

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

AGS Computers, Inc.  
1985 Annual Report

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## CORPORATE PROFILE

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

## FINANCIAL HIGHLIGHTS

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

## TO OUR SHAREHOLDERS

Dear Shareholder:

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

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

### *Looking Forward To 1986*

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

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

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

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

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

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

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

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

#### *Some 1985 Accomplishments*

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

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

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



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

*Joseph Abrams  
President,  
Chief Operating Officer*

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

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

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

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

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

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

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

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

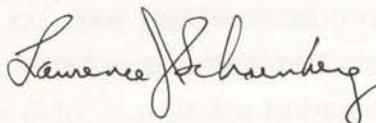
*Looking At Our Record*

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

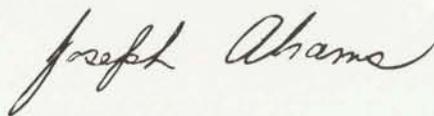
Perhaps most important, our growth has been carried out in a careful and understandable manner. We have set meaningful goals, and have consistently met or exceeded them. Simply put, we've done what we've said we would do.

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

Yours sincerely,



Lawrence J. Schoenberg  
*Chairman,  
Chief Executive Officer*



Joseph Abrams  
*President,  
Chief Operating Officer*

## SOFTWARE

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

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

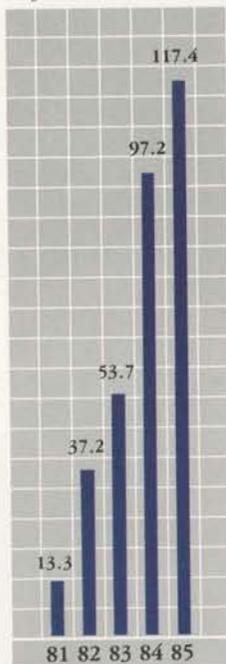
Our systems development work accounts for the majority of our revenues in this \$117 million sector of our business, and makes us one of the largest professional services companies in the commercial custom-development area. The skills we bring to bear on systems development also create parallel opportunities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

### *Systems Development And Software Products: The Interplay*

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

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

REVENUES  
Software (\$ Millions)



Our subsidiary, Software Design Associates (SDA), developed the Risk Asset Management System, described earlier, for the banking industry as an outgrowth of its systems development work. At the same time, our DISC subsidiary develops and markets a wide range of software for specialized financial applications, including cash reconciliation and interest reporting programs for banks throughout the country. In fact, two-thirds of the nation's 100 largest banks are using DISC software, which has become the banking industry standard.

Opportunities develop in many ways. Sometimes software products evolve from our consulting activities, but more often, consulting activities evolve through the sale of software.

Our subsidiary, AGS Management Systems, sells software products that help companies manage large projects and control the systems development process. The products are simply the most advanced in their field.

One such product, their Systems Development Methodology (SDM), has been purchased by Coopers & Lybrand, one of the world's largest public accounting and consulting organizations. Coopers & Lybrand will use SDM to standardize their approach to managing systems development projects for their many consulting clients.

This sale of software will create a number of new systems development and consulting opportunities for us. As the Coopers & Lybrand professionals use our methodology at their various clients, we anticipate obtaining substantial new business contracts from those clients.



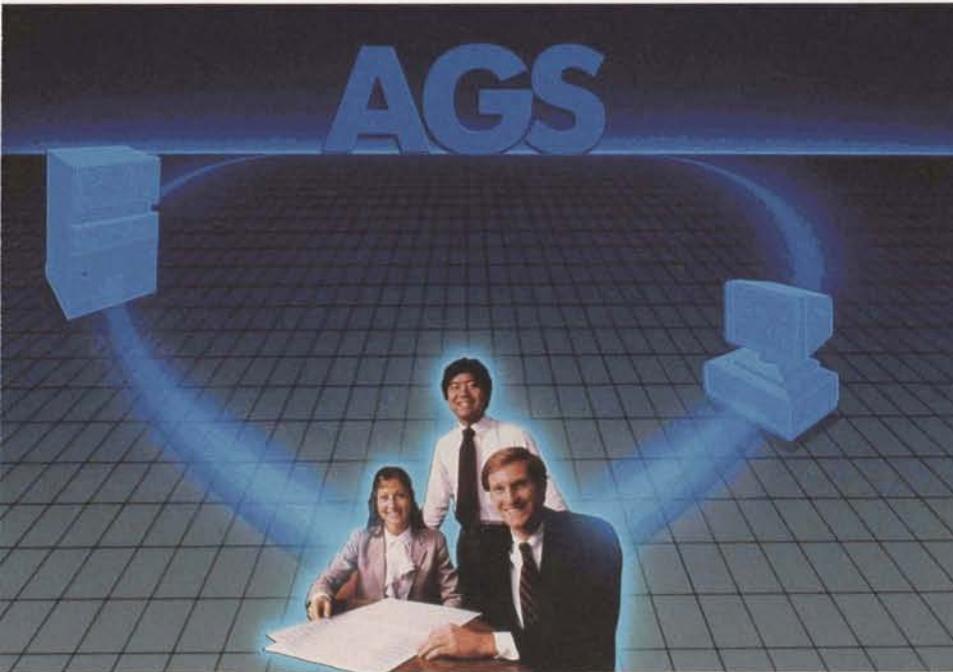
### *Leverage From Our Technical Skills*

Our long-term involvement in the telecommunications and computer industries has provided us with many opportunities to supply high-level professional services in systems development.

We have long-standing relationships with the AT&T companies, and are well-known for our expertise in UNIX-based systems. As we continue to provide systems development services to the AT&T companies, we have been asked to evaluate and manage the transfer of other companies' software to AT&T

computer equipment. We have also consulted for other computer and peripheral equipment manufacturers to ensure the correct approach in connecting their equipment to AT&T equipment.

Leverage from our UNIX-based systems expertise goes beyond the telecommunications and computer industries, extending into the commercial sphere of financial services as well. We have developed a unique bond trading system for Bear Stearns & Co., a major Wall Street firm. Operating



under UNIX, on AT&T hardware, this system tracks all transactions in the government bond area, giving access to current security positions and client exposure information. It represents a special opportunity for us to work across the lines of our special markets, and demonstrates the benefits of our well-focused technical expertise and market specialization.

Our unmatched technical skills in the area of computer communications software occupy a position of growing importance. An emerging range of hardware devices, like bank and retail terminals, are being connected by communications lines, even though they were neither conceived nor designed to do so.

Thus, it becomes more and more vital for different kinds of computer equipment to work together effectively.

Our Systems Strategies subsidiary is the leading supplier of communications software designed to allow non-IBM mini and microcomputer systems to communicate effectively with IBM mainframes. By permitting small systems to communicate and operate just as if they were remote IBM terminals, our software allows our clients, who include the major computer and peripheral manufacturers, to efficiently tie their systems to IBM systems.

Even in this area, there is a technical benefit that crosses over between our software products and our systems development skills. All our communications software operates under UNIX, giving us further leverage in developing and adapting applications throughout our business.

#### *The Connection Between Our Skills*

In most cases, the decisions to use our consulting services and our software products are made independently. But the connections between our services and our products serve to illustrate the emerging breadth of our approach to providing complete automation solutions in our selected niche markets. The connection also adds a kind of marketing leverage to the powerful technical leverage we enjoy.

Additionally, whether we offer software products or systems development services, many of the skills remain similar. The same kinds of technical competence, analytical ability and consultative skills that so distinguish us in the professional services area, also serve us well in the software products business.

Armed with widely-recognized technical skills, and leadership positions in a number of exciting areas, we are well on our way to becoming the number one company in delivering automation solutions to the finance, telecommunications and computer industries. We believe these areas promise us an exciting and rewarding future.

*“Last year we continued to gain leverage from our technical expertise, our market position and our broad applications experience.”*

## MICROCOMPUTER DISTRIBUTION

Our Microamerica subsidiary is the largest distributor of microcomputer related hardware in the United States, serving systems integrators, value-added resellers, computer retailers and consultants throughout the country.

Operating just over six years, the company has grown to be preeminent in its field. While Microamerica is the largest microcomputer distributor in the country, the company's importance as an industry leader goes far beyond size.

By providing a unique and innovative program of training, support and service to its customers, Microamerica has become a full-service resource, and not just another intermediary in the distribution business. In a period when microcomputer distributors have seen competition severely erode profit margins, Microamerica has set new sales and profit records year after year. This is entirely due to a superb management team that is unmatched in its marketing skills and organizational ability.

### *What Makes Microamerica Special?*

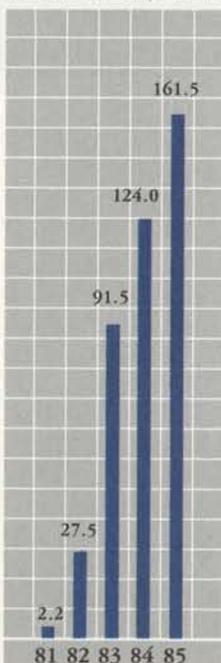
Microamerica has set itself apart in a number of ways. First is its creation of a series of innovative services that were industry firsts. They include:

- MicroCharge, the industry's first comprehensive inventory financing program for dealers.
- TIPS, a unique Technical Information and Product Support service to answer dealers' technical questions.
- MicroSchool, an extensive curriculum of sales and product-related training courses for dealers.
- MicroPromotions, an innovative series of promotional and advertising programs designed to stimulate dealer sales.

In addition to these programs, Microamerica offers incentive plans, co-op advertising, lead referrals and a broad range of other support services designed to ensure dealer success and maintain dealer loyalty.

The company sells only to resellers, and never to end-users. This prevents the appearance of competition, and is designed

REVENUES  
*Distribution* (\$ Millions)



to show dealers that they have a distributor who has THEIR long-term success in mind. Gordon Hoffstein, Microamerica's President, says:

“We've always tried to put ourselves in our dealers' shoes. More than any other factor, this seems to explain our record of unparalleled dealer support, and our resulting success in the marketplace.”

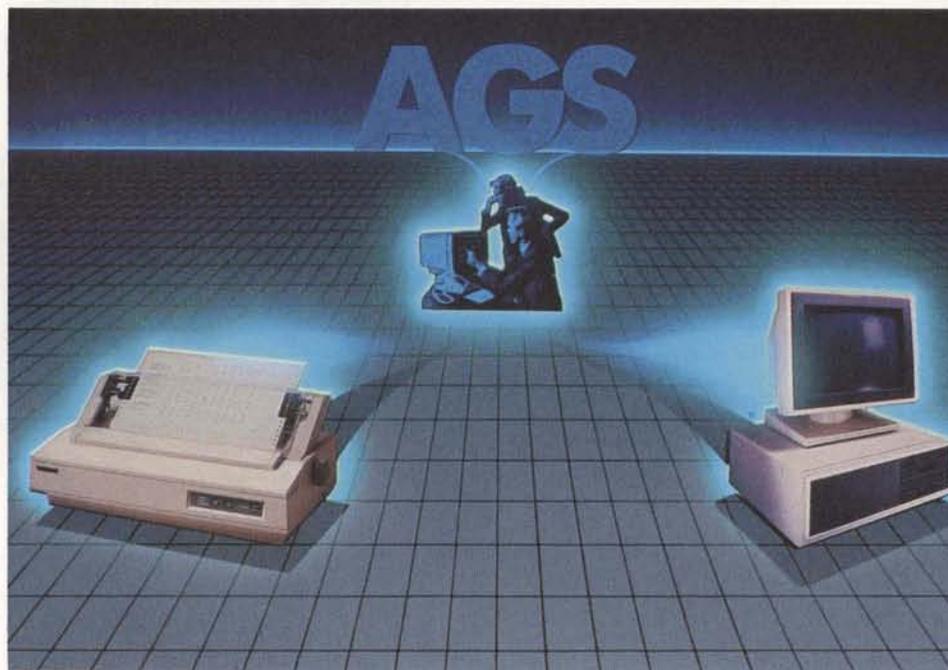
### *Relationships With Suppliers: A Strategic Approach*

There's another side to Microamerica's success — its formation of important continuing relationships with its suppliers. Microamerica calls the relationships “strategic alliances.” These relationships extend far beyond simply being an approved distributor of a given product line.

Microamerica becomes, in effect, an extension of the manufacturers' sales and marketing organizations — a resource in bringing products to market. Supplying promotion, technical support, product information and publications, Microamerica

provides a means of accomplishing certain functions that manufacturers might otherwise have to provide themselves.

In fulfilling its broad-based role, Microamerica works with its key suppliers on their marketing plans, product positioning, support and training. This gives the manufacturers marketing leverage that is not otherwise available. These close working relationships have led Microamerica to limit itself to a small number of key suppliers. This is in sharp contrast to the hundreds that more typical distributors might represent, and emphasizes the special qualities of the Microamerica approach.



*“Microamerica has grown to be pre-eminent in its field. It’s not just the largest microcomputer distributor in the country, it’s also the most important.”*

### *A Special Sense Of The Market*

Microamerica couldn't have grown so large so quickly without being extremely sensitive to developments in the markets for microcomputers and related equipment.

The company's nationally-recognized expertise in product evaluation and selection has helped in selecting the key manufacturers with whom Microamerica has formed its "strategic alliances." From the outset, it has helped to avoid costly inventory problems by leading the company away from potential problem products.

Just as important, the company's special sense of the market has extended its critical role as an advisor to both manufacturers and resellers.

It is this blending of strengths and integrating of services to BOTH dealers and manufacturers that explains Microamerica's success. It remains a continuing source of promise for the future, reflecting most directly on the company's management team, and the unique abilities they bring to the development of a truly outstanding company within the AGS family of companies.

## **FINANCIAL SECTION**

AGS Computers, Inc. and Subsidiaries

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Fiscal 1985

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**CONSOLIDATED STATEMENTS OF INCOME**

For the years ended December 31,	1985	1984	1983
Sales:			
Software	\$117,375,000	\$ 97,177,000	\$ 53,773,000
Microcomputer distribution	161,496,000	124,055,000	91,515,000
Interest income	311,000	399,000	623,000
	<u>279,182,000</u>	<u>221,631,000</u>	<u>145,911,000</u>
Cost of sales:			
Software	77,710,000	64,382,000	31,937,000
Microcomputer distribution	138,941,000	106,429,000	78,008,000
	<u>216,651,000</u>	<u>170,811,000</u>	<u>109,945,000</u>
Selling, general and administrative expenses	45,103,000	34,593,000	24,133,000
Interest expense	2,300,000	2,832,000	983,000
	<u>264,054,000</u>	<u>208,236,000</u>	<u>135,061,000</u>
Income from continuing operations before income taxes	15,128,000	13,395,000	10,850,000
Income taxes	7,635,000	6,614,000	5,065,000
	<u>7,493,000</u>	<u>6,781,000</u>	<u>5,785,000</u>
Discontinued operations:			
Loss from discontinued operations (less applicable income taxes of \$417,000)		(483,000)	
Loss on disposal of discontinued operations (less applicable income taxes of \$391,000)		(459,000)	
Loss from discontinued operations		<u>(942,000)</u>	
Net income	<u>\$ 7,493,000</u>	<u>\$ 5,839,000</u>	<u>\$ 5,785,000</u>
Income per share from continuing operations:			
Primary	\$1.43	\$1.29	\$1.25
Fully diluted	\$1.43	\$1.29	\$1.20
(Loss) per share from discontinued operations:			
Primary		\$ (.18)	
Net income per share:			
Primary	\$1.43	\$1.11	\$1.25
Fully diluted	\$1.43	\$1.11	\$1.20
Weighted average shares outstanding:			
Primary	5,253,000	5,270,000	4,609,000
Fully diluted	5,253,000	5,270,000	5,072,000

See accompanying notes to consolidated financial statements.

**CONSOLIDATED BALANCE SHEETS**

December 31	1985	1984
<b>Assets</b>		
Current assets:		
Cash and temporary investments	\$ 2,969,000	\$ 2,797,000
Accounts receivable-trade, less allowances of \$1,010,000 and \$720,000	37,150,000	26,722,000
Inventories	20,060,000	14,759,000
Prepaid expenses and other assets	5,254,000	3,721,000
<i>Total current assets</i>	<u>65,433,000</u>	<u>47,999,000</u>
Fixed assets		
Software products	6,417,000	3,990,000
Costs in excess of net assets of subsidiaries acquired	7,239,000	6,100,000
Other assets	30,971,000	28,631,000
	1,041,000	6,539,000
	<u>\$111,101,000</u>	<u>\$93,259,000</u>
<b>Liabilities and Stockholders' Equity</b>		
Current liabilities:		
Notes payable	\$ 43,000	\$ 1,305,000
Current maturities of long-term debt	4,139,000	3,066,000
Accounts payable and accrued liabilities	25,316,000	18,812,000
Deferred income	3,310,000	2,375,000
Income taxes payable	302,000	203,000
Deferred income taxes payable	10,949,000	8,544,000
<i>Total current liabilities</i>	<u>44,059,000</u>	<u>34,305,000</u>
Deferred income taxes	2,636,000	1,716,000
Long-term debt, less current maturities	15,283,000	14,822,000
Other liabilities	121,000	399,000
<i>Total liabilities</i>	<u>62,099,000</u>	<u>51,242,000</u>
Stockholders' equity:		
Common stock, par value \$.10 per share: authorized 25,000,000 shares in 1985 and 1984; issued 5,311,000 and 5,283,000	531,000	528,000
Paid-in capital	23,347,000	23,018,000
Retained earnings	25,964,000	18,471,000
	<u>49,842,000</u>	<u>42,017,000</u>
Less 54,000 shares of treasury stock, at cost	840,000	
<i>Total stockholders' equity</i>	<u>49,002,000</u>	<u>42,017,000</u>
	<u>\$111,101,000</u>	<u>\$93,259,000</u>

See accompanying notes to consolidated financial statements.

**CONSOLIDATED STATEMENTS OF CHANGES IN CASH POSITION**

For the years ended December 31,	1985	1984	1983
<b>Sources of cash:</b>			
From continuing operations:			
Income	\$ 7,493,000	\$ 6,781,000	\$ 5,785,000
Equity in losses of affiliated companies	338,000	365,000	
Depreciation and amortization	2,420,000	1,912,000	1,322,000
Changes in balance sheet accounts:			
Income taxes payable-net	2,320,000	4,731,000	1,844,000
Accounts receivable	(9,004,000)	(1,509,000)	(7,367,000)
Prepaid expenses	(765,000)	(167,000)	(881,000)
Accounts payable and accrued expenses	5,875,000	3,201,000	1,886,000
Deferred income	637,000	720,000	(1,416,000)
	<u>9,314,000</u>	<u>16,034,000</u>	<u>1,173,000</u>
From discontinued operations:			
(Loss)		(942,000)	
Depreciation and amortization		18,000	
Changes in balance sheet accounts:			
Income taxes payable-net		(808,000)	
Prepaid expenses		(292,000)	
		<u>(2,024,000)</u>	
<i>Total from operations</i>	<u>9,314,000</u>	<u>14,010,000</u>	<u>1,173,000</u>
Sale of common stock			
			8,094,000
Common stock issued on conversion of debentures			
			8,672,000
Common stock issued upon acquisition of subsidiaries and equity interests			
		584,000	2,492,000
Common stock issued under employee stock ownership and stock purchase plans			
	327,000	152,000	
Stock options exercised			
	135,000	92,000	120,000
Tax benefit from the issuance of stock options			
		128,000	
Increase in long-term debt			
	4,500,000	20,000,000	12,000
Decrease (increase) in other assets			
	1,175,000	(1,248,000)	(82,000)
<i>Total sources of cash</i>	<u>15,451,000</u>	<u>33,718,000</u>	<u>20,481,000</u>
<b>Uses of cash:</b>			
Acquisition of subsidiaries and equity interests			
	349,000	18,362,000	8,387,000
Decrease (increase) in notes payable			
	1,932,000	10,621,000	(2,770,000)
Payment of long-term debt			
	3,173,000	2,527,000	9,708,000
Additions to fixed assets, net			
	3,607,000	1,615,000	1,331,000
Increase in inventories			
	5,301,000	1,111,000	4,697,000
Additions to software products-net			
	289,000	638,000	1,569,000
Decrease in other liabilities			
	100,000	360,000	130,000
Purchase of treasury stock			
	528,000		
<i>Total uses of cash</i>	<u>15,279,000</u>	<u>35,234,000</u>	<u>23,052,000</u>
Increase (decrease) in cash and temporary investments	<u>\$ 172,000</u>	<u>\$ (1,516,000)</u>	<u>\$ (2,571,000)</u>

See accompanying notes to consolidated financial statements.

**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**

For the years ended December 31, 1983, 1984, and 1985

	Common Stock			Retained Earnings	Treasury Stock	
	Shares	Amount	Paid-in Capital		Shares	Cost
Balance, December 31, 1982	3,646,000	\$364,000	\$ 2,848,000	\$ 6,847,000	690	
Net income				5,785,000		
Common stock sold	575,000	58,000	8,036,000			
Common stock issued	127,000	13,000	2,479,000			
Stock options exercised	19,000	2,000	118,000		(690)	
Common stock issued upon conversion of debentures	855,000	85,000	8,587,000			
Balance, December 31, 1983	5,222,000	522,000	22,068,000	12,632,000		
Net income				5,839,000		
Common stock issued	39,000	4,000	580,000			
Stock options exercised	13,000	1,000	91,000			
Common stock issued under employee ownership plan	6,000	1,000	123,000			
Common stock issued under employee stock purchase plan	3,000		28,000			
Tax benefit from the issuance of stock options			128,000			
Balance, December 31, 1984	5,283,000	528,000	23,018,000	18,471,000		
Net income				7,493,000		
Treasury stock acquired					62,000	\$970,000
Stock options exercised	15,000	2,000	133,000			
Common stock issued under employee ownership plan	13,000	1,000	198,000			
Common stock issued under employee stock purchase plan			(2,000)		(8,000)	(130,000)
Balance, December 31, 1985	5,311,000	\$531,000	\$23,347,000	\$25,964,000	54,000	\$840,000

*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 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 as follows: (a) on sales made on standard terms, 90% of the sale amount is recognized when the package is in deliverable form with the balance recognized upon completion of training and support; (b) on sales made subject to client acceptance of the package, revenues are recognized after acceptance is received for the package and the collateral training and support. Revenues from maintenance contracts are recognized ratably over the term of each contract. Microcomputer sales, costs of microcomputer 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 acquired are being amortized over forty-year periods. Accumulated amortization aggregated \$2,058,000 and \$1,206,000 at December 31, 1985 and 1984, respectively.

Inventories, consisting of microcomputer systems, peripherals and computer accessories, are stated at the lower of cost or market; cost is determined by the first-in first-out (FIFO) method.

Deferred income taxes result from reporting certain revenue and expense items differently for financial and tax reporting and are shown primarily 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 \$5,174,000 (1985), \$4,413,000 (1984) and \$2,753,000 (1983).

In December 1985, the Company adopted as of January 1, 1985 the capitalization and amortization of software cost provisions of FASB 86. Costs of new products and enhancements to existing products are capitalized when technological feasibility exists and are amortized over the greater of the ratio of the product's current-to-future revenue stream or the straight line method over its estimated useful life which generally approximates five years. Costs deferred and amortized were \$2,579,000 and \$2,291,000 for 1985, respectively. The change had an immaterial effect on the results of operations. Costs of software product enhancements with an established market deferred and amortized were \$2,055,000 and \$2,230,000 and \$666,000 and \$198,000 for the years 1984 and 1983, respectively.

Software products at December 31, 1985 include \$4,608,000 arising from the purchase of subsidiaries and are stated net of accumulated amortization of \$2,191,000.

Primary net income per share is based on the weighted average number of shares of common stock outstanding. Dilution resulting from stock options outstanding is not significant. Fully diluted net income per share assumed conversion on January 1, 1983 of all convertible debentures into common stock; for this calculation net income was increased by the after tax interest of the debentures.

*Note B-Fixed Assets:*

December 31,	1985	1984
Fixed assets consist of:		
Furniture and equipment	\$ 5,252,000	\$3,976,000
Computer equipment	3,847,000	1,814,000
Leasehold improvements	1,357,000	913,000
	<u>10,456,000</u>	<u>6,703,000</u>
Less: accumulated depreciation and amortization	4,039,000	2,713,000
	<u>\$ 6,417,000</u>	<u>\$3,990,000</u>

*Note C-Notes Payable:*

Notes payable at December 31, 1984 are owed to former stockholders of companies acquired.

There were no short-term borrowings outstanding in 1985. Short-term borrowings averaged (on a month-end basis) \$1,033,000 (1984) and \$2,106,000 (1983) at a monthly weighted average interest rate of 11.0% and 10.8%, respectively. The maximum amount of short-term borrowings at any month-end was \$12,400,000 (1984) and \$5,200,000 (1983).

*Note D-Long-Term Debt:*

December 31,	1985	1984
Long-term debt consists of the following:		
Bank term note	\$ 9,750,000	\$12,750,000
Bank revolving credit note	8,500,000	4,000,000
Other	1,172,000	1,138,000
	<u>19,422,000</u>	<u>17,888,000</u>
Less, current maturities	<u>4,139,000</u>	<u>3,066,000</u>
	<u>\$15,283,000</u>	<u>\$14,822,000</u>

The Company's bank credit facility aggregated \$24,750,000 at December 31, 1985 of which \$9,750,000 was under the term note and \$15,000,000 under the revolving credit note. The term note requires quarterly installments of principal of \$750,000 to maturity at January 31, 1989 plus interest at prime. The revolving credit note terminates on October 31, 1986, at which date all amounts then outstanding are converted to a Funded Term Loan payable in quarterly installments commencing on January 31, 1987 with a final maturity date of October 31, 1989; interest, at the Company's choosing, is either at prime or LIBOR (plus 1-1/4% and other adjustments) to October 31, 1986 and 1/2% over prime and 1-3/4% over LIBOR thereafter. Under this credit facility the payment of cash dividends is prohibited and requires the Company to maintain several financial ratios, including working capital and cash flow. The agreement also requires the Company to maintain a compensating cash balance of \$500,000.

Maturities of the non-current portion of long-term debt at December 31, 1985 are as follows:

1987	\$ 5,866,000
1988	5,834,000
1989	3,583,000
	<u>\$15,283,000</u>

*Note E-Income Taxes:*

The provisions for income taxes consist of the following:

Years ended December 31,	1985	1984	1983
From continuing operations:			
Currently payable:			
Federal	\$2,461,000	\$ 493,000	\$1,731,000
State and local	1,115,000	583,000	780,000
	<u>3,576,000</u>	<u>1,076,000</u>	<u>2,511,000</u>
Deferred:			
Federal	3,571,000	4,742,000	2,228,000
State and local	488,000	796,000	326,000
	<u>4,059,000</u>	<u>5,538,000</u>	<u>2,554,000</u>
	<u>\$7,635,000</u>	<u>\$6,614,000</u>	<u>\$5,065,000</u>
From discontinued operations:			
Currently payable federal	\$ (417,000)		
Deferred federal	(391,000)		
	<u>\$ (808,000)</u>		

The effect on deferred taxes from (i) reporting of income on the cash basis for income tax purposes was \$1,731,000, \$1,196,000 and \$1,662,000 for 1985, 1984 and 1983, respectively, (ii) the expensing of software product enhancements for income tax purposes was \$501,000 in 1985 and \$659,000 in 1984, and (iii) differences in the valuation and amortization of acquired subsidiary assets was \$1,001,000 in 1985 and \$802,000 in 1984.

A reconciliation of the provisions for taxes on income from continuing operations at the applicable Federal statutory income tax rate to the tax provisions as reported is as follows:

Years ended December 31,	1985	1984	1983
Provision computed at the Federal statutory income tax rate	\$6,959,000	\$6,162,000	\$4,968,000
State and local income taxes, net of federal tax benefit	829,000	732,000	597,000
Amortization of costs in excess of net assets acquired	376,000	326,000	
Research and development credit	(155,000)	(510,000)	(320,000)
Investment tax credit	(246,000)	(136,000)	(356,000)
Other	(128,000)	40,000	176,000
As reported	<u>\$7,635,000</u>	<u>\$6,614,000</u>	<u>\$5,065,000</u>

*Note F-Accounts Payable and Accrued Liabilities:*

December 31,	1985	1984
Accounts payable and accrued liabilities consist of:		
Accounts payable to vendors	\$20,220,000	\$13,934,000
Accrued payroll, vacation and bonus expenses	3,010,000	2,164,000
Other	2,086,000	2,714,000
	<u>\$25,316,000</u>	<u>\$18,812,000</u>

*Note G-Stock Plans:*

During 1984, the Company increased the maximum number of options under its incentive stock option plan ("ISOP") from 250,000 shares to 500,000 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, 1985 options for 282,865 shares were outstanding under the ISOP.

At December 31, 1985 options for 1,500 shares remain outstanding under the Company's terminated qualified stock option plan.

Certain information with respect to options granted under the above noted plans are as follows:

Years ended December 31,	Number of Shares		
	1985	1984	1983
Shares under option at beginning of period (\$.53-\$28.75 a share)	235,615	184,265	123,430
Granted (\$.53-\$28.75)	129,634	81,450	106,446
Exercised (\$.53-\$20.00)	(14,567)	(13,047)	(19,847)
Cancelled (\$.97-\$26.50)	(66,317)	(17,053)	(25,764)
Shares under option at end of period (\$.53-\$28.75 a share)	<u>284,365</u>	<u>235,615</u>	<u>184,265</u>

At December 31, 1985 and 1984 options for 99,312 and 74,416 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.

During 1983, the Company adopted an employee stock purchase plan (ESPP) which authorizes the granting of 250,000 shares of stock to all full-time employees of the Company and its subsidiaries at a price not less than 85% of the market value at date of grant. Options to purchase 50,000 shares under this plan were authorized of which 3,007 were issued in 1984 at \$14.25 per share and 8,336 were issued in 1985 at \$15.30 per share. No shares were issuable under this plan at December 31, 1985.

During 1983, the Company adopted an employee stock ownership purchase plan under which all qualified employees of the Company and its subsidiaries are granted shares of stock equal in value to .5% of their annual compensation. In connection with this plan, expenses of \$291,000, \$223,000 and \$134,000 were reflected in the statements of income for the years ended December 31, 1985, 1984 and 1983, respectively.

*Note H-Commitments:*

The Company is obligated under operating lease agreements, for its offices, warehouse facilities, and equipment. 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, 1985 are as follows:

1986	\$ 3,716,000
1987	3,398,000
1988	2,891,000
1989	1,862,000
1990	958,000
1991 and beyond	3,567,000
	<u>\$16,392,000</u>

Total rental expense charged to income was \$4,244,000 (1985), \$2,961,000 (1984) and \$1,760,000 (1983).

*Note I-Profit Sharing and 401K Investment Plan:*

The Company has profit sharing plans covering substantially all employees of the parent and certain of its subsidiaries. The annual contributions under the plans are determined by the Board of Directors. Profit sharing contributions are funded as accrued. In 1985, the Company and some subsidiaries amended their profit sharing plans to become a 401K employee investment plan. The Company and subsidiaries match employee contributions in varying amounts. The contributions under all plans amounted to \$327,000 (1985), \$218,000 (1984) and \$198,000 (1983).

*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 1983 the Company increased its investment in Micro Distributors, Inc., a distributor of microcomputers, from 67% to 100% by purchasing for 123,000 shares of Common Stock (market value \$2,381,000) the interests of minority shareholders.

In March 1983, the Company purchased Microamerica Distributing Co., Inc. which is an independent distributor of microcomputers, peripherals, and accessories for \$5,557,000.

In June 1983, the Company purchased for \$7,179,000 (of which \$3,915,000 was paid in 1984) DISC, Inc., which designs proprietary software products. The purchase agreement calls for additional payments if pre-tax income, as defined, exceeds certain minimum amounts during the three year period following acquisition; under this aspect of the agreement an additional \$122,000, \$38,000 and \$589,000 was accrued at December 31, 1985, 1984 and 1983, respectively.

In January 1984 the Company acquired Software Design Associates, Inc. (SDA), a software services company, for approximately \$12,900,000.

In December 1984 the Company acquired for \$3,450,000 (of which \$1,000,000 was paid on December 24, 1985 and \$1,000,000 is payable on December 24, 1986) Systems Strategies Inc. which provides computer services and develops software products. The purchase agreement calls for additional payments, if pre-tax income, as defined, exceeds certain minimum amounts. The acquisition was effective January 1, 1985 and accordingly no operations were reflected in the Statement of Income for 1984, and the purchase price was shown on the balance sheet in other assets.

These acquisitions 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 approximates \$28,850,000 and is being amortized over forty-year periods.

The unaudited pro forma consolidated results of operations of the Company as if Micro Distributors, Inc., Microamerica Distributing Company, Inc., DISC, Inc. and SDA had been acquired on January 1, 1983 are as follows:

Year ended December 31,	1983
Sales	\$175,664,000
Cost of sales	130,727,000
Selling, general and administrative expenses	34,375,000
Income taxes	5,059,000
Net income	5,503,000
Net income per share	
Primary	1.19
Fully diluted	<u>\$ 1.14</u>

The results of operations for 1984 would not have been materially affected if Systems Strategies, Inc. had been acquired on January 1, 1984.

*Note L-Discontinued Operations:*

Effective December 31, 1984, the Company adopted a plan to discontinue its subsidiary which wholesaled microcomputer software manufactured and packaged by outside vendors. At December 31, 1984, the net assets of the discontinued operation, consisting principally of inventory, trade receivables and fixed assets were stated at estimated realizable values and reclassified to prepaid expenses and other assets.

Sales of the discontinued operation were approximately \$4,100,000 in 1984. This subsidiary commenced business in late 1983 and did not have a material effect on 1983 operations. In February 1985, the Company exchanged the net assets of the subsidiary for \$442,000 of AGS common stock held by management of the discontinued operation. The loss on disposal before tax benefits includes operating losses of approximately \$150,000 incurred prior to the disposal date.

*Note M-Quarterly Financial Information:*

Unaudited quarterly financial data for the years 1985 and 1984 is as follows:

1985	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Sales	\$65,742,000	\$70,327,000	\$67,617,000	\$75,496,000
Gross profit	14,738,000	16,105,000	15,420,000	16,268,000
Net income	1,925,000	1,734,000	1,854,000	1,980,000
Net income per share	<u>\$ .37</u>	<u>\$ .33</u>	<u>\$ .35</u>	<u>\$ .38</u>
1984				
Sales	\$52,658,000	\$52,177,000	\$54,836,000	\$61,960,000
Gross profit	11,794,000	12,255,000	13,188,000	13,584,000
Income from Continuing Operations	1,727,000	1,428,000	1,860,000	1,766,000
Loss from Discontinued Operations	(168,000)	(121,000)	(82,000)	(112,000)
Loss on Disposal of Discontinued Operations	—	—	—	(459,000)
Net income	1,559,000	1,307,000	1,778,000	1,195,000
Income Per Share from Continuing Operations	.33	.27	.36	.34
Loss Per Share from Discontinued Operations	(.03)	(.02)	(.02)	(.11)
Net income per share	<u>\$ .30</u>	<u>\$ .25</u>	<u>\$ .34</u>	<u>\$ .23</u>

*Note N-Company Operations:*

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

	Software	Microcomputer Distribution	Consolidated
<i>Year Ended December 31, 1985:</i>			
Sales	<u>\$117,375,000</u>	<u>\$161,496,000</u>	<u>\$278,871,000</u>
Operating profit	<u>\$ 13,192,000</u>	<u>\$ 7,679,000</u>	<u>\$ 20,871,000</u>
General and corporate expenses			(3,754,000)
Interest income			311,000
Interest expense			(2,300,000)
Income before income taxes			<u>\$ 15,128,000</u>
Identifiable assets:			
Operations	<u>\$ 62,542,000</u>	<u>\$ 45,087,000</u>	<u>\$107,629,000</u>
Corporate (principally temporary investments)			3,472,000
Total			<u>\$111,101,000</u>
Additions to fixed assets	<u>\$ 1,105,000</u>	<u>\$ 2,502,000</u>	<u>\$ 3,607,000</u>
Depreciation and amortization of fixed assets	<u>\$ 1,120,000</u>	<u>\$ 482,000</u>	<u>\$ 1,602,000</u>
<i>Year Ended December 31, 1984:</i>			
Sales	<u>\$ 97,177,000</u>	<u>\$124,055,000</u>	<u>\$221,232,000</u>
Operating profit	<u>\$ 13,078,000</u>	<u>\$ 5,411,000</u>	<u>\$ 18,489,000</u>
General and corporate expenses			(2,661,000)
Interest income			399,000
Interest expense			(2,832,000)
Income before income taxes			<u>\$ 13,395,000</u>
Identifiable assets:			
Operations	<u>\$ 57,172,000</u>	<u>\$ 33,265,000</u>	<u>\$ 90,437,000</u>
Corporate (principally temporary investments)			2,822,000
Total			<u>\$ 93,259,000</u>
Additions to fixed assets	<u>\$ 1,362,000</u>	<u>\$ 253,000</u>	<u>\$ 1,615,000</u>
Depreciation and amortization of fixed assets	<u>\$ 924,000</u>	<u>\$ 275,000</u>	<u>\$ 1,199,000</u>

	Software	Microcomputer Distribution	Consolidated
<i>Year Ended December 31, 1983:</i>			
Sales	\$ 53,773,000	\$ 91,515,000	\$145,288,000
Operating profit	\$ 9,733,000	\$ 2,714,000	\$ 12,447,000
General and corporate expenses			(1,237,000)
Interest income			623,000
Interest expense			(983,000)
Income before income taxes			\$ 10,850,000
Identifiable assets:			
Operations	\$ 32,737,000	\$ 33,617,000	\$ 66,354,000
Corporate (principally temporary investments)			2,499,000
Total			\$ 68,853,000
Additions to fixed assets	\$ 562,000	\$ 769,000	\$ 1,331,000
Depreciation and amortization of fixed assets	\$ 622,000	\$ 353,000	\$ 975,000

*The Company operates in two industries:* Software and the distribution of microcomputers and other products.

Sales to a group of customers under common control were \$29,194,000 and \$188,000 (1985), \$27,087,000 and \$504,000 (1984) and \$14,909,000 and \$179,000 (1983) of the sales of the software and microcomputer segments, respectively.

*Note O-Subsequent Events:*

In January 1986, the Company acquired effective control of Compuserve, a Canadian distributor of microcomputer products. The acquisition of the business of Compuserve for \$5,000,000 is subject to the consent of a Canadian government agency, and is expected to be completed during the first quarter of 1986. The unaudited pro forma consolidated sales and net income of the Company as if Compuserve had been acquired on January 1, 1985 would have been \$309,452,000 and \$7,668,000, respectively.

Subsequent to December 31, 1985, the Company amended its bank credit facility to \$35,000,000 of which \$15,000,000 is under a five year term note requiring quarterly installments of \$750,000 and \$20,000,000 under a revolving credit note which terminates January 31, 1988 and becomes a three year term loan requiring equal quarterly installments thereafter. Interest terms and loan covenants under the amended agreement are substantially the same as the existing facility.

**REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS**

*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, 1985 and 1984, and the related consolidated statements of income, stockholders' equity and changes in cash position for the years ended December 31, 1985, 1984 and 1983. 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.

In our opinion, the consolidated financial statements referred to above present fairly the consolidated financial position of AGS Computers, Inc. and Subsidiaries at December 31, 1985 and 1984 and the consolidated results of their operations and changes in their cash position for the years ended December 31, 1985, 1984 and 1983, in conformity with generally accepted accounting principles applied on a consistent basis.

Newark, New Jersey  
February 21, 1986

Coopers & Lybrand

## 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 sales and the percentage increase of such items as compared to the prior year:

	Percentage of Sales			Period to Period Increase	
	For the years ended Dec. 31,			1985	1984
	1985	1984	1983	compared to 1984	compared to 1983
Sales:					
Software	42.0%	43.8%	36.9%	20.8%	80.7%
Microcomputer distribution	57.9	56.0	62.7	30.2	35.6
Interest income	.1	.2	.4	(22.1)	36.0
Total sales	100.0	100.0	100.0	26.0	51.9
Cost of software	27.8	29.1	21.9	20.7	101.6
Cost of microcomputer distribution	49.8	48.0	53.5	30.5	36.4
Total costs	77.6	77.1	75.4	26.8	55.4
Selling, general and administrative expenses	16.2	15.6	16.5	30.4	43.3
Interest expense	.8	1.3	.7	(18.8)	188.1
Total costs and expenses	94.6	94.0	92.6	26.8	54.2
Income before income taxes	5.4	6.0	7.4	12.9	23.5
Income taxes	2.7	3.0	3.4	15.4	30.6
Net income from continuing operations	2.7	3.0	4.0	10.5	17.2
Net loss from discontinued operation	—	.4	—	—	—
Net income	2.7%	2.6%	4.0%	28.3%	.9%

### SALES

The Company's sales from software increased 21% (4% from acquisitions) and 81% (49% from acquisitions) in 1985 and 1984, respectively. The nonacquisition increase is mainly attributable to additional billable staff, and to a lesser extent, from price increases. Microcomputer distribution sales increased 30% and 36% in 1985 and 1984, respectively. The growth came from broad-based industry-wide demand and the expansion of the geographic territory covered.

### GROSS PROFIT

The gross profit margin in software has been 34%, 34% and 41% over 1985, 1984 and 1983, respectively. The differences are due to the mix of these businesses and start-up costs of \$911,000 (1985) and \$408,000 (1984) associated with SMART-C, a product whose development was discontinued. Software package sales represented a higher percentage of sales in 1983 and have a significantly higher margin. The gross profit margin in the Company's custom software area (computer system development) declined in 1985 as compared to 1984 and 1983 due to slower growth. The microcomputer distribution business gross profit margin fell from 14.8% in 1983 to 14.3% in 1984 and to 14.0% in 1985. The reduction was caused by increased competition and changes in product mix. However, the operating margin in the microcomputer distribution business stayed relatively the same over the three year period due to a lower rate of selling, general and administrative expenses.

#### SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

These costs have decreased at a continuous rate, except for 1985, since the 1980 figure of 29.1%. This has been primarily achieved from the economies of size, especially in the area of corporate expenses. The slight increase in 1985 to 16.2% was due to the poor performance of our two equity investments in micro software publishing.

#### INCOME TAXES

The income tax rate has fluctuated between 47% and 50% over the last three years. The rate was more favorably impacted in 1983 as compared with 1984 and 1985 by the research and development and investment tax credits.

#### NET INCOME

Consolidated net income margins reflect the varying weight of software products, system development and microcomputer distribution in the sales mix as well as several financial corporate costs such as interest which are offsets against acquisition profits, start-up costs in new business areas and the amortization of the acquisition related "goodwill". Management believes that the amortization of these assets without recognition of new assets which replace these values understates the Company's assets.

#### LOSS FROM DISCONTINUED OPERATIONS

The Company entered, in late 1983, the software-only distribution business because of the possible connections between its hardware distribution business and its software development business. The business had continued losses due to pricing pressures. The factors necessary for success are different from those in the Company's other business areas and the conceptual links do not appear to exist at this time.

#### INFLATION

The Company's major service area, computer system development, is labor dependent and 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 microcomputer distribution segment.

#### LIQUIDITY AND CAPITAL RESOURCES

The Company has sufficient financial resources to meet its anticipated requirements. Its amended bank agreement provides for a \$35,000,000 credit facility. The major use of this credit is to finance acquisitions. \$11,500,000 of this credit will be available for use after the pending 1986 acquisition of Compuserve. 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.

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**SELECTED FINANCIAL INFORMATION***(In Thousands, except per share data)*

	1981	1982	1983	1984	1985
<b>Income Statement Data:</b>					
Total revenues	\$38,773	\$65,026	\$145,911	\$221,631	\$279,182
Income from continuing operations	1,796	2,484	5,785	6,781	7,493
Net income	1,796	2,484	5,785	5,839	7,493
Income per share					
continuing operations	.57	.73	1.25	1.29	1.43
Net income per share	.57	.73	1.25	1.11	1.43
Total assets	15,042	33,800	68,853	93,259	111,101
Long-term obligations	859	9,866	221	14,822	15,283
Shareholders' Equity	5,416	10,059	35,222	42,017	49,002

*Also see Note K (Acquisitions).*

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**PRICE RANGE OF COMMON STOCK**

The following table sets forth the quarterly high and low prices for the Common Stock:

	1983		1984		1985	
	High	Low	High	Low	High	Low
First Quarter	21-1/4	14	30-1/2	19-3/4	17-3/8	12-1/8
Second Quarter	29-1/4	15-1/2	20-1/4	15	15-1/4	10-1/4
Third Quarter	31-1/2	25	16-3/4	9-3/8	17	14-7/8
Fourth Quarter	28-3/4	23-1/4	13-1/2	9-3/4*	23-1/2	13-3/4
Fourth Quarter			13-1/4	10-1/2**		

\*All prices in 1983 and through October 17, 1984 are high and low bid in the Over-the-Counter market.

\*\*AGS shares were listed on the New York Stock Exchange on October 18, 1984 and these are the high and low closing prices from that date through December 31, 1985.

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**Form 10-K**

The Company's Form 10-K Annual Report is filed with the Securities and Exchange Commission and contains certain additional information. A copy of Form 10-K is available without charge to any shareholder by writing to: Shareholder Relations, AGS, 1139 Spruce Drive, Mountainside, NJ 07092.

**Listing**

AGS is listed on the New York Stock Exchange, Midwest Stock Exchange, and Pacific Stock Exchange under the New York Stock Exchange Symbol, AGS.

**Shareholder Relations**

Pearl Turteltaub (201) 654-4321  
Manager—Shareholder Relations

**Registrar and Transfer Agent**

Registrar & Transfer Company  
10 Commerce Drive  
Cranford, New Jersey 07016

**Annual Meeting**

May 7, 1986; 10 a.m.  
Offices of L.F. Rothschild, Unterberg, Towbin  
55 Water Street — 3rd floor  
New York, New York 10041

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AGS COMPUTERS, INC.

**Corporate Officers**

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

*Joseph Abrams*  
President, Chief Operating  
Officer and Secretary

*Anthony F. Stepanski*  
Executive Vice President

*Leonard Ostfeld*  
Chief Financial Officer

*Allen Pearl*  
General Counsel

*Richard W. Thatcher, Jr.*  
Vice President Corporate Planning

*Mario Incalicchio*  
Controller

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**Corporate Directors**

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

*Joseph Abrams*  
President, Chief Operating  
Officer and Secretary

*Arthur M. Goldberg\**  
President and Chief Executive  
Officer  
Transco Group, Inc.,  
and Chairman  
First Fidelity Bank, N.A., County

*Peter Graf\**  
Managing Partner,  
Joseph Graf & Company  
Certified Public Accountants

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

*Anthony F. Stepanski*  
Executive Vice President

\*Audit Committee

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AGS COMPUTERS, INC. & SUBSIDIARIES

**Systems Development**

*AGS Systems Development*  
1139 Spruce Drive  
Mountainside, NJ 07092  
Anthony F. Stepanski  
(201) 654-4321

*Eastern Design Co., Inc.*  
30 Glenn Street  
White Plains, NY 10603  
Kurt Hurst  
David Levine  
(914) 948-7600

*Erdman, Anthony and  
Associates, Inc.*  
259 Monroe Avenue  
Rochester, NY 14607  
Paul Erdman  
(716) 325-1866

*Software Design  
Associates, Inc.*  
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