In this year's Annual Report



we focus on AGS' relationship to the world in which it lives.





We thank those special people not only for

their contributions to this report but for their participation in AGS' growth and development.



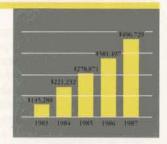




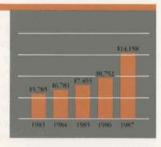
Corporate Profile

AGS Computers, Inc. provides automation solutions to finance, telecommunications, computer and government organizations. To develop the right solutions for our clients, we provide an extensive portfolio of: Systems Development and Consulting Services, Software Products and Microcomputer Distribution Services. AGS is pleased to be recognized as a leader in each of its market niches.

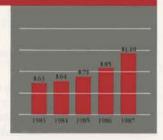




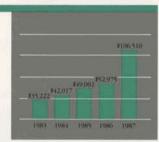
Net Profits



Earnings Per Share



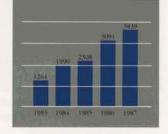
Shareholders' Equity



Total Assets



Employees



Dear Shareholders:

AGS prides itself on setting aggressive operational and financial plans and achieving those objectives year after year. 1987 was no exception. We exceeded the goals stated in our 1986 annual report and reiterated at our annual shareholder and analyst meetings. Let's review those goals, the results and AGS' commitment to the consistent implementation of its strategy.

"Increase profits and revenues more than 20% while meeting our targeted 40% pretax return on equity"

Profits rose 62%, surpassing the 5 year compounded rate of 42%. This also marked the ninth straight year of record profits. Revenues increased 30% continuing an unbroken record throughout our 21 year history. The pretax return on equity was 49%.

"\$1 Billion revenue goal by the early 1990's"

AGS' actual growth rate has exceeded the plan implicit in the goal. Our internal growth rate plus our historic success in acquiring profitable companies leave us confident that we will meet the objective.

"Continued expansion of each of our operating units"

Twelve of our thirteen operating units grew in 1987. Geographic expansion continued apace. A professional services office was opened in North Carolina and an office was purchased in Detroit. A software products office in Atlanta came with a bank software acquisition. The distribution business added four locations in the U.S., one in Canada and entered the Latin American market through our acquisition. Microamerica created a national account sales group. This group now sells to large customers representing over 500 locations.

"Increased emphasis on significant projects for major clients"

We have completed and/or are implementing major new products for IBM, AT&T, Morgan Bank, Bank of New York, Citicorp, NYNEX, Pepsico and the Delaware River and Bay Authority. We have established three AGS controlled project development centers to deliver complete solutions to our customers. AGS has also expanded its major customer and vertical market selling teams. We have a team focusing on each of our very largest customers as well as a telecommunications, banking, securities, and manufacturing industry specialist group.

"Increase our focus on computer manufacturing companies"

Our business with IBM as a customer grew over 50% in 1987. We became an IBM Industry Marketing Assistance Program partner to obtain business from IBM's customers. Our communications software is being sold by Digital Equipment Corporation's (DEC) sales people and we broadened our partner relationship with DEC. The text of this report discusses projects with NCR and Apollo. Overall, we significantly enhanced our business throughout the industry.

"Increase the development pace of new software products"

AGS more than doubled its software product development expenditure to almost \$13 million. Our banking group has started development of a British version of its Securities Processing System, as well as Comprehensive Capital Markets System and a Personal Trust System. We developed a financial system to handle escheat and abandoned property funds, that is, corporate checks, certificates, drafts and deposits not claimed by shareholders or depositors. The product will be delivered directly to the corporate market. We acquired a company specializing in cash management systems, putting us in another fast growing niche of the banking application market.

"Improve profit margins on software products"

The addition of new banking products allowed AGS to triple its overall software product margins.

"Increase solutions selling and software orientation in distribution"

Microamerica became in 1987, the exclusive North American distributor for Aldus desktop publishing software. This enabled us to provide a complete system as a value added service and for a greater profit per sale. The addition of Novell software gives us greater opportunities for communications networks.



1988

Our specific goals for 1988 are based on the continued execution of the strategies and plans of prior years. This year we will stress even harder, our focus on significant software projects and systems integration. We will develop a wide range of new software products in 1988. A Personal Trust Accounting (VTAS), a Capital Markets Securities System (VCAP) and the UK version of our Securities Processing System (VSPS) will be completed. We will have a major expansion of our Cash Management System (ACCESS) and introduce the Escheat and Abandoned Property System (APECS). This will allow us to broaden our customer base from banks to the large corporate marketplace. Outside of the financial market arena we will have an electronic mail/office automation communication software product (SNADS). Our communications software unit will place greater emphasis on serving end-users and on its partnering relationship with DEC. AGS' software for the CASE (Computer Aided Systems Engineering) market will focus on providing the overall structure for all CASE software products via a product named MULTI-CAM and the further market penetration of our niche products for project management (WINGS,PAC) and system development methodology (SDM).

In microcomputer distribution, Microamerica plans to expand its customer base by entering another international area, opening more remote distribution centers and by adding some horizontal broad-based software offerings. There will be an ever increasing focus on solutions selling, including desk top publishing, local area networks, multiuser, UNIX based computers and Macintosh related products.

We believe it is useful to reiterate our goals and our strategic position for both you, our shareholders, and for us, the management of AGS. These goals are:

- Continue our leadership position in the industries we serve
- Provide comprehensive value-added solutions
- · Expand our customer repeat business base
- Leverage our management, financial and technical skills
- Maintain our consistent, predictable growth record

Strategically, we are well positioned to achieve these goals. The computer services industry and software in particular, is growing rapidly and will soon become the nation's largest and most powerful industry. Our leading market position is reflected in our size and marketshare, specific industry focus, Fortune/Forbes

500 customer base and state-of-the-art technology. This position should allow us to surpass the growth rate of our broad industry classification. This opportunity is being addressed by a focused plan which leverages our considerable management, technical and financial resources. We expect consistent high growth. Specifically, in 1988, we anticipate profit growth of greater than 20% and a 30% pre tax return on equity.

The theme of this year's annual report is to depict AGS' relationship to the world in which it lives. Our relationships with our people, clients, industry, partners, vendors, communities and investors are fundamental to our growth and success. Our special thanks to all of you in these valued relationships for your efforts and support.

Yours sincerely,

LAWRENCE I. SCHOENBERG

Chairman, Chief Executive Officer

JOSEPH ABRAMS
President

Chief Operating Officer

February, 1988



Left to Right: Lawrence J. Schoenberg, Joseph Abrams

AGS - What We Do

AGS helps clients solve important problems. It is composed of three major groups capable of providing an extensive portfolio of automation solutions for its clients. Each group has established leading positions in its respective markets. Each group also provides opportunities to leverage the other.

The three groups are:

- 1. Systems Development
- 2. Software Products and
- 3. Distribution

SYSTEMS DEVELOPMENT

Our systems development unit, AGS INFORMATION SERVICES, is one of the largest professional services companies in the industry. It is comprised of more than 2,000 people with significant expertise in designing, building and maintaining information systems. Clients are served from offices throughout the United States and Europe.

Business and government want better systems to sharpen decision-making, improve operating efficiency, strengthen their competitive advantage and increase profits. Creating such systems is often a complex task, requiring significant investment in people and equipment. The rewards for better systems can be great, but so can the risk in creating them.

Clients turn to AGS professionals to help minimize that risk, plus ensure the application of innovative technology, and thus help them achieve their systems objectives as soon as possible.

Today, more than ever, clients are engaging AGS to manage major projects for them. Such projects often include the integrated delivery of custom software, software products, hardware, and a full range of support services. This is comprehensive systems integration. AGS also offers specialized services in knowledge engineering, training, and technical writing.

Today, AGS serves a variety of industries and markets with special focus on telecommunications, computers, banking, insurance, brokerage, manufacturing and government (local, state and federal).

The primary goal of AGS INFORMATION SERVICES is to build successful client relationships. It does this by providing clients competent, cost effective solutions to their business and information processing problems. More than 400 of Fortune's 1000 companies are clients, using AGS solutions to their competitive advantage. Eighty percent of AGS' business comes from current clients, proof that AGS is, indeed, achieving its primary goal.

EASTERN DESIGN specializes in providing engineering professionals to help leading aerospace, telecommunications and electronics firms with major technical projects. The firm has grown consistently since its acquisition by AGS in 1981.

ERDMAN, ANTHONY specializes in environmental and civil engineering, performing an extensive range of services primarily for state and local governments.

SOFTWARE PRODUCTS

Through its product units, AGS continues to penetrate its primary markets (and additional ones as well) by leveraging technology expertise and applications capabilities. This is evident from the range of interrelationships between our systems development services and our software product offerings.

For example, AGS INFORMATION SERVICES has built many systems for leading banks and brokerage firms. Our DISC unit develops and markets a wide range of specialized cash management, account management, and regulatory compliance software products for banks, thrifts and corporations. These products are used by more than 600 major clients in the U.S. and Canada, including 75 of the "top 100" banks. VISTA CONCEPTS provides software products and consulting to fulfill the total securities processing and personal trust functions within banks. It is the leading supplier of securities processing systems to the major "money — center" banks.

As another example, AGS provides an extensive portfolio of development capabilities to the telecommunications and computer industries. AGS is well-regarded for its relationships with IBM, the AT&T companies, and our expertise in UNIX. We are also frequently asked to provide UNIX based systems expertise to firms using computers from AT&T, IBM and others. Evolving from these activities have been significant opportunities for our *SYSTEMS STRATEGIES* subsidiary (SSI). SSI is a leading supplier of communications software designed to allow mini and micro computer systems of many different manufacturers to communicate effectively with IBM mainframes.

To build information systems successfully requires the effective use of three critical resources:

- · Qualified People
- · Proven Tools (hardware and software)
- Proven Management and Development Methodologies

From its broad experience, AGS INFORMATION SERVICES can select from a wide variety of tools and methodologies that are appropriate for a given client. Some of the most successful ones come from our own subsidiary, AGS MANAGEMENT SYSTEMS, a leading developer and marketer of state-of-the-art project management systems and development methodologies. Its products and consulting services are used throughout the world.

In summary, this unique blend of software capabilities, custom systems development services, and state-of-the-art software products distinguishes AGS from its



competition in the computer services industry, and allows us to serve the diverse needs of our clients most effectively.

DISTRIBUTION

Our MICROAMERICA subsidiary is the largest distributor of microcomputer related products in the United States, serving systems integrators, value-added resellers, computer retailers and consultants throughout the country. Microamerica's history is marked by phenomenal growth. Microamerica employs over 500 people and, in 1987, revenues reached \$300 million, reflecting record levels in sales and profits.

The secret to Microamerica's success can be attributed to three key strategies:

- Offer customers the finest in service, support and products
- Develop strategic alliances with the industry's key manufacturers
- · Pay strict attention to the details

Though Microamerica's size and scope has changed over the years, these basic guidelines continue to steer the company.

To ensure personal contact with its resellers on a local level, Microamerica opened the first of its many regional distribution centers in 1979. These centers are strategically located in major areas across the United States and provide resellers with training and technical support, as well as many other specialized services. Two years later, Microamerica created the district sales representative (DSR) position. The DSR is responsible for all sales and support in a specific sales territory, and establishes and maintains a diversified base of computer resellers.

In fact, the company has become highly innovative in providing reseller service and support programs that are unsurpassed. For instance, Microamerica, in conjunction with Westinghouse Credit Corporation (now Chrysler First Wholesale Credit, Inc.) introduced the industry's first inventory financing program in 1981. Coined MicroCharge™, the program enables resellers to purchase inventory, which can be financed for up to 150 days without tying up scarce capital resources.

Microamerica also has the distinction of producing the industry's first dealer newsletter, MicroNews™. The publication keeps resellers informed of product updates, manufacturer and dealer news, promotional programs and training, and also offers sales and business tips.

In 1983, the TIPS program – Technical Information and Product Support – was implemented to answer reseller's technical and product application questions. The program has grown tremendously over the years, and has been cited for offering resellers unsurpassed and innovative technical backup. It offers regional support and has been further enhanced by the National Support Lab, which acts as a central resource for configurations, information coordination and interface with vendor support personnel.

In January 1984, Microamerica formally launched MicroSchool™, a continuing reseller education program offered at all Microamerica centers. In 1986, to reach resellers not based near one of the company's centers, Microamerica formalized Local Area MicroSchool sessions (LAMs). To date, over 6,000 resellers have participated in the company's training programs.

At the same time that Microamerica was developing new programs, it was also adding new distribution centers throughout the country at a rate of one to two per year. In 1986, the company made its move into the international arena with the acquisition of Compuserve, Canada's largest microcomputer hardware and software distributor. In December 1987, international operations were expanded into Latin America with the acquisition of IMS, in Florida.

Over the years, Microamerica has earned an impeccable reputation. The company was named the nation's number one microcomputer hardware distributor by Micro Marketworld and, for two consecutive years, by Computer Reseller News, a leading trade publication. In addition, the same publication honored Gordon B. Hoffstein, Microamerica's president, C.E.O. and founder, as one of the industry's top 25 executives.

Throughout its history, the company has continued to adhere to a firm policy of selling only to resellers. This policy clearly aligns Microamerica's best interests with those of its customers by not competing for large end-user accounts. Microamerica has also concentrated on distributing a limited product line of only the best products from manufacturers that are equally committed to the long-term success of its customer base. In keeping with this objective, Microamerica concentrates on carrying products primarily oriented toward the commercial sector, including microcomputers, software, peripherals and supplies.

The World of AGS

The success that AGS has achieved is due to the relationships we have with our:

- Computer Services Industry
- AGS People
- Clients
- Partners
- Vendors
- Communities
- Analysts and Investors

AGS' relationship to each of these vital entities is fundamental to our growth and success.

OUR INDUSTRY

AGS Computers, Inc. is an active member of ADAPSO, the 1,000 member computer software and services industry association. The main reason that a trade group like ADAPSO exists is to establish and facilitate a favorable environment in which the software and services industry can thrive. This benefits industry firms, clients, employees and the business community in general. There are many issues facing the industry. These include the improving of communications between software and services firms and their clients, state and federal taxation, free trade, appropriate protection of intellectual property rights, and government encouragement of research and development.

At AGS we support ADAPSO and its goals with our people and our resources. More than a dozen AGSers have chaired ADAPSO industry conference panels and seminars. Five have served as officers of ADAPSO, one of the highest numbers of officers elected from any firm. Four AGS people have presided as Presidents of ADAPSO professional services and software products sections. AGS Chairman, Larry Schoenberg, has served as Chairman of ADAPSO.

OUR PEOPLE

Today, more than 3,000 people are AGS' driving force—performing throughout the world. It would be appropriate to cite the successes and contributions of many AGS individuals. Space permits just one, unfortunately. But hopefully, the Richard Huntley story speaks for many.

Richard is a Vice President of AGS Information Services. A United Kingdom native, he joined AGS as a managing consultant in the New York office in 1979. His first assignment was to head a project team building a major service order processing system for New York Telephone. Based on that success, AT&T called Richard and his team back in 1982 to customize the

system to handle the impact of the AT&T divestiture. In between these two projects, Richard led several other major projects for key AGS clients, including the United Nations and a major bank. He also taught clients and fellow staff at the AGS Education Center.

Having demonstrated multi-faceted skills in one successful situation after another, Richard was promoted to Branch Manager of the New Jersey office in 1983. In 1984 Richard became a Vice President and Regional Manager. In 1987, as part of AGS' industry specialization strategy, he became head of a key business unit — Computer and Telecommunications Industries.



Richard Huntley and Anthony J. Stepanski, President, AGS Information Services.

In this, his current role, he and his unit are responsible for developing major systems integration opportunities in partnership with the leading computer manufacturers and telecommunications companies. Thus, Richard and his unit are in the forefront of a significant business trend – providing integrated hardware/software solutions to major client problems.

Like most AGS people, Richard's "fast-track" success story has been achieved through dedicated application of competent skills in a supportive environment. And like most AGS people, Richard Huntley is optimistic about the future – "I look to the 1990's with the same excitement and anticipation I felt upon joining AGS nearly ten years ago."



OUR CLIENTS

Today, AGS serves thousands of clients throughout the world. Each such relationship between AGS and a client is important. Here are several examples:

Pepsi/AGS-IS

One of AGS Information Services key clients is the Pepsi Cola Company. Pepsi has become widely recognized as one of the best managed companies in the country. It makes effective use of its information systems to sustain its leadership position. In the summer of 1986, Pepsi selected AGS to build an important multi-million dollar national management information system. From the outset, Pepsi and AGS both recognized that the success of this major development effort, involving 40 people over a 20-month period of time, would hinge on the formation of a very close working relationship/partnership between the two companies.

In January of 1988 the information system was completed and installed on time. In commenting on this accomplishment, John Cranor, President of Pepsi's Fountain Beverages Division, said "This is a significant achievement for Pepsi and its partner in this undertaking, AGS. At Pepsi we demand superior performance from ourselves and the people with whom we work. AGS formed a strong working relationship with our people and demonstrated a superior ability to be responsive to our needs. We value their contribution to the success of this development effort."



Left to Right: Dave Walant, Project Manager, Pepsi-Cola, U.S.A.; Gary Torow, Vice President, AGS; Ron Nyselius, Systems Development Manager, Pepsi-Cola, U.S.A.

NCR/AGS-IS

Although the majority of our systems development activities are traditional in nature, we frequently respond to exotic requests from our customers. Take, for instance, our recent work for the NCR corporation which was confronted with the need to develop an Arabic/English version of the widely-used INFORMIX-SQL relational database management system on their popular UNIX-based TOWER computers. Because of the opposing orientations of the two languages, this presented a real challenge to our development people. Arabic text is right-to-left while Arabic numerals are oriented left-to-right as in English. The shape of each Arabic character, furthermore, is context sensitive and depends upon its position within a word and its neighboring characters.

"AGS' development team completed the entire project within six months. The end-user of an application developed with this product can now use commands in either English or Arabic, enter data in either language, and use forms and reports containing mixed language data and headings. Noted: Chris Barr, NCR Assistant Vice President of Product Marketing, "AGS did an outstanding job on this project for NCR".

*UNIX is a registered trademark of AT&T

Bank of New York/Vista Concepts

Another prime example is our Vista Concept unit's five-year-old relationship with The Bank of New York, one of the leading back-office processors of securities, worldwide. The Bank of New York emphasizes automation and the elimination of paperwork as the keys



Standing is Thomas J. Perna, Executive Vice President, The Bank of New York; seated is William Potter, Senior Vice President, Vista Concepts, Inc.

to controlling operating costs and providing quality service. Consequently, the Bank has one of the leading automated securities systems in the industry.

In 1983, The Bank of New York was one of Vista's first customers to license the Vista Securities Processing System, VSPS. A joint team has performed extensive functional enhancements annually to achieve further cost reductions, expand into new areas of the everchanging securities business, and retain the Bank's competitive edge in securities processing automation.

When The Bank of New York recently sought to upgrade its global custody capabilities, the Bank turned to Vista. The success of the new venture will provide the necessary vehicle for Vista to implement its global securities processing strategy.

Safeway Stores/DISC

In its nearly twenty years as a financial software company, AGS' DISC unit has emerged as a leading vendor of application software systems for cash and account management, and regulatory compliance.

DISC and Safeway Stores, Inc., the California-based retailing chain, joined forces to develop a new, automated solution to a labor-intensive, cumbersome problem that plagues many corporations: compliance with state reporting requirements to report and "escheat," or remit, abandoned property, such as checks, drafts, dividends and stock certificates, to the state. Many states now view this abandoned property as the source of substantial revenue; therefore, the ability to comply is increasingly important.

Safeway realized the need for an automated solution to the problem. According to Howard Scouten, Cash Section Manager, "We needed to decrease labor costs and give the states what they want in an accurate, timely and efficient fashion. There was no product on the market to meet these needs."

Concurrently, Safeway became a client of DISC ARP (Account Reconciliation Package), a mainframe system that automates the reconciliation of disbursement accounts for more than 400 banks and corporations. Because of that success, DISC was apprised of the need for a mainframe solution to the problems of escheatment. The situation presented a perfect opportunity for a "partnership" approach, given Howard Scouten's thorough understanding of the application, the state laws and the escheatment process, and DISC's expertise in the design and development of mainframe software solutions in the areas of reconciliation and compliance.

DISC APECS (Abandoned Property and Escheatment Compliance System) resulted from this collaborative relationship. This system automatically interfaces with the DISC ARP system in which most of the abandoned property data resides. In addition, DISC will monitor the state regulations and update DISC APECS to maintain compliance.

Thus, both Safeway and DISC have benefited significantly from this relationship.

This is really the "bottom line" result, we try to achieve in each client relationship, i.e., that both AGS and the client get significant value from it.

OUR PARTNERS

Our business partnerships really take many forms. The client examples above certainly are a form of partnership. At AGS we also value strategic relationships with firms who work with us to provide a client solution.

IBM

An important partner for AGS is IBM. In 1984, IBM announced the Industry Marketing Assistance Program (IMAP). The program was developed to provide assistance to its customers as they began implementing computer integrated manufacturing solutions with strategic products like Communications Oriented Production Information and Control Systems (COPICS).

To be selected, Software and Service Organizations (SSO's) had to demonstrate skills and knowledge in the following areas: 1) manufacturing industry and its applications set; 2) IBM hardware and systems software; and 3) systems integration.

AGS joined the program in 1986. Both companies benefit through this unique partnering relationship. For IBM, AGS' involvement has meant increased sales, and installation and technical support of IBM products, specifically COPICS and associated hardware. For AGS, the IMAP connection has meant the acquisition of new clients, increasing its reputation in the field of manufacturing systems, and opening up opportunities for large systems integration projects.

A successful partnership means that *both* partners benefit. Such has clearly been the case for AGS and IBM.

Digital Equipment Corporation (DEC)

In 1987, our Systems Strategies subsidiary began working closely with another important partner, DEC. Systems Strategies provides DEC customers with its VAX Link connectivity software products, which allow VAX and MicroVAX computers to exchange information with IBM mainframes and mini's.

Under the Digital Distributed Software (DDS) agreement signed between the two companies, VAX Link products are now sold by DEC salespeople all over



the world. Systems Strategies develops, manufactures and markets these products, as well as provides customer support services to the end-user. To achieve DDS status, VAX Link products have passed extensive internal and external quality control testing initiated by DEC.



DEC's John Slack of the ULTRIX Third Party Program and Leisha Peterson of the Engineering Systems Group gather around a GPX workstation with Systems Strategies' Les Yeamans, Vice President of End User Products and Lynn Paffmann, Director of Marketing Communications, at DEC's New York Application Center for Technology (ACT).

Apollo Computer Inc.

A third example of a successful strategic relationship is that between AGS and Apollo Computer Inc. When the Singer Company sought a builder for its Quality Control and Test Equipment Network (QT-NET), the marketing people of Apollo Computer knew that a systems integrator was needed. Apollo approached AGS and a collaboration was formed to pursue the Singer opportunity. AGS served as the prime contractor and Apollo provided the workstations. Singer accepted the multi-million dollar AGS/Apollo proposal over several others and development of the system was commenced.

Sixteen months later the system was installed and operational. Commenting on the collaboration, Roland Pampel, President of Apollo Computers Inc., noted: "The combination of AGS' outstanding system development skills with Apollo's superior workstation technology, was an unbeatable team."

OUR VENDORS

Clearly, relationships with our vendors are vital to AGS' success. We expect our vendors to support us with the same quality performance we try to give to our clients.

One excellent example is the relationship between Plus Development Corporation and our Microamerica subsidiary. The management of Microamerica has always realized it takes the right relationships to be successful in business. Such relationships allow Microamerica to pass on beneficial programs to its customers. Plus Development Corporation agrees and knows what can be accomplished when two corporations work together for mutual profitability.

Plus Development's Hardcard was a revolutionary product which created a new market segment. As a result, Plus Development needed a distributor with the experience and programs to successfully launch and support this new product in the United States and Canada. Microamerica and its Canadian affiliate Compuserve* were the logical choice.



Plus Development's Hardcard.

Since Microamerica began distributing the Hardcard in 1986, Microamerica and Plus Development have participated in many joint programs. The first example is the "Profit Protection Plan" (PPP) promotion, which was one of the industry's first programs to offer product "bundles" to dealers. The program included Microamerica MicroSchool™ dealer classes to train dealers about the products featured in the bundles.

In addition, Microamerica and Plus Development have produced two product videos for sales and support training. The first was a video to help the salesforce understand features, functions and benefits of the Hardcard. The second video was a technical support tape designed to increase the skill level of Microamerica's technical support personnel.

A final example of the two companies working together is market analysis. The two companies meet for regular planning sessions to analyze market trends, competition, and pricing strategies. In addition, Plus Development's salespeople often spend time on the road with Microamerica's salesforce.

Programs such as these involve cooperation between the distributor and the vendor, and a lot of hard work as well. But it's a worthwhile effort, because not only do Microamerica and its vendors benefit from combining resources, but so do their mutual customers. Clearly, Plus Development is a vendor with "Plus"!

^{*}Compuserve is not affiliated with CompuServe, Inc. of Columbus, Ohio.

OUR COMMUNITIES

AGS offices reside in many communities, primarily in North America and Europe. But more than just reside, AGS people and their families are trying to serve, as well. One example of such a community relationship is that which Joe Abrams, President of AGS, and his wife Judy, have with the Valerie Fund.

Joe and Judy have supported the fund with their time and resources for years. Judy serves on its Board of Directors and co-chairs its fund-raising efforts. Of her volunteer work Judy says, "I love it. They're a special group of children and its wonderful to get to know them."



Judy Abrams and campers.

The Valerie Fund provides state-of-the-art care in a highly personalized, community-based setting for children with cancer and blood disorders. This care is available without regard to a family's ability to pay. The Valerie Fund Children's Cancer Centers are located in major regional hospitals throughout New Jersey. They supply the latest diagnostic and treatment services for the state's childhood cancer patients and children with related blood disorders.

In 1983, The Valerie Fund established Camp Happy Times, a week-long summer camping experience for young cancer patients. It is here that these youngsters are able to safely participate in regular summer camp activities and meet children with similar problems. The camp is staffed by pediatric cancer care specialists and professional and volunteer counselors. The week at camp is free of charge to all who attend.

Another community relationship AGS values is that which its Chairman, Larry Schoenberg, has with Saint Barnabas Corporation, which is New Jersey's largest hospital system. Larry currently serves as a Trustee on the Board of Saint Barnabas, contributing his resources and his expertise in business management and information systems. In recognition of Larry's contributions, Ronald J. Del Mauro, President of Saint Barnabas, recently stated, "We salute AGS for its recognition of the importance of voluteerism in the community. We are particularly grateful to AGS for sharing the time and talents of its founder, Chairman and Chief Executive, Larry Schoenberg, with Saint Barnabas."



Left to Right: Lawrence J. Schoenberg, Ronald J. Del Mauro, Mark Laible, MD, and Dennis Filippone, MD.



WALL STREET

AGS is listed on the New York Stock Exchange. Two of a publicly-held company's most vital relationships are with its investment analysts and its investors.

Analysts

Fred Bertner, a top industry analyst with Lovett Mitchell Webb states.

"Analysts are a bridge between the management of a publicly owned company and its current and potential shareholders. Analysts interpret what they learn from the management of AGS Computers, Inc. and other sources and then make recommendations to the investment community.

We have followed AGS for four years and have been recommending purchase for the last two. Our reasons are as follows:

- 1.) AGS is one of the leading companies in the computer services and software business. Its long-term record of superior growth extends for more than 20 years.
- 2.) AGS also owns Microamerica, the leading U.S. distributor of microcomputer hardware.
- These businesses should enable E.P.S. to grow at a 20% rate for the next three to five years.
- 4.) More important than the numbers is the quality of the management team. Both Larry Schoenberg and Joe Abrams are a strong complementary team, and many of the Company's subsidiaries have impressive, proven, management teams."



Analyst Charles Frumberg at AGS' Annual Analyst Dinner.

Charles Frumberg, a highly regarded analyst with Mabon, Nugent, in discussing his relationship with AGS, recently said,

"My primary goal as a financial analyst is to find technology-based companies for our clients to invest in to receive superior returns. Five years ago I added AGS to my firm's recommended list. Why?

The technology arena is, almost by definition, fraught with dynamic change, and, therefore, with much investment risk. To minimize this risk, I look for certain attributes in a company: consistent and profitable growth, large market share, and perhaps most importantly, strong and accessible management.

In AGS' case, its ten-year EPS growth rate of nearly 40%, without a down year in either revenues or earnings, represents as consistent and steep a growth rate as any company we follow. As an investor, long-term consistency is as important an attribute as the rate of growth, for it shows a company that has been able to adapt to, and prosper in, an often dramatically changing world.

While analyzing historical growth rates and market shares helps us to more clearly understand and "feel better" about a company at any specific point in time, it is obviously the future that determines the success of our investment.

It is for this reason that we look to management for insight and industry expertise to help shape our opinions. Most companies, however, place their investor relations responsibility in the hands of the Finance Department, and many actually restrict access to senior management at only one or two large group meetings annually. Access to line managers is most often barricaded. At AGS, the approach to this important function is unusually open. Not only am I able to meet with or speak to senior management regularly, but analysts are actually encouraged to talk to operating people. Consequently, my ability to understand and measure the company is enhanced, and I can provide my clients with more timely information. From AGS' perspective, informed shareholders are often happier shareholders, since the probabilities of surprises (often an anathema to investors) is greatly diminished. For me, AGS has become a company with a "corporate personality". Unlike most companies I follow, its open door policy enables me to better set realistic expectations of corporate performance. It stands as an excellent model for other companies."

Investors

AGS has many investors...institutions and individuals. One of them, Jim Saltzman of Philadelphia, has been kind enough to reflect on his relationship with AGS. Jim says,

"We first invested in AGS on July 26, 1978. Our original investment cost \$4.75 per share. Each share that we purchased is now 12 shares and our investment has compounded at a 47 percent annual rate.



Mr. and Mrs. Jim Saltzman and their children.

Much of our four children's education funds have been provided by the appreciation of our investment. One of our children now questions why we did not put all of our money into AGS.

We are thrilled to have participated in the extraordinary growth of AGS. Our knowing the management has given us the confidence to be long-term investors in the company.

We are looking forward to our next ten years of being AGS shareholders. The company has our best wishes for continued growth and success. We thank you for making AGS a household name."

SUMMARY

AGS believes in strong relationships. AGS is involved in thousands of them. Each one is important, AGS will continue to strive to build more relationships of the quality described on the preceding pages.



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

	1983	1984	1985	1986	1987
Income Statement Data: Total revenues	\$145,288	\$221,232	\$278,871	\$381,497	\$496,729
Income from continuing operations	5,785	6,781	7,493	8,752	14,158
Net income	5,785	5,839	7,493	8,752	14,158
Income per share continuing operations	.63	.64	.71	.85	1.19
Primary net income per share	.63	.55	.71	.85	1.19
Fully diluted net income per share	.60	.55	.71	.78	1.10
Total assets	68,853	93,259	111,101	182,718	222,119
Long-term obligations	221	14,822	15,283	64,906	46,700
Shareholders' Equity	35,222	42,017	49,002	52,975	106,510
Also see Note J (Acquisitions).					

PRICE RANGE OF COMMON STOCK

The following table sets forth the quarterly high and low prices for the Common Stock, adjusted for the 2 for 1 stock split paid in May 1987:

	19	1985		1986		1987	
	High	Low	High	Low	High	Low	
First Quarter	8-11/16	6-1/16	12-1/2	10-1/8	20-1/6	14-1/8	
Second Quarter	7-5/8	5-1/8	11-11/16	9-5/16	22-3/8	15-1/2	
Third Quarter	8-1/2	7-7/16	10-9/16	8-7/16	25-3/8	15-1/4	
Fourth Quarter	11-3/4	6-7/8	14-1/4	9-1/16	27	10-1/2	
AGS shares are listed on th	e New York Stock Ex	change.					

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 Computers, Inc. 1139 Spruce Drive, Mountainside, New Jersey 07092.
Listing	The company's stock is traded principally on the New York Stock Exchange. Other exchanges trading AGS stock are the Midwest, Pacific and Philadelphia stock exchanges. Its ticker symbol is AGS.
Shareholder Relations	Pearl Turtletaub (201) 654-4321 Manager-Shareholder Relations
Registrar and Transfer Agent	Registrar & Transfer Company 10 Commerce Drive, Cranford, New Jersey 07016
Annual Meeting	May 4, 1988 Newark Airport Marriott Newark, New Jersey 07114

AGS Computers, Inc. and Subsidiaries CONSOLIDATED STATEMENTS OF INCOME

For the years ended December 31,	1987	1986	1985
Sales:		0.30.4 19 1	100
Software	\$190,024,000	\$140,605,000	\$117,375,000
Microcomputer distribution	306,705,000	240,892,000	161,496,000
	496,729,000	381,497,000	278,871,000
Cost of sales:			
Software	123,666,000	93,827,000	78,879,000
Microcomputer distribution	266,017,000	205,854,000	138,941,000
	389,683,000	299,681,000	217,820,000
Selling, general and administrative expenses	77,553,000	60,131,000	43,934,000
Interest expense-net	3,446,000	3,276,000	1,989,000
	470,682,000	363,088,000	263,743,000
Income before income taxes	26,047,000	18,409,000	15,128,000
Income taxes	11,889,000	9,657,000	7,635,000
Net income	\$ 14,158,000	\$ 8,752,000	\$ 7,493,000
Net income per share:			
Primary	\$1.19	\$.85	\$.71
Fully diluted	\$1.10	\$.78	\$.71
Weighted average shares outstanding:			
Primary	11,852,000	10,320,000	10,506,000
Fully diluted	13,357,000	12,515,000	10,506,000



AGS Computers, Inc. and Subsidiaries CONSOLIDATED BALANCE SHEETS

December 31,	1987	1986
Assets		Egy E Control
Current assets:	ON IN MARKS BOARD	
Cash and temporary investments	\$ 5,082,000	\$ 3,343,000
Accounts receivable-trade, less		Carlo School Control School
allowances of \$1,819,000 and \$1,678,000	74,763,000	62,208,000
Inventories	43,631,000	35,539,000
Prepaid expenses and other assets	5,456,000	5,340,000
Total current assets	128,932,000	106,430,000
Fixed assets	9,861,000	8,081,000
Software products	13,593,000	10,996,000
Costs in excess of net assets of subsidiaries acquired	64,793,000	54,430,000
Other assets	4,940,000	2,781,000
	\$222,119,000	\$182,718,000
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 42,666,000	\$ 35,992,000
Current maturities of long-term debt	4,000,000	2,620,000
Deferred income	3,750,000	4,217,000
Income taxes payable	2,664,000	2,784,000
Deferred income taxes payable	5,079,000	15,985,000
Total current liabilities		
Total Current habilities	58,159,000	61,598,000
Deferred income taxes	10,750,000	3,239,000
Long-term debt, less current maturities	46,700,000	64,906,000
Total liabilities	115,609,000	129,743,000
Stockholders' equity:		
Common stock, par value \$.10 per share:		
authorized 25,000,000 shares in 1987 and 1986;		
issued 14,401,000 and 5,349,000	1,440,000	535,000
Paid-in capital	74,562,000	23,938,000
Retained earnings	48,874,000	34,716,000
Cumulative currency translation adjustments	1,266,000	5.41.201.00
	126,142,000	59,189,000
Less 1,484,000 and 351,000 shares of treasury stock, at cost	19,632,000	6,214,000
Total stockholders' equity	106,510,000	52,975,000
2	\$222,119,000	\$182,718,000
	φεεε,119,000	\$102,710,000

AGS Computers, Inc. and Subsidiaries CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended December 31,	1987	1986	1985
Cash flow from operating activities:	44 / 470 000		(02.000
Net income	\$14,158,000	\$ 8,752,000	\$ 7,493,000
Adjustments to reconcile net income to net cash			
provided by operating activities: Amortization of software products	3,092,000	2,492,000	2,291,000
Depreciation and amortization of fixed assets	2,661,000	2,188,000	1,602,000
Amortization of costs in excess of	2,001,000	2,100,000	1,002,000
net assets acquired	1,757,000	1,060,000	818,000
Provision for doubtful accounts	1,400,000	1,568,000	792,000
Changes in assets and liabilities net of effects			
from businesses acquired:			B. B. B. B. C. C.
Increase in accounts receivable	(12,930,000)	(15,024,000)	(9,796,000)
Increase in inventories	(7,425,000)	(10,410,000)	(5,301,000)
Increase in accounts payable and	6,916,000	570,000	6,371,000
accrued expenses Increase (decrease) in deferred income taxes	(3,032,000)	5,639,000	4,059,000
Increase (decrease) in income taxes payable	573,000	(224,000)	(1,739,000)
Other	(1,157,000)	(971,000)	238,000
Total adjustments	(8,145,000)	(13,112,000)	(665,000)
Net cash provided (used) by operating	(0,225,000)	(10)114(000)	_(000)
activities	6,013,000	(4,360,000)	6,828,000
activities.		(1,500,000)	0,020,000
Cash flows from investing activities:			
Capital expenditures	(4,346,000)	(3,065,000)	(3,607,000)
Additions to software products	(4,059,000)	(2,660,000)	(2,580,000)
Payments for businesses acquired	(4,200,000)	(31,200,000)	(349,000)
Other	(2,672,000)		750,000
Net cash used in investing activities	(15,277,000)	(36,925,000)	(5,786,000)
Cash flows from financing activities:			
Borrowings under long term debt	32,000,000	45,750,000	7,500,000
Payments of long term debt	(8,826,000)	(37,646,000)	(6,173,000)
Payments of notes payable			(1,932,000)
Proceeds from issuance of convertible debentures		40,000,000	
Cost of issuance of convertible debentures	(13,418,000)	(1,378,000) (5,374,000)	(528,000)
Payment for treasury stock purchased Other	1,247,000	307,000	263,000
The state of the s			
Net cash provided (used) by financing activities	11,003,000	41,659,000	(870,000)
	11,003,000	41,009,000	(870,000)
Net increase in cash and cash equivalents	1,739,000	374,000	172,000
Cash and cash equivalents at beginning of year	3,343,000	2,969,000	2,797,000
Cash and cash equivalents at end of year	\$ 5,082,000	\$ 3,343,000	\$ 2,969,000
	-		
Supplemental disclosure of cash flow information:			
Cash paid during the years for:			
Interest	\$ 4,373,000	\$ 2,620,000	\$ 297,000
Income taxes, excluding pre-acquisition	10 (26 000	2.271.000	6542.000
liabilities	10,636,000	3,241,000	4,542,000
Non cash investing and financing activities:			
Conversion of long term debt			
to common stock	38,595,000		



AGS Computers, Inc. and Subsidiaries CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

For the years ended December 31, 1985, 1986 and 1987

	,,,,,				Cumulative Currency		
	Comn	non Stock	Paid-in	Retained	Translation	Treasur	y Stock
	Shares	Amount	Capital	Earnings	Adjustments	Shares	Cost
Balance, December 31, 1984 Net income Treasury stock acquired	5,283,000	\$528,000	\$23,018,000	\$18,471,000 7,493,000		62,000	\$ 970,000
Stock options exercised Common stock issued under employee	15,000	2,000	133,000				
ownership plan Common stock issued under employee stock	13,000	1,000	198,000				
purchase plan			(2,000)			(8,000)	(130,000)
Balance, December 31, 1985 Net income	5,311,000	531,000	23,347,000	25,964,000 8,752,000		54,000	840,000
Treasury stock acquired Stock options exercised Common stock issued under employee	26,000	3,000	304,000			297,000	5,374,000
ownership plan	12,000	1,000	287,000				
Balance, December 31, 1986 Net income	5,349,000	535,000	23,938,000	34,716,000 14,158,000		351,000	6,214,000
Translation adjustment Two for one stock split Treasury stock acquired	5,349,000	535,000	(535,000)		\$1,266,000	351,000 782,000	13,418,000
Stock options exercised Common stock issued for	157,000	16,000	1,296,000				
subsidiary acquired Common stock issued upon conversion of	601,000	60,000	11,148,000				
debentures Common stock issued under employee	2,926,000	292,000	38,303,000				
ownership plan Tax benefit from the issuance of stock	19,000	2,000	342,000				
options			70,000				

AGS Computers, Inc. and Subsidiaries 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 thirty to forty-year periods. Accumulated amortization aggregated \$4,857,000 and \$3,087,000 at December 31, 1987 and 1986, 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. Investment and research and development tax credits are reflected as a reduction of federal income taxes in the year realized.

Statements of changes in cash position for the years ended December 31, 1986 and 1985 have been restated to statements of cash flows as promulgated by FASB 95. For purposes of the statement of cash flows, the Company considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

Research and development costs were \$12,719,000, \$6,230,000 and \$7,754,000 of which \$8,660,000, \$3,570,000 and \$5,174,000 were charged to operations, for 1987, 1986 and 1985, respectively and \$4,059,000, \$2,660,000 and \$2,580,000 represented costs of software enhancements which were capitalized in 1987, 1986 and 1985, respectively.

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 to seven years. Amortization was \$3,092,000, \$2,492,000 and \$2,291,000 for 1987, 1986 and 1985, respectively.

Software products at December 31, 1987 and 1986 include \$5,170,000 and \$5,067,000 arising from the purchase of subsidiaries and are stated net of accumulated amortization of \$4,646,000 and \$3,095,000, respectively.

The assets and liabilities of the Company's foreign subsidiaries are translated into U.S. dollars using current exchange rates; the income and expense accounts are translated at average rates prevailing during the year. Resulting translation adjustments are reported separately in stockholders' equity. Transaction gains and losses (not material) are included in net income.

In May 1987, the Company declared a two-for-one stock split effected in the form of a 100% stock dividend. Accordingly, all stock plan data and earnings per share amounts have been restated to reflect the stock split.

Primary net income per share is based on the weighted average number of shares of common stock outstanding. Dilution resulting from stock options on primary net income per share is not significant. Fully diluted net income per share assumed conversion of all convertible debentures into common stock and that outstanding stock options were exercised and the proceeds used to purchase common shares.

Note B-Fixed Assets: December 31,	1987	1986
Fixed assets consist of:		1980
Furniture and equipment	\$ 8,287,000	\$ 6,952,000
Computer equipment	7,899,000	5,464,000
Leasehold improvements	2,272,000	1,720,000
	18,458,000	14,136,000
Less-accumulated depreciation		
and amortization	8,597,000	6,055,000
	\$ 9,861,000	\$ 8,081,000



Note C-Long Term Debt: December 31,	1987	1986
Long-term debt consists of the following:		NECTOR DELIC
Bank revolving credit note	\$30,700,000	\$14,500,000
Bank term note	20,000,000	13,000,000
7-1/2% convertible subordinated debentures		40,000,000
Other		26,000
	50,700,000	67,526,000
Less-current maturities	4,000,000	2,620,000
	\$46,700,000	\$64,906,000

The Company's bank credit facility, as amended effective December 31, 1987 aggregated \$80,000,000 of which \$60,000,000 was available under the revolving credit note and \$20,000,000 under the term note. The revolving credit note terminates on December 31, 1989, at which date all amounts then outstanding are converted to a Funded Term Loan payable in quarterly installments commencing on March 31, 1990 with a final maturity date of December 31, 1994; interest, at the Company's choosing is either at prime or LIBOR (plus 1-1/4% and other adjustments) to December 31, 1989 and 1/4% over prime or 1-1/2% over LIBOR thereafter. The term note requires quarterly installments of principal of \$1,000,000 to maturity at December 31, 1992 plus interest at prime plus 1/4%

or LIBOR (plus 1-1/2% and other adjustments). Under this credit facility the payment of cash dividends is prohibited and the Company is required to maintain several financial ratios. The agreement also requires the Company to maintain a compensating cash balance of \$600,000. The Company has \$3,000,000 of standby letters of credit available under this facility through December 31, 1989. At December 31, 1987 commitments under a standby letter of credit amounted to \$718,000.

The 7-1/2% \$40,000,000 convertible subordinated debentures, due 2011, were called for redemption during 1987. Substantially all of the debentures were converted into 2,926,000 shares.

Maturities of the non-current portion 1989 1990 1991 1992 1993 and thereafter	of long-term debt at Decembe	r 31, 1987 are as follo	\$ 4,000,000 10,140,000 10,140,000 10,140,000 12,280,000 \$46,700,000
Note D-Income Taxes: The provisions for income taxes consis Years ended December 31,	st of the following:	1986	1985
Currently payable:			The San San
Federal State and local	\$10,878,000	\$2,792,000	\$2,461,000
Foreign	2,486,000 769,000	813,000 413,000	1,047,000 68,000
. overgi	The state of the s	The state of the s	
Deferred:	14,133,000	4,018,000	3,576,000
Federal	(2,323,000)	4,586,000	3,571,000
State and local	79,000	1,053,000	488,000
	(2,244,000)	5,639,000	4,059,000
	\$11,889,000	\$9,657,000	\$7,635,000
	** 1,00 ×,000	000,000	000,000

Deferred tax expense results from the following: Years ended December 31,	1987	1986	1985
Reporting of income on the cash basis for income tax purposes	\$(4,367,000)	\$3,582,000	\$1,731,000
Expensing of software product enhancements for income tax purposes	1,111,000	513,000	501,000
Differences in amortization of intangibles of subsidiaries acquired	1,623,000	721,000 823,000	1,001,000 826,000
Other	\$(2,244,000)	\$5,639,000	\$4,059,000

Deferred income taxes of approximately \$5,000,000 arising principally from the reporting of income on the cash basis for income tax purposes have been reclassified to long-term during 1987 pursuant to the provisions of the Tax Reform Act of 1986.

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,	1987	1986	1985
Provision computed at the Federal statutory income		16 17 8 14	
tax rate	\$10,419,000	\$8,468,000	\$6,959,000
State and local income taxes,			
net of federal tax benefit	1,539,000	1,008,000	829,000
Amortization of costs in excess of net assets	647.000	427,000	376,000
acquired Research and development	047,000	127,000	370,000
credit			(155,000)
Investment tax credit			(246,000)
Other	(716,000)	(246,000)	(128,000)
As reported	\$11,889,000	\$9,657,000	\$7,635,000

The Company has not adopted the accounting for income tax provisions of FASB 96. Management is of the opinion that the adoption of the standard should not have a material impact on the Company's financial position and results of operations.

Note E-Accounts Payable and Accrued Liabilities: December 31,	1987	1986
Accounts payable and accrued	MARCON BUILDING	
liabilities consist of: Accounts payable to vendors	\$31,816,000	\$26,837,000
Accrued payroll, vacation and bonus expenses	8,214,000	5,679,000
Other	2,636,000	3,476,000
	\$42,666,000	\$35,992,000

Note F-Stock Plans:

Under the Company's incentive stock option plan ("ISOP"), options may be granted to employees at not less than the market price of the shares at date of grant and are generally exercisable over a 5 year period.

The Company intends to use its treasury stock to fulfill obligations under its ISOP. Certain information with respect to options granted under the above plan is as follows:



Years ended December 31,	Number of Shares			
rearsended December 31,	1987	1986	1985	
Shares under option at beginning				
of year (\$.26-\$14.38 a share)	618.952	568,730	471,230	
Granted (\$5.00-\$17.66)	215,464	224,476	259,268	
Exercised (\$.26-\$14.38)	(156,464)	(53,366)	(29,134)	
Cancelled (\$4.75-\$14.38)	(48,670)	(120,888)	(132,634)	
Shares under option at end				
of year (\$4.75-\$17.66 a share)	629,282	618,952	568,730	

At December 31, 1987 and 1986 options for 259,763 and 212,786 shares, respectively, were exercisable. Shares available for future grant aggregated 107,966 and 274,760 at December 31, 1987 and 1986, respectively. No charges were made to income in connection with the aforementioned stock option plan since all options granted were at market.

The Company's employee stock purchase plan (ESPP) authorizes the sale of 500,000 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 of the stock at the date the right to purchase

is granted. Through December 31, 1987, 22,686 shares were issued under the plan. There are no shares currently issuable.

The Company's employee stock ownership purchase plan was terminated at the end of 1986. Under this plan all qualified employees of the Company and its subsidiaries were granted shares of stock equal in value to .5% of their annual compensation. In connection with this plan, expenses of \$334,000 and \$291,000 were reflected in the statements of income for the years ended December 31, 1986 and 1985, respectively.

Note G-Commitments:

The Company is obligated under operating lease agreements for its offices, warehouse facilities and equipment. The minimum aggregate rentals payable under all operating leases at December 31, 1987 are as follows:

1988	\$ 5,145,000
1989	4,039,000
1990	3,274,000
1991	2,917,000
1992	2,017,000
1993 and beyond	3,588,000
	\$20,980,000

Total rental expense charged to income was \$6,197,000 (1987), \$5,135,000 (1986) and \$4,244,000 (1985).

Note H-Profit Sharing and 401K Investment Plan: The Company has profit sharing plans covering substantially all employees of the parent and certain of its subsidiaries. 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 \$937,000 (1987), \$451,000 (1986) and \$327,000 (1985).

Note I-Litigation:

Management and legal counsel are of the opinion that pending litigation is not material.

Note I-Businesses Acquired:

In January 1986, the Company acquired Compuserve, a Canadian distributor of microcomputer hardware and software for approximately \$5,000,000.

In December 1986, the Company acquired Vista Concepts, Inc. which develops and markets computer software for the financial services industry. The purchase price of \$30,700,000 includes a subsequent contingent payment made in 1987 which consisted of 601,000 shares of the Company's common stock with a market value of approximately \$11,200,000.

During 1986, the Company acquired three software systems development companies for an aggregate purchase price of approximately \$6,700,000 and, in 1987, acquired two software companies and a microcomputer distribution company for an aggregate purchase price of approximately \$4,200,000. The results of operations for 1987, 1986 and 1985 would not have been materially affected if these companies had been acquired on January 1, 1985.

All 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 purchase agreements for certain of these acquisitions call for additional payments, if future pre-tax income exceeds certain standards.

The unaudited pro forma consolidated results of operations of the Company as if Compuserve and Vista Concepts, Inc. had been acquired on January 1, 1985 are as follows:

Years ended December 31,	1980	1985
Sales	\$395,857,000	\$321,300,000
Cost of sales	307,835,000	249,203,000
Selling, general and		
administrative expenses	68,081,000	56,508,000
Income taxes	10,697,000	8,061,000
Net income	9,244,000	7,528,000
Net income per share:		
Primary	\$.90	5 .72
Fully diluted	\$.82	8 .72

Note K-Quarterly Financial Information: Unaudited quarterly financial data for the years 1987 and 1986 is as follows:

1987	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Sales	\$114,895,000	\$114,958,000	\$125,535,000	\$141,341,000
Gross profit	24,971,000	26,437,000	28,504,000	27,134,000
Net income	2,741,000	3,560,000	3,988,000	3,869,000
Net income per share:				
Primary	\$.27	\$.32	\$.30	\$.30
Fully diluted	\$.24	\$.26	\$.30	\$.30
1986				
Sales	\$82,537,000	\$89,166,000	\$95,349,000	\$114,445,000
Gross profit	17,172,000	19,625,000	20,936,000	24,083,000
Net income	1,580,000	2,133,000	2,310,000	2,729,000
Net income per share:				- A
Primary	\$.15	\$.20	\$.23	\$.27
Fully diluted	\$.15	\$.19	\$.20	\$.24

Note L-Company Operations:

Information about the Company's operations is as follows:

	Software	Microcomputer Distribution	Consolidated
Year Ended December 31, 1987: Sales	\$190,024,000	\$306,705,000	\$496,729,000
Operating profit	\$ 21,113,000	\$ 12,983,000	\$ 34,096,000
General and corporate expenses Interest expense			(4,302,000) (3,747,000)
Income before income taxes			\$ 26,047,000
Identifiable assets: Operations	\$120,362,000	\$ 98,800,000	\$219,162,000
Corporate (principally investments)			2,957,000
Total			\$222,119,000
Additions to fixed assets	\$ 2,313,000	\$ 2,033,000	\$ 4,346,000
Depreciation and amortization of fixed assets	\$ 1,625,000	\$ 1,036,000	\$ 2,661,000



	Software	Microcomputer Distribution	Consolidated
Year Ended December 31, 1986: Sales	e1 (0 (05 000	ea/a aaa aaa	*****
Sales	\$140,605,000	\$240,892,000	\$381,497,000
Operating profit	\$ 14,485,000	\$ 11,036,000	\$ 25,521,000
General and corporate expenses Interest expense			(3,567,000) (3,545,000)
Income before income taxes			\$ 18,409,000
Identifiable assets: Operations	\$ 94,304,000	\$ 84,120,000	\$178,424,000
Corporate (principally temporary investments)			4,294,000
Total			\$182,718,000
Additions to fixed assets	\$ 1,606,000	\$ 1,459,000	\$ 3,065,000
Depreciation and amortization of fixed assets	\$ 1,408,000	\$ 780,000	\$ 2,188,000
Year Ended December 31, 1985: Sales	\$117,375,000	\$161,496,000	\$278,871,000
Operating profit	\$ 13,192,000	\$ 7,679,000	\$ 20,871,000
General and corporate expenses Interest expense			(3,443,000) (2,300,000)
Income before income taxes			\$ 15,128,000
Identifiable assets: Operations	\$ 62,542,000	\$ 45,087,000	\$107,629,000
Corporate (principally temporary investments)			3,472,000
Total			\$111,101,000
Additions to fixed assets	\$ 1,105,000	\$ 2,502,000	\$ 3,607,000
Depreciation and amortization of fixed assets	\$ 1,120,000	\$ 482,000	\$ 1,602,000

The Company operates in two industries: software and the distribution of microcomputer hardware and software.

Microcomputer distribution includes sales, operating profits and identifiable assets from Canadian operations of \$62,293,000, \$2,487,000 and \$23,984,000 (1987) and \$42,923,000, \$1,613,000

and \$22,184,000 (1986), respectively. In 1985 foreign operations were insignificant.

Sales to a group of customers under common control were \$26,201,000 and \$252,000 (1987), \$24,790,000 and \$286,000 (1986) and \$29,194,000 and \$188,000 (1985) of the sales of the software and microcomputer distribution segments, respectively.

Note M-Subsequent Event (Unaudited):

In March 1988, the Company reached an agreement in principle to acquire C3, Inc. in a cash merger at \$15.75 per share for approximately \$157,500,000. The merger is subject to a number of contingencies

including the negotiation of a definitive agreement, approval by C3, Inc.'s shareholders, and necessary government approvals. C3, Inc. designs, integrates, assembles, markets and maintains computer systems for the United States Government.

REPORT OF MANAGEMENT

To the Stockholders of AGS Computers, Inc.:

The management of AGS Computers, Inc. is responsible for the integrity and objectivity of its consolidated financial statements and related financial information in this Annual Report. These statements were prepared in conformity with generally accepted accounting principles appropriate in the circumstances and consistently applied. The consolidated financial statements include management's informed judgment and estimation as to the effect of events and transactions that are accounted for or disclosed.

The Company maintains an internal auditing function which evaluates and formally reports on the adequacy and effectiveness of internal accounting controls, policies and procedures. The Audit Committee of the Board of Directors, chaired and controlled by non-employee directors, meets with the external and internal auditors and management to satisfy itself that they are properly discharging their responsibilities. The external and internal auditors have direct access to the Audit Committee.

Coopers & Lybrand is engaged to render an opinion as to whether management's financial statements present fairly the financial condition and operating results of AGS Computers, Inc. The scope of their engagement included a review of the internal control system to the extent deemed necessary to render an opinion.

Jamene Schannbey

Lawrence J. Schoenberg Chairman, Chief Executive Officer and Treasurer

Leonard Ostfeld Chief Financial Officer

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, 1987 and 1986 and the related consolidated statements of income, stockholders' equity and cash flows for the years ended December 31, 1987, 1986 and 1985. 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, 1987 and 1986 and the consolidated results of their operations and cash flows for the years ended December 31, 1987, 1986 and 1985 in conformity with generally accepted accounting principles applied on a consistent basis.

Newark, New Jersey February 19, 1988 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		
	1987	For the years ended Dec. 31, 1986	1985	1987 compared to 1986	1986 compared to 1985	
Sales: Software Microcomputer distribution Total sales	38.3% 61.7 100.0	36.9% 63.1 100.0	42.1% 57.9 100.0	35.1% 27.3 30.2	19.8% 49.2 36.8	
Cost of software sales Cost of microcomputer distribution sales Total cost of sales	24.9 <u>53.5</u> 78.4	24.6 54.0 78.6	28.3 <u>49.8</u> 78.1	31.8 <u>29.2</u> 30.0	19.0 48.2 37.6	
Selling, general and administrative expenses Interest expense-net Total costs and expenses	15.6 7 94.7	15.8 	15.8 7 _94.6	29.0 5.2 29.6	36.9 64.7 37.7	
Income before income taxes Income taxes Net income	5.3 2.4 2.9%	4.8 2.5 2.3%	5.4 2.7 2.7%	41.5 23.1 61.8%	21.7 26.5 16.8%	

SALES

The Company's Software sales increased 35.1% in 1987 and 19.8% in 1986 from prior periods. A large portion of the 1987 sales increase was due to sales of banking software products by an acquired company. Assuming that the 1986 acquisitions were made at the beginning of the year, the increase in 1987 sales attributable to acquisitions would approximate 4% on a pro forma basis. The remainder of the sales growth in 1987 and 1986 as compared to prior years was mainly attributable to the placement of additional billable staff and to a lesser extent to price increases for Systems Development Services.

Microcomputer Distribution sales increased 27.3% in 1987 and 49.2% in 1986 from prior years. The acquisition of Compuserve, effective January 1, 1986, accounted for approximately 27% of the growth in sales in 1986 as compared to 1985. The balance of the percentage increases in sales in 1987 and 1986 as compared to the prior periods was due to a broad-based, industry wide increase in the demand for microcomputer products and from opening more distribution centers. The four distribution centers opened in the fourth quarter of 1987 are expected to contribute significantly to future revenue increases. In 1987 and 1986 as compared to the prior years, the unit volume of sales increased at a greater rate than the sales dollars.

COST OF SALES AND GROSS PROFIT MARGINS

Cost of Software sales were 65.1%, 66.7% and 67.2% of Software sales in 1987, 1986 and 1985, respectively. In 1987, the increase in the gross profit margin from Software sales as compared to 1986 results from a larger mix of banking software products, which produces higher margins than Systems Development Services. In 1986, the increase in software products gross profit margin from banking software products was offset by lower margins from project management products. Over the period 1985 through 1987, the cost of sales for Systems Development Services was relatively constant, excluding start up costs of \$911,000 in 1985.

Microcomputer Distribution's cost of sales as a percentage of Microcomputer Distribution sales were 86.7%, 85.5% and 86.0% in 1987, 1986 and 1985, respectively. The increase in cost of sales in 1987 as compared to 1986 was due to a very competitive marketplace. The reduction in cost of sales in 1986 as compared to 1985 is primarily attributable to a slightly higher gross profit margin in the Canadian marketplace.

SELLING GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses were 15.6%, 15.8%, and 15.8% as a percentage of sales in 1987, 1986 and 1985, respectively. In 1987 the increase in marketing and support services for Systems Development Services along with the inclusion of a larger mix of business from software products, whose selling, general and administrative expenses as a percentage of sales is higher than the Company average, was offset by the ability to handle a larger volume of sales without an equivalent increase in administrative and marketing costs in the Microcomputer Distribution business.

In 1986, selling, general and administrative expenses included approximately \$400,000 in connection with the merger of our major software systems development companies and 1985 included the writedown of the Company's equity investments in micro software publishing and costs incurred in opening new branch offices without achieving normal sales levels.

Selling, general and administrative expenses include the amortization of acquisition-related "goodwill". Management believes that the amortization of goodwill without recognition of replacement assets understates the company's assets.

PRETAX OPERATING PROFIT

Operating margins for Software were 11.1%, 10.3% and 11.2% as a percentage of sales in 1987, 1986 and 1985, respectively. The margin increase in 1987 as compared to 1986 results from the inclusion of a larger mix of business from software products. The Distribution operating margins were 4.2% (1987), 4.6% (1986) and 4.8% (1985). The 1987 reduction as compared to 1986 results from the very competitive marketplace. The 1986 reduction as compared to 1985 resulted from the additional cost of integrating the Canadian microcomputer acquisition into our operating mode.

INCOME TAXES

The income tax rate as a percentage of income before income taxes has varied from 45.6% (1987), 52.5% (1986) to 50.5% (1985). The lower tax rate in 1987 as compared to 1986 primarily results from a 6% federal rate reduction pursuant to the provisions of the Tax Reform Act of 1986. The higher tax rate in 1986 as compared to 1985 results from the elimination of the investment tax credit and no research and development credit. The Company's effective in-

come tax rate is adversely affected by the amortization of goodwill which is not deductible for income tax purposes.

The Company has not adopted the accounting for income tax provisions of FASB 96. Management is of the opinion that the adoption of the standard should not have a material impact on the company's financial position and results of operations.

Effective with 1987 the cash basis was discontinued under the Tax Reform Act of 1986 and income previously deferred will be taxed over a four-year period. The elimination of the cash basis has the effect of making tax payments for 1987 and the next two years approximate tax accruals. During 1985 and 1986, amounts accrued for income taxes exceeded actual tax payments. The difference between tax accruals and payments was primarily due to the company's use of the cash basis to report its software segment for tax purposes while using the accrual method for financial reporting purposes.

NET INCOME

The higher net income as a percentage of sales in 1987 as compared to 1986 results from our expanded banking software products business and a lower effective tax rate. The lower net income as a percentage of sales in 1986 as compared to 1985 was caused by an increased tax rate, a lower operating margin and a higher percentage of revenues from the low margined Distribution business.

LIQUIDITY AND CAPITAL RESOURCES

Working capital requirements for the Company's internal growth and operations have been satisfied principally from funds generated from operations. The Company's seasonal needs and funds for acquisitions have been obtained from bank borrowings and part of the \$40,000,000 71/2% convertible subordinated debenture offering completed April 28, 1986. Substantially all of the debentures were converted into the Company's common stock during 1987. In December 1986, the Company paid \$19,500,000 as part of the cost of acquiring Vista Concepts, Inc. and in 1987 made a contingent payment of 601,000 shares of common stock with a market value of approximately \$11,200,000. During 1987, the Company purchased 782,000 shares of its common stock for \$13,418,000. The Company's credit facility provides for up to \$28,600,000 of additional borrowings. See Note C to the Consolidated Financial Statements. The Company's business has not been materially affected by inflation.

AGS Computers, Inc. & Subsidiaries

Systems Development

AGS Information Services Inc. Mountainside, NJ Anthony F. Stepanski

AGS Genasys Corporation

Rockville, MD John Puhala

APR, Inc. Dublin, OH Kenneth Sherman Barry C. Heagren

Eastern Design Co., Inc. White Plains, NY David Levine

Erdman, Anthony and Associates, Inc. Rochester, NY Alan Blake

*Not affiliated with CompuServe in Obio

Software Products

AGS Management Systems Inc. King of Prussia, PA Joseph S. Herbets

DISC, Inc. Baltimore, MD Albert M. Harris

Systems Strategies, Inc. New York, NY Stanley Adelman

Vista Concepts, Inc. New York, NY Ellis Denmark

Distribution

AGS System Forms, Inc. Mountainside, NJ Michael Kolba

Microamerica, Inc. Marlborough, MA Gordon B. Hoffstein

*Compuserve Markham, Ontario Jon Turner

International Micro Systems

Miami, FL Clifford Dyer

MAJOR OFFERINGS OF AGS SOFTWARE PRODUCTS UNITS

FINANCIAL

DISC

- · Cash Management
- · Account Management
- · Travelers Checks
- · Time Deposits
- · Regulatory Compliance

Escheatment, 1099's, Large Cash, Retirement Plans

VISTA CONCEPTS

- Total Securities Processing and Control
 - Domestic Markets
 - Global Markets
 - Capital Markets
 - Mortgage Backed Securities
- · Personal Trust Management

AGS INFORMATION SERVICES - GENASYS

 Federal Agency/Department Financial Management Systems

COMMUNICATIONS

SYSTEMS STRATEGIES

- · Multi-Vendor Mini and Micro Connectivity to IBM
- · DEC-VAX Connectivity to IBM
- · Communications Testing

PROJECT MANAGEMENT

AGS MANAGEMENT SYSTEMS

- Project Management Corporate, Departmental, Personal
- · Earned Value/Performance Management
- · Management Graphics
- · Estimating
- · Development Methodologies

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 Allen Pearl General Counsel

Leonard Ostfeld Chief Financial Officer Richard W. Thatcher Jr. Vice President Corporate Planning

Corporate Directors

Lawrence J. Schoenberg Chairman, Chief Executive Officer and Treasurer

Joseph Abrams President, Chief Operating Officer and Secretary Arthur M. Goldberg* President International Controls Corporation

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

Gordon B. Hoffstein President, Chief Executive Officer Microamerica William A. Marquard Chairman of Executive Committee American Standard, Inc.

Kenneth Peskin*
President, Chief Executive
Officer Of The Pathmark
Division of Supermarkets
General Corporation

Anthony F. Stepanski Executive Vice President; President, Chief Executive Officer AGS Information Services, Inc.

*Audit Committee



Board of Directors, Left to Right: Standing, Arthur M. Goldberg, Lawrence J. Schoenberg, Kenneth Peskin, Peter Graf. Seated, Anthony F. Stepanski, Joseph Abrams, Gordon B. Hoffstein. (Not pictured, William A. Marquard).



AGS Computers, Inc. 1139 Spruce Drive Mountainside, New Jersey 07092 (201) 654-4321