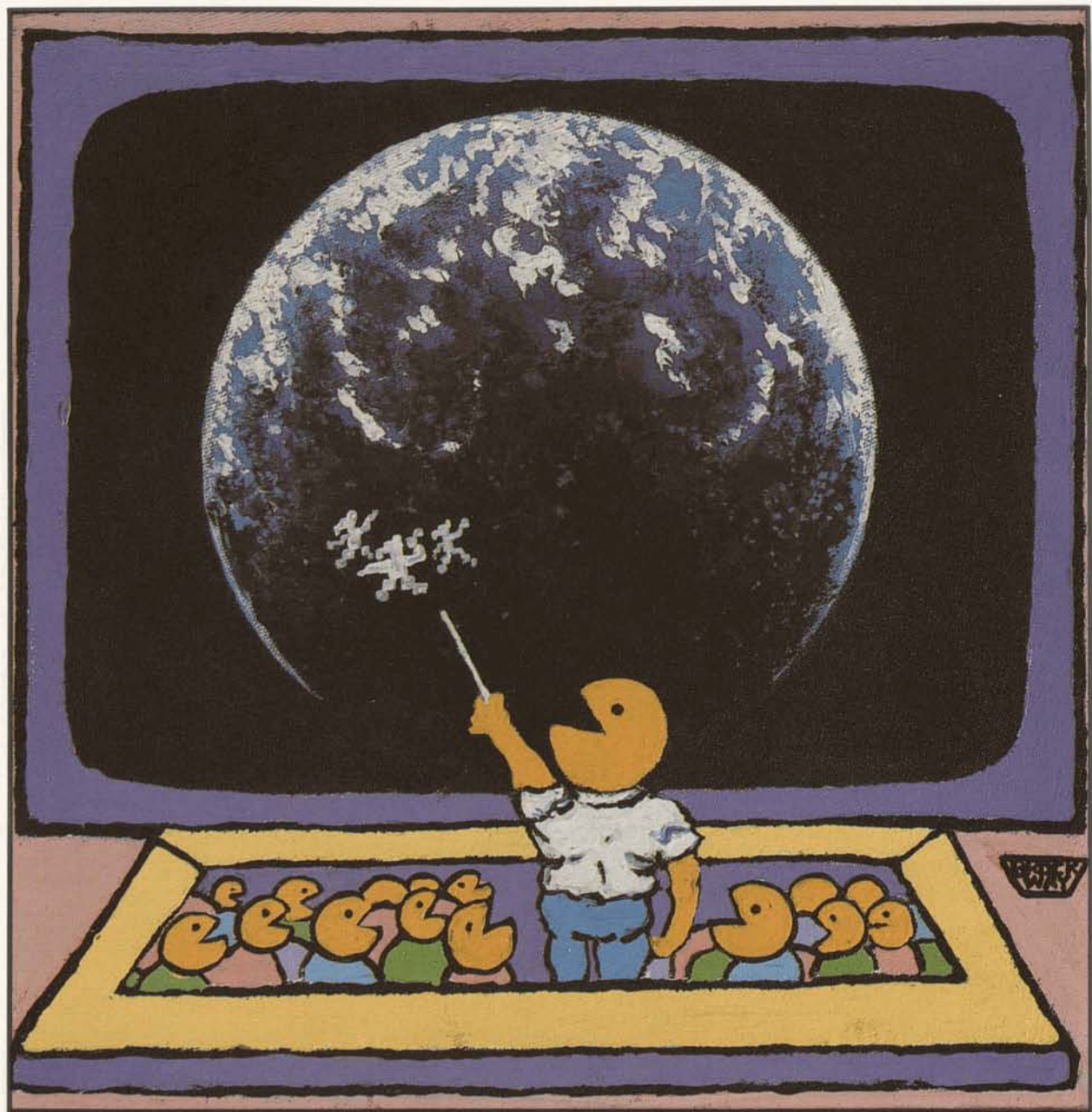
The software industry demands different levels of service. Our staff's technical skill has enabled AGS the profitable privilege of specializing in high level customized software for quality clients.

This technical focus on higher level system development assignments, implemented by a skilled staff, coupled with our knowledge of the user's requirements, enables AGS to assume total responsibility for the design and implementation of an information processing system.

Using a simple illustration of a complex problem, imagine the chain of computer events initiated when a telephone call is made. Multiply the action and the following computer reactions by the number of other simultaneous calls. Chances are that at some point in the reaction chain, an AGS program or AGS designed system, will come into play.

Illustration

Systems Development: Pac-Man figures have become a shorthand for computer graphics. AGS computer specialists instruct employees of some of the country's largest firms in systems solutions to operational problems.



Systems Training Services

Our instructors are professional educators with specialized skills in all phases of data processing. They combine their experience and talent to effectively communicate complex technical concepts. The result is the ability to motivate the clients' staff and develop their data processing skills in a constant progression.

Some of the courses offered are:

- Basic Computer Science
- CICS
- IMS
- Languages: Cobol, PL/1
- Microcomputers

UNIX

We offer the most comprehensive training in all aspects of the UNIX system, including:

- Fundamentals of UNIX
- UNIX operating system internals
- UNIX shell programming
- C language
- UNIX utilities

We also develop sophisticated software tools which support the training phase, and continue to promote programmer productivity "on the job."

AGS' professional staff has satisfied the vital needs of the nation's telephone networks over the last ten years. The demand for our services has accelerated with the start up of operations by American Bell, the newly-formed AT&T subsidiary.

Bell Telephone Laboratories has been and currently is our largest client. We are participating in the development of a number of new products, including switching systems, office automation, energy management and home information systems.

An important adjunct result for AGS from these projects has been the development of the largest UNIX experienced consulting staff in the United States. UNIX, developed by Bell Laboratories, may be pivotal in the ongoing competition in the personal computer industry as it is likely to become the de facto standard operating system for 16-bit microcomputers.

AGS is utilizing our UNIX expertise to develop UNIX-based training courses and products.

Our commitment to product development and total systems solutions has resulted in a significant record of repeat business, particularly in the systems development, training and consulting areas. Some 90 percent of AGS' clients in those activity areas in 1981 were also customers in 1982.

These clients include such organizations as Bell Telephone Laboratories, Chase Manhattan Bank, Swiss Reinsurance, Manufacturers Hanover Trust Company, and Wang Laboratories.

Software Products

In 1982, AGS entered the software products business through the acquisition of International Systems and Atlantic Management Systems. These companies have been combined to form AGS Management Systems, the leading product company in project/resource management software and systems development methodology.

By combining both companies, we are not only achieving economies of scale but are positioned to make more effective use of their R&D efforts. The lifeblood of any product company is the enhancement and introduction of products which gain acceptance in the marketplace.

The software products are compatible with most mainframe and minicomputers and provide AGS with a unique reciprocal advantage in our marketing efforts. AGS' products base of 1,500 users are natural prospects for systems development services while, in turn, systems customers have proven to be excellent prospects for software products.

Management's concern with improving the productivity of its data processing operations has created an ever expanding market for AGS' software products. The development and control of a major project necessitates an investment by the user of millions of dollars. Products that help reduce the cost and assure a timely implementation of the project is AGS' area of expertise.

Illustration

Software Products are stored on diskettes and tape drives which stream from a computer display to indicate the rapid rate of change in this industry. The juxtaposition of blue sky and geometric shapes suggests the creative force required to develop efficient software products.



Software Products

- | | | | |
|----------------|--|-------------------|---|
| ISP: | Information System Planning Methodology, to enable an organization to utilize its own staff to quickly and systematically develop a long-range plan. | PAC MACRO: | Project Management System for those projects requiring the pooling of resources to specific activities. |
| SDM/70: | System Development Methodology for a systematic approach for designing, enhancing and maintaining systems. | PAC III: | Project Management System designed for the most complex multi-task projects in heavy construction, engineering and manufacturing. |
| PAC I: | Project Management System for the smaller project environment offering ease of use along with interactive capability. | PC/70: | Project Management System for more effective project resource management and productivity while planning and monitoring projects. |
| PAC II: | Project Management System designed for the multi-project environment utilizing the latest project and resource management techniques. | ESTIMATOR: | Provides for the automation of the estimating methodology in SDM/70. Available as a stand-alone product or offered with PC/70 and PAC II. |

As an example:

Zurich American Insurance, in the Chicago Area, has chosen both the Pac II Project Management System and the SDM/70 Systems Development Methodology for use in their data processing organization. Our products allow Zurich to utilize their 200 person development staff more effectively in building and supporting the systems needed for their insurance and financial products. In addition, AGS/MS' products have provided upper management with more complete and accurate information about their development efforts.

Microcomputer Distribution

When we formed a microcomputer evaluation group in 1980, AGS was primarily concerned about the effect microcomputers would have on our traditional mainframe software business. The study indicated that microcomputers would develop an entirely new class of users, but would also impact large corporations, primarily in financial applications.

A decision was made to enter this business through acquisition, and in February of 1981, AGS acquired a majority position in Micro Distributors, Inc., a distributor of microcomputers. At the time, the Company had one distribution center in Rockville, Maryland and was doing \$200,000 a month in revenues. By December of 1982, monthly revenues were \$3 million and the operation had expanded to include warehouses in Tampa, Florida and Atlanta, Georgia.

With our acquisition of Microamerica Distributing Co., Inc. in March, 1983, AGS is the largest independent distributor of microcomputers in the United States with additional warehouses in Boston, Dallas, and Los Angeles.

We are an important factor in an industry which is expected to grow to over \$24 billion in 1986 from a current level of \$4 billion. Manufacturers, who are currently using distributors, have forecasted that up to 85% of their products will continue to be sold through independent distribution channels.

Through a network of six strategically located distribution centers, we are well positioned to provide the support and services required by our 4,000 customers. By providing the required warehousing, inventory maintenance, immediate delivery, service and training, AGS shall continue to penetrate its existing markets and expand into other geographic areas.

AGS selects and markets the best price performance, market driven products possible. Because of our close association with over 75 manufacturers, we are able to keep our customers alert to technical changes long before they are public knowledge. In addition, we provide a one stop shopping center, offering with the computers, a full line of peripherals, terminals and software. Among the products we handle are Altos Computers, NEC, Northstar, Okidata, Televideo Computers, and Visicorp.

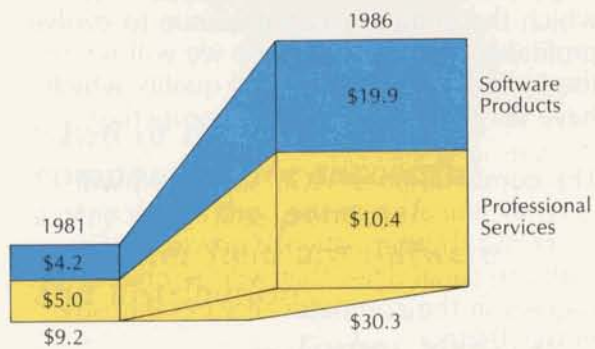
Since no manufacturer accounts for more than 15% of our revenues, we are not dependent upon the market acceptance of any particular product. As an example, in 1982 when we lost the distribution rights for a major microprinter, we were able to hold our market share by offering an equally competitive product. We are in the enviable position of being able to participate in the growth of the entire industry, without the risks associated with product obsolescence.

Illustration

Distribution Capability is shown by a stylized city skyline of computer devices against a world background. The delivery system for these products is depicted in the foreground.

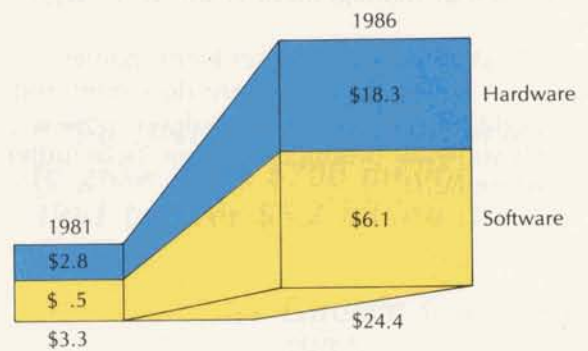


SOFTWARE SERVICES MARKET
(Billions)



Source: Input, 1982

MICROCOMPUTER MARKET
(Billions)



Source: Future Computing, 1982

During 1982, we greatly expanded our microcomputer software capabilities, and we now distribute a complete line of business application packages. Our distribution strengths should prove invaluable as AGS develops microcomputer software of its own which can be sold through this low cost marketing channel.

Acquisition Policy

AGS' growth rate has accelerated following management's commitment to expand from our traditional systems development business into software products and microcomputer distribution.

In evaluating prospective acquisition candidates, the following criteria are applied:

- A favorable cost comparison must justify "buying in" as opposed to initiating the activity ourselves.
- The acquisition should provide a broader and higher value added complementing service or product.
- The acquisition prospect must provide AGS with a timely means of entering a new market segment of the computer industry.

It has been our experience that, after acquisition, the acquired company's growth is enhanced by AGS' resources and our support of an entrepreneurial management style. In the six companies we acquired, all the senior management is still with AGS.

AGS shall continue to seek companies which will make us a more dominant and profitable factor in systems development and software products and microcomputer distribution.

AGS management, looking forward into the remaining years of this decade, sees five factors which interlock to form a composite matrix of both business outlook and management principles. These factors are the sum of management's successful implementations in the past plus what is seen ahead for tomorrow's business environment.

AGS will:

- Focus on financial, service and telecommunications industry clients.
- Emphasize projects oriented toward facilitating and enhancing client revenue generating business areas as opposed to the customer's routine administrative and record keeping functions.
- Continue to take full advantage of the stable growth and profitability from systems development to provide the base for leveraging AGS' software and microcomputer products.
- Increase market penetration through well considered and prudent acquisitions in accordance with our established criteria.
- Seek a continuing strong balance sheet and high rate of return on investment.

Management believes that general adherence to this simple regimen will enable AGS to create and control, as much as possible, a business environment in which the company can continue to evolve profitably. At the same time we will retain the hallmarks of service and quality which have set AGS apart from its competitors.

The combination of AGS' software products, technical expertise, and microcomputer distribution network provides AGS with the capabilities that will be critical for success in the computer services industry in the 1980's.

"The largest forecasted real growth industry is Computer Services."

– U.S. Department of Commerce

"He who controls software controls the world."

– T. Sekimoto, President, Nippon Electric Company

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

Five Year Summary

	1982	1981	1980	1979	1978
Total Revenues	\$65,026	\$38,773	\$16,983	\$15,664	\$11,776
Net Income	2,484	1,796	570	483	362
Net Income per Share	.73	.57	.19	.16	.12
Total Assets	33,800	15,042	5,959	5,244	4,435
Long Term Debt	9,866	859	244	233	366
Stockholders' Equity	10,059	5,416	2,896	2,409	1,938

"Two of the critical components for successful entry into the personal computer field are software and distribution . . ."

– *Forbes Magazine*
April 1982

"The UNIX market is expected to grow from \$700 million in 1981 to over \$5.2 billion in 1985."

– *Gnostic Concepts*
1982

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 from operations and the percentage increase or decrease of such items as compared to the prior year:

	Percentage of Revenues			Period to Period Increase	
	For the years ended December 31,			1982 compared to 1981	1981 compared to 1980
	1982	1981	1980		
Revenues:					
Services and software packages	57.2%	66.3%	87.3%	44.8%	73.3%
Product sales	42.3	33.3	11.8	112.9	545.6
Interest income	.5	.4	.9	105.0	5.2
Total revenues	100.0	100.0	100.0	67.7	128.3
Cost of services and software packages					
Cost of services and software packages	37.5	40.9	55.9	53.5	67.4
Cost of product sales	35.1	27.6	8.7	113.7	620.9
Total costs	72.6	68.5	64.6	77.7	142.2
Selling, general and administrative expenses					
Selling, general and administrative expenses	18.4	21.6	29.1	43.5	69.4
Interest expense	1.2	.8	.3	138.6	525.5
Total costs and expenses	92.2	90.9	94.0	70.2	120.9
Income before income taxes and minority interest					
Income before income taxes and minority interest	7.8	9.1	6.0	43.3	243.2
Income taxes	3.6	4.1	2.7	48.1	246.5
Minority interest	.4	.4		52.4	
Net income	3.8%	4.6%	3.3%	38.3%	215.1%

Revenues

The Company's revenues from services and software packages experienced substantial growth through expansion of existing operations and price increases during 1981 and 1982. General economic conditions reduced the rate of growth in 1982. Microcomputer sales showed very significant growth in 1981 and 1982. The growth came primarily from an increasing industry-wide demand and from the expansion of the geographic territory covered. Almost all of the growth in microcomputer sales have taken place since the acquisition.

Costs

Gross profits in each service and the software package area improved slightly during the three-year period. Service and software packages gross margins decreased in 1982 because of a change in the mix of operations. Gross margins in the product area remained unchanged in 1982. The reduction in 1981 from 1980 reflects the lower margins in microcomputers than in our previous product business. Selling, general and administrative expenses decreased from 29% to 19% from 1980-1982. This is caused by a different mix of business and a very low rate of increase in the corporate administrative expense.

The income tax rate has risen slightly from 45% to 46.5% over the last three years. The rate is favorably impacted from the amount of investment, research and development tax credit and the larger percentage of income coming from states with lower tax rates offset by the overall increase in state tax rates and the reduced effect of the surtax exemption.

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. The Company has approximately \$15 million of liquid assets after the January stock offering not allocated for specific use in the Company's business. These unallocated liquid assets and the Company's borrowing capacity are available for possible acquisitions. 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:

	1982	1981	1980
Tax Accrued	\$2,350,000	\$1,587,000	\$458,000
Tax Paid	1,332,000	760,000	178,000

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)	
	1982	1981	1980	1982 compared to 1981	1981 compared to 1980
	(in thousands)				
Services and software packages:					
Company	\$19,155	\$15,579	\$11,976	23.0%	30.1%
International Systems, Inc.	5,785	4,825	2,854	19.9	69.1
Eastern Design Co.	5,467	5,297*		3.2	N.A.
Erdman, Anthony Associates	5,621			N.A.	
Atlantic Software, Inc.	1,175**			N.A.	
	37,203	25,701	14,830	44.7	73.3
Product sales:					
Company	2,367	2,424	2,000	(2.4)	21.2
Micro Distributors, Inc.	25,126	10,487***		139.6	N.A.
	27,493	12,911	2,000	112.9	545.5
Total	\$64,696	\$38,612	\$16,830	67.6%	129.4%

*Revenues since date of acquisition, February 23, 1981.

**Revenues since date of acquisition, September 21, 1982.

***Revenues since date of acquisition, January 31, 1981.

Consolidated Balance Sheets

Assets

	December 31,	
	1982	1981
Current assets:		
Cash and temporary investments	\$ 6,884,000	\$ 1,170,000
Accounts receivable-trade, less allowances of \$337,000 and \$215,000	11,277,000	6,049,000
Inventories	3,499,000	2,230,000
16% note receivable from officer due May 15, 1982		640,000
Prepaid expenses and other assets	1,180,000	502,000
Total current assets	22,840,000	10,591,000
Fixed assets	2,349,000	1,355,000
Costs in excess of net assets of subsidiaries	6,578,000	2,446,000
Software products	932,000	
Other assets	1,101,000	650,000
	\$33,800,000	\$15,042,000

Liabilities and Stockholders' Equity

Current liabilities:		
Notes payable—bank	\$ 982,000	\$ 280,000
Current maturities of long-term debt	222,000	306,000
Accounts payable and accrued liabilities	6,919,000	4,770,000
Deferred income	812,000	616,000
Income taxes payable	634,000	280,000
Deferred income taxes	2,590,000	1,821,000
Total current liabilities	12,159,000	8,073,000
Long-term debt, less current maturities	9,866,000	859,000
Deferred income taxes	59,000	164,000
Other liabilities	926,000	67,000
Total liabilities	23,010,000	9,163,000
Minority interest in subsidiary	731,000	463,000
Stockholders' equity:		
Common stock, par value \$.10 per share: authorized 8,000,000 shares in 1982 and 1981; issued 3,646,000 and 3,312,000	364,000	331,000
Paid-in capital	2,848,000	723,000
Retained earnings	6,847,000	4,363,000
	10,059,000	5,417,000
Less: 690 and 3090 shares of treasury stock, at cost		1,000
Total stockholders' equity	10,059,000	5,416,000
	\$33,800,000	\$15,042,000

Consolidated Statements of Income

	For the Years Ended December 31,		
	1982	1981	1980
Revenues:			
Services and software packages	\$37,203,000	\$25,701,000	\$14,830,000
Product sales	27,493,000	12,911,000	2,000,000
Interest income	330,000	161,000	153,000
	65,026,000	38,773,000	16,983,000
Costs and expenses:			
Cost of services and software packages	24,365,000	15,873,000	9,484,000
Cost of product sales	22,845,000	10,691,000	1,483,000
	47,210,000	26,564,000	10,967,000
Selling, general and administrative expenses	11,999,000	8,362,000	4,937,000
Interest expense	762,000	319,000	51,000
	59,971,000	35,245,000	15,955,000
Income before income taxes and minority interest	5,055,000	3,528,000	1,028,000
Income taxes	2,350,000	1,587,000	458,000
Minority interest	221,000	145,000	
Net income	\$ 2,484,000	\$ 1,796,000	\$ 570,000
Net income per share of common stock	\$.73	\$.57	\$.19

See accompanying notes to consolidated financial statements.

Consolidated Statements of Changes in Cash Position*

	For the Years Ended December 31,		
	1982	1981	1980
Sources of Cash:			
From operations			
Net income	\$2,484,000	\$1,796,000	\$570,000
Charges (credits) to income not affecting cash:			
Minority interest in net income of subsidiary	221,000	145,000	
Depreciation and amortization	731,000	257,000	142,000
Deferred hiring costs		(12,000)	15,000
Deferred income taxes	664,000	954,000	38,000
(Increase) in accounts receivable	(2,225,000)	(2,529,000)	(200,000)
(Increase) in prepaid expenses	(253,000)	(127,000)	(44,000)
Increase (decrease) in accounts payable and accrued expenses	278,000	3,276,000	(182,000)
Increase (decrease) in deferred income	(74,000)	264,000	220,000
Increase (decrease) in income taxes payable	354,000	(127,000)	242,000
Total from operations	2,180,000	3,897,000	801,000
Increase in long-term debt	10,248,000	839,000	81,000
Common stock issued upon acquisition of subsidiaries	1,624,000		
Common stock issued on conversion of debentures	534,000		
Stock options exercised	1,000	84,000	10,000
Sale of common stock to officers		640,000	
Decrease (increase) in notes receivable from officers	640,000	(640,000)	
Investment by minority shareholders in subsidiary		93,000	
Total sources of cash	15,227,000	4,913,000	892,000
Uses of Cash:			
Acquisition of subsidiaries	3,818,000	2,135,000	
Payment of long-term debt	2,790,000	89,000	222,000
Additions to fixed assets, net	780,000	980,000	117,000
Increase in inventories	1,269,000	1,800,000	
Increase in other assets	590,000	281,000	2,000
Additions to software products	212,000		
Decrease (increase) in other liabilities	32,000	35,000	(51,000)
Decrease (increase) in note payable bank	22,000	(245,000)	
Purchase of treasury stock			11,000
Purchase of treasury stock by subsidiary prior to merger			82,000
Total uses of cash	9,513,000	5,075,000	383,000
Increase (decrease) in cash and temporary investments	\$5,714,000	\$(162,000)	\$509,000

*Reorganized from a presentation of changes in working capital to a presentation of changes in cash and temporary investments in order to provide a clearer reporting of funds flow.

See accompanying notes to consolidated financial statements.

Consolidated Statements of Stockholders' Equity

For the years ended December 31, 1980, 1981 and 1982

	Common Stock		Paid-In Capital	Retained Earnings	Treasury Stock	
	Shares	Amount			Shares	Cost
Balance, December 31, 1979	512,000	\$ 51,000	\$ 397,000	\$1,997,000	16,815	\$ 36,000
Two-for-one stock split	512,000	51,000	(51,000)		16,815	
Net income				570,000		
Stock options exercised			(1,000)		(9,600)	(11,000)
Purchase of treasury stock					2,600	11,000
Purchase of treasury stock by pooled company prior to merger			(82,000)			
Balance, December 31, 1980	1,024,000	102,000	263,000	2,567,000	26,630	36,000
Net income				1,796,000		
Common stock sold to officer	80,000	8,000	632,000			
Stock options exercised			49,000		(25,600)	(35,000)
Three-for-one stock split	2,208,000	221,000	(221,000)		2,060	
Balance, December 31, 1981	3,312,000	331,000	723,000	4,363,000	3,090	1,000
Net income				2,484,000		
Common stock issued	283,000	28,000	1,596,000			
Stock options exercised					(2,400)	(1,000)
Common stock issued upon conversion of debentures	51,000	5,000	529,000			
Balance, December 31, 1982	3,646,000	\$364,000	\$2,848,000	\$6,847,000	690	\$ 0

See accompanying notes to consolidated financial statements.

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 product 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 \$174,000 and \$64,000 at December 31, 1982 and 1981, 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 \$2,590,000 and \$1,821,000 at December 31, 1982 and 1981 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 \$1,986,000 (1982), \$1,151,000 (1981) and \$662,000 (1980).

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

Deferred software products at December 31, 1982 includes \$758,000 arising from the purchase of a subsidiary in 1982 and is stated net of accumulated amortization of \$38,000.

Per share of common stock calculations are based on the weighted average number of shares outstanding—3,419,000 (1982), 3,174,000 (1981) and 2,970,000 (1980), adjusted to reflect a three-for-one split paid October 1, 1981 and a two-for-one split paid on January 1, 1980. Dilution resulting from stock options outstanding and the assumed conversion of the subordinated debentures is not significant.

Note B – Fixed Assets:

	December 31,	
	1982	1981
Fixed assets consist of:		
Furniture and equipment	\$1,606,000	\$ 775,000
Computer equipment	1,103,000	884,000
Capitalized equipment leases	451,000	148,000
Leasehold improvements	241,000	84,000
	3,401,000	1,891,000
Less: accumulated depreciation and amortization	1,052,000	536,000
	\$2,349,000	\$1,355,000

Accumulated amortization of capitalized leases aggregated \$156,000 and \$104,000 at December 31, 1982 and 1981, respectively.

Note C – Notes Payable – Bank:

At December 31, 1982 and 1981, the Company and its subsidiaries had lines of credit with various banks aggregating \$9,350,000 and \$1,350,000, respectively, with interest ranging from 0% to 2½% (at December 31, 1982) and ½% to 1% (at December 31, 1981) above the bank's prime lending rate. The weighted average interest rate at December 31, 1982 and 1981 was 11.6% and 16.25%, respectively.

Under one of the lines of credit the Company is restricted from paying cash dividends, acquiring its capital stock and is required to maintain a minimum level of working capital. In addition, subsidiaries of the Company have pledged their accounts receivable (\$3,200,000) and inventories (\$3,499,000) to collateralize the lines of credit.

Short-term borrowings averaged (on a month-end basis) \$767,000 (1982) and \$500,000 (1981) at a monthly weighted average interest rate of 15.3% and 20.8%, respectively. The maximum amount of short-term borrowings at any month-end was \$1,672,000 (1982) and \$930,000 (1981). There were no short-term borrowings in 1980.

Note D – Long-Term Debt:

	December 31,	
	1982	1981
Long-term debt consists of the following:		
12% convertible subordinated debentures	\$ 9,435,000*	
Note payable due in quarterly installments of \$75,000 plus interest at 1¼% over prime, repaid in 1982		\$ 900,000
Other, in 1982 principally capital lease obligations	653,000	265,000
	10,088,000	1,165,000
Less: current maturities	222,000	306,000
	\$ 9,866,000	\$ 859,000

*During October 1982 the Company, through a public offering, issued \$10,000,000 of its 12% convertible subordinated debentures due 2002. The debentures, which require sinking fund payments commencing in 1992, are convertible into common stock of the Company at any time prior to maturity at \$11 per share. Under the terms of the indenture, the payment of cash dividends and the purchase of the Company's common stock is restricted to \$681,000 at December 31, 1982. During the year 1982, \$565,000 of debentures were converted into 51,362 shares of common stock.

Maturities of the non-current portion of long-term debt at December 31, 1982 are as follows:

1984	\$ 203,000
1985	133,000
1986	59,000
1987	13,000
1988 and thereafter	9,458,000
	\$9,866,000

Notes to the Consolidated Financial Statements

Note E – Income Taxes:

The provisions for income taxes consist of the following:

	Years Ended December 31,		
	1982	1981	1980
Currently payable:			
Federal	\$1,216,000	\$ 389,000	\$362,000
State and local	470,000	244,000	58,000
	1,686,000	633,000	420,000
Deferred:			
Federal	615,000	843,000	12,000
State and local	49,000	111,000	26,000
	664,000	954,000	38,000
	\$2,350,000	\$1,587,000	\$458,000

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,		
	1982	1981	1980
Provision computed at the federal statutory income tax rate	\$2,325,000	\$1,623,000	\$473,000
State and local income taxes, net of federal tax benefit	281,000	192,000	45,000
Surtax exemption	(20,000)	(57,000)	(23,000)
Research and development credit	(220,000)	(73,000)	
Investment tax credit	(68,000)	(108,000)	(7,000)
Other	52,000	10,000	(30,000)
As reported	\$2,350,000	\$1,587,000	\$458,000

Note F – Accounts Payable and Accrued Liabilities:

Accounts payable and accrued liabilities consist of:

	December 31,	
	1982	1981
Accounts payable to vendors	\$3,931,000	\$2,849,000
Accrued interest and withheld payroll taxes	475,000	284,000
Accrued payroll, vacation and bonus expenses	1,178,000	760,000
Other	1,335,000	877,000
	\$6,919,000	\$4,770,000

Note G – Stock Option 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, 1982, options for 102,430 shares were outstanding under the ISOP.

During May, 1982, the Company's 1974 qualified stock option plan was terminated. At December 31, 1982, options for 21,000 shares remain outstanding under this plan.

Note G – Stock Option Plans (continued):

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 1981 is as follows:

	Number of Shares		
	Years ended December 31,		
	1982	1981	1980
Shares under option at beginning of period (\$.21-\$1.58 a share)	25,500	85,800	120,000
Granted (\$1.58-\$10.00 a share)	102,430	16,500	5,400
Exercised (\$.21-\$1.50 a share)	(2,400)	(76,800)	(28,800)
Cancelled (\$.21-\$0.75 a share)	(2,100)		(10,800)
Shares under option at end of period (\$.21-\$10.00 a share)	123,430	25,500	85,800

At December 31, 1982 and 1981 options for 8,500 and 6,000 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.

Note H – Leases:

The Company is obligated under operating lease agreements, principally on its office and warehouse facilities. In addition, the Company leases computer and other equipment under five leases, four of which are capital leases. The fifth computer equipment lease is an operating lease with an affiliated partnership with rental payments of \$38,000 in 1982 and \$65,000 in 1981. 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, 1982 are as follows:

1983	\$ 850,000
1984	504,000
1985	428,000
1986	378,000
1987	343,000
1988 and beyond	302,000
	\$2,805,000

The future minimum lease payments at December 31, 1982 under the capital leases, together with the present value of the net minimum lease payments, are as follows:

Minimum annual lease payments:	
1983	\$159,000
1984	149,000
1985	111,000
1986	61,000
1987	21,000
	501,000
Less: Amount representing interest	131,000
Present value of minimum lease payments	\$370,000

Total rental expense charged to income approximated \$1,011,000 (1982), \$460,000 (1981), and \$269,000 (1980).

Note I – Profit Sharing:

The Company has profit sharing plans covering substantially all employees of the parent and of certain of its subsidiaries. The annual contributions under the plans are determined by the Board of Directors. Such contributions amounted to \$221,000 (1982), \$234,000 (1981), and \$196,000 (1980). 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:

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 the Company's 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.

Separate results of operations of the combined entities for the years 1982, 1981 and 1980 are as follows:

	Years Ended December 31,		
	1982	1981	1980
Revenues:			
AGS Computers, Inc. and subsidiaries	\$59,179,000	\$33,881,000	\$14,120,000
ISI	5,847,000	4,892,000	2,863,000
Net Income:			
AGS Computers, Inc. and subsidiaries	1,998,000	1,396,000	547,000
ISI	486,000	400,000	23,000

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 January and May 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 of \$342,000) and by investing \$562,000 directly into Micro Distributors, Inc.

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

These acquisitions (other than ISI) 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 approximated \$6,603,000 and is being amortized over a forty-year period.

The pro forma consolidated results of operations of the Company as if Eastern Design Company Inc. and Micro Distributors, Inc. had been acquired on January 1, 1980, and Erdman, Anthony Associates and Atlantic Software, Inc. had been acquired on January 1, 1981, are as follows:

	Years Ended December 31,		
	1982	1981	1980
Revenues	\$68,531,000	\$49,499,000	\$25,298,000
Cost of services and product sales	49,119,000	32,811,000	17,931,000
Selling, general and administrative expenses	14,978,000	13,382,000	6,087,000
Income taxes	2,182,000	1,552,000	580,000
Minority interest	221,000	143,000	43,000
Net income	2,031,000	1,611,000	657,000
Net income per share	.57	.47	.22

Note L – Company Operations:

Information about the Company's operations (all from domestic operations) is as follows:

	Services and Software Packages	Microcomputer and Other Products	Consolidated
Year Ended December 31, 1982:			
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			(813,000)
Interest income			330,000
Interest expense			(762,000)
Income before income taxes and minority interests			\$ 5,055,000
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			(665,000)
Interest income			161,000
Interest expense			(319,000)
Income before income taxes and minority interests			\$ 3,528,000
Identifiable assets	\$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
Year Ended December 31, 1980:			
Revenues	\$14,830,000	\$ 2,000,000	\$16,830,000
Operating profit	\$ 1,312,000	\$ 111,000	\$ 1,423,000
General and corporate expenses			(497,000)
Interest income			153,000
Interest expense			(51,000)
Income before income taxes			\$ 1,028,000
Identifiable assets	\$ 5,702,000	\$ 257,000	\$ 5,959,000
Addition to fixed assets	\$ 116,000	\$ 1,000	\$ 117,000
Depreciation and amortization of fixed assets	\$ 137,000	\$ 1,000	\$ 138,000

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 \$9,719,000 and \$853,000 (1982), \$5,911,000 and \$856,000 (1981), and \$3,377,000 and \$671,000 (1980) of the revenues of the computer software development and engineering service segment and the computer products distribution segment, respectively.

Note M – Subsequent Event:

On January 14, 1983 the Company, in a public offering, sold 575,000 shares of its common stock for \$15.25 a share.

On March 2, 1983 the Company announced it is negotiating for the acquisition of a microcomputer distribution company at a proposed purchase price of \$5,300,000.

Report of Independent Certified Public Accountants

Coopers & Lybrand

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, 1982 and 1981, and the related consolidated statements of income, stockholders' equity and changes in cash position for the years ended December 31, 1982, 1981 and 1980. 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 balance sheet at December 31, 1981 and the related statements of income, stockholders' equity and changes in cash position for the years ended December 31, 1981 and 1980 of International Systems, Inc. (ISI), a consolidated subsidiary, which statements reflect total assets constituting 16 percent and total revenues constituting 13 percent and 17 percent, respectively, 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 relates to the amounts included for ISI, is based solely upon the report of the other auditors.

In our opinion, based upon our examination 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, 1982 and 1981 and the consolidated results of their operations and changes in their cash position for the years ended December 31, 1982, 1981 and 1980, in conformity with generally accepted accounting principles applied on a consistent basis.

Coopers & Lybrand

Newark, New Jersey
March 2, 1983

Stock Market Information

	Bid Price	
	High	Low
Year ended December 31, 1981:		
First Quarter	\$ 3.00	\$ 2.67
Second Quarter	5.33	2.83
Third Quarter	7.00	4.67
Fourth Quarter	8.50	6.50
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 Company has not paid any cash dividends since 1972 and does not have any 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 (OTC) market (NASDAQ symbol AGSC).

Executive Officers and Directors

Lawrence J. Schoenberg
Chairman, Chief
Executive Officer,
Treasurer and Director

Joseph Abrams
President, Chief
Operating Officer,
Secretary and Director

Anthony F. Stepanski
Executive Vice
President and Director

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

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

Mario Incalicchio
Controller

**AGS
Systems Development**

Martin Cook
Vice President,
Education and Training

Russell Dunkle, Jr.
Vice President

David Levine
Vice President

Frances R. Mann
Vice President

Robert Trocchio
Vice President

**SUBSIDIARIES:
AGS System
Forms, Inc.**

John Kridel
President

Armen Kachoogian
Vice President

Michael M. Kolba
Vice President

**AGS Management
Systems, Inc.**

Joseph S. Herbets
Chairman

Richard W. Thatcher, Jr.
Vice Chairman

Robert P. Wolk
President

Edward J. Hipp
Executive Vice
President

James Sullivan
Senior Vice President

Eastern Design, Inc.

Kurt Hurst
President

David Levine
Executive Vice
President

**Erdman, Anthony
Associates**

Edwin L. Anthony
President, NY
Engineering

Paul B. Erdman
President, PA
Engineering

Micro Distributors, Inc.

H. Dennis Moore
President

**Microamerica
Distributing Co., Inc.**

Gordon B. Hoffstein,
President

PHD Systems, Inc.

Russell Dunkle, Jr.
President

John Berrigan
Vice President

Richard Walsh
Vice President

Corporate Office:

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

Other Offices

California (Los Angeles,
San Francisco)
Colorado (Denver)
Connecticut (Bridgeport)
Florida (Tampa, Orlando)
Georgia (Atlanta)
Illinois (Chicago)
Maryland (Rockville)
Massachusetts (Boston)
Minnesota (Minneapolis)
New Jersey (Mountainside)
New York (Long Island,
New York City,
Rochester, White Plains)
Pennsylvania
(Harrisburg, King of
Prussia, Philadelphia)
Texas (Dallas)
Virginia (Arlington)
Washington, D.C.
Great Britain
Switzerland

Representatives in 20
additional cities.

Transfer Agent

Registrar & Transfer
10 Commerce Drive
Cranford, New Jersey 07016

Form 10K 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**

1135 Spruce Drive
Mountainside, New Jersey 07092



AGS Computers, Inc.

1135 Spruce Drive

Mountainside, New Jersey 07092
