

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

AMENDMENT NO. 2

TO

FORM S-1**REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933****AGS COMPUTERS, INC.**

(Exact name of registrant as specified in charter)

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

(Address of principal executive offices)

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

(Name and address of agent for service)

*Copies to:***BERNARD J. MEISLIN, Esq.
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One Chase Manhattan Plaza
New York, New York 10005****Approximate date of commencement of proposed sale to the public:**

As soon as practicable after the Registration Statement becomes effective.

CALCULATION OF REGISTRATION FEE

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

(1) Estimated solely for purposes of calculating the registration fee.

(2) \$3,630 was paid upon filing of the Registration Statement on May 13, 1982.

(3) Such indeterminate number of shares as may be issuable upon conversion of the Debentures, including such additional shares as may be issuable as a result of adjustments to the conversion rate.

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

AGS COMPUTERS, INC.

\$10,000,000

12% Convertible Subordinated Debentures Due 2002

Interest Payable on April 1 and October 1 in Each Year

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

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

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

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

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

(2) See "Underwriting".

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

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

L.F. ROTHSCHILD, UNTERBERG, TOWBIN

The date of this Prospectus is October 6, 1982.

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

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

TABLE OF CONTENTS

	<u>PAGE</u>
Prospectus Summary	3
The Company	4
Use of Proceeds	4
Dividend Policy	4
Capitalization	5
Price Range of Common Stock	6
Selected Financial Data	7
Management's Discussion and Analysis of Results of Operations and Financial Condition	9
Business	11
Management	20
Principal Stockholders	23
Description of Debentures	23
Description of Common Stock	27
Underwriting	28
Legal Matters	29
Experts	29
Additional Information	29
Index to Financial Statements	30

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

PROSPECTUS SUMMARY

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

The Offering

Summary of Terms of Debentures

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

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

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

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

Trustee: Midlantic National Bank.

Use of Proceeds

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

Business

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

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

Selected Financial Information

(in thousands, except per share data)

Income Statement Data:

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

Balance Sheet Data:

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

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

THE COMPANY

The Company provides professional computer software and engineering services and proprietary software products to meet data processing, engineering and project management requirements of large commercial and financial institutions. In addition, the Company is a leading independent distributor of microcomputers, related peripheral equipment and packaged software in the southeastern and mid-Atlantic United States.

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

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

USE OF PROCEEDS

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

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

DIVIDEND POLICY

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

CAPITALIZATION

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

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

- (1) Represents loans of a subsidiary of the Company (\$530,000) under an informal line of credit, which can be terminated by the bank at any time and permits borrowing of up to \$1,000,000 with interest at the bank's prime lending rate (16½% at June 30, 1982). The Company has a line of credit which will terminate on June 30, 1983, and will permit borrowings of up to \$2,250,000, with interest at the bank's prime lending rate. The as adjusted amount also includes borrowings of Atlantic under lines of credit permitting borrowings of up to \$800,000 with interest at 1% above the banks' prime lending rates (16½% at June 30, 1982).
- (2) Includes principally three installment notes payable to banks, two of which were repaid on September 21, 1982, with proceeds of borrowings under a revolving credit agreement. The remaining installment note is due in equal monthly installments of \$7,000 through May 1, 1987, bears interest at ¾% above the bank's prime lending rate and is secured by certain equipment of the Company.
- (3) The Company borrowed \$4,000,000 on September 21, 1982, under its revolving credit agreement, \$2,000,000 of which was used for the acquisition of Atlantic and \$1,792,000 of which was used to repay long-term debt. The Company anticipates using proceeds from the sale of the Debentures offered hereby to repay such borrowings. Under the agreement the Company may, from time to time, borrow up to \$5,000,000 through June 30, 1985. On such date the Company's revolving loans may be converted to a term loan payable in quarterly installments through April 20, 1990. The revolving loans bear interest at ½% above the bank's prime rate and the term loan at ¾% above the bank's prime rate. The Company pays a fee of ½% on the unused portion of the revolving credit commitment and has agreed to maintain compensating balances of 5% of the total revolving credit commitment.
- (4) Does not include 1,183,691 shares reserved for issuance, including 250,000 shares reserved for issuance pursuant to the Company's Incentive Stock Option Plan (options for 118,350 being outstanding at the date of this Prospectus), 24,600 shares reserved for issuance pursuant to options

(Footnotes continued on following page)

(Footnotes continued from preceding page)

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

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

PRICE RANGE OF COMMON STOCK

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

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

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

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

SELECTED FINANCIAL DATA

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

Selected Income Statement Data:

(in thousands, except per share and ratio data)

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

Selected Balance Sheet Data:
(in thousands)

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

Pro Forma Data Reflecting Acquisitions

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

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

	Year Ended	Six Months Ended	
	December 31, 1981	June 30,	
		1981	1982
		(unaudited)	
Revenues	\$49,499	\$22,211	\$33,374
Net Income	1,611	681	1,027
Net Income per share	\$.45	\$.21	\$.28
Ratio of earnings to fixed charges	3.6	3.9	4.1

Pro Forma Balance Sheet Data:
(in thousands)

	June 30, 1982
	(unaudited)
Working capital	\$ 1,997
Tangible assets	18,835
Total debt	6,044
Stockholders' equity	8,208

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

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

	Percentage of Revenues				Period to Period Increase (Decrease)		
	For the year Ended December 31,		Six Months Ended June 30,		1980 Compared to 1979	1981 Compared to 1980	Six Months Ended June 30, 1982 compared to 1981
	1979	1980	1981	1982			
Computer and engineering services	85.3%	87.3%	66.3%	56.9%	11.0%	73.3%	51.0%
Microcomputer and other products	14.0	11.8	33.3	42.7	(9.0)	545.6	198.6
Interest income7	.9	.4	.4	39.1	5.2	46.8
Total revenues	100.0	100.0	100.0	100.0	8.4	128.3	91.4
Cost of computer and engineering services	57.1	55.9	40.9	35.2	6.0	67.4	48.9
Cost of microcomputer and other products	10.6	8.7	27.6	35.8	(10.4)	620.9	205.5
Total costs	67.7	64.6	68.5	71.0	3.4	142.2	100.7
Selling, general and administrative expenses	25.9	29.1	21.6	20.4	21.8	69.4	73.2
Interest expense4	.3	.8	.7	(32.0)	525.5	274.5
Total costs and expenses	94.0	94.0	90.9	92.1	8.3	120.9	94.5
Income before income taxes and minority interest	6.0	6.0	9.1	7.9	10.1	243.2	61.2
Income taxes	2.9	2.7	4.1	3.7	1.6	246.5	56.6
Minority interest	—	—	.4	.4			108.9
Net income	3.1%	3.3%	4.6%	3.8%	18.0%	215.1%	62.1%

Results of Operations

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

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

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

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

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

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

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

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

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

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

Liquidity

The Company has sufficient financial resources to meet its anticipated requirements. Following completion of this offering, the Company will have approximately \$3,720,000 of net proceeds not allocated for specific use in the Company's business. These unallocated net proceeds, together with the Company's borrowing capacity, will be available for acquisitions. Working capital requirements for the Company's internal growth and operations have been satisfied principally from funds generated from operations, and it is anticipated that such funds will continue to be sufficient for the Company's internal needs.

BUSINESS

General

The Company provides professional computer software and engineering services and proprietary products to meet data processing, engineering and project management requirements of large commercial and financial institutions. In addition, the Company is a leading independent distributor of microcomputers, related peripheral equipment and packaged software in the southeastern and mid-Atlantic United States.

The computer industry has been characterized by continual change. Technological advances resulting in increased computing power as well as significant reductions in the cost of computer hardware has led to the rapid growth of interactive or real time computer systems, which have the ability to supply timely information compared to batch processing. Corporate managers are becoming increasingly aware of the importance of computers as an integral management tool, not only in day-to-day operations, but for the more complex forecasting, budgeting and strategic planning functions. This has led to an increasing demand for computer software specifically designed to meet the diverse requirements of users. The Company believes it is able to supply the expertise to solve data processing problems, from conception through implementation, in an efficient and timely fashion.

A staff of over 600 professionals performs computer systems analysis and design, markets packaged software products and provides specialized engineering and consulting services principally to large commercial and financial institutions. The software industry is comprised of different levels of services. The Company specializes in providing higher level, customized application software services. By focusing on higher level computer development assignments, the Company's strategy is to offer its clients the capability to assume complete responsibility for the design and implementation of an information processing system. While almost all the Company's clients employ an in-house professional staff, the Company believes its services are utilized to obtain faster, more efficient service and to obtain additional technical skills or expertise which are not readily available in a timely fashion or which do not justify permanent personnel increases.

The Company's microcomputer products distribution business sells microcomputers, related peripheral equipment and software manufactured by Atari, Altos and OKI, among others, to computer stores, original equipment manufacturers and systems integrators. Demand for microcomputer products has grown rapidly, and the Company's distribution business has expanded significantly over the last two years. The Company intends to utilize its distribution capabilities to sell microcomputer software products developed by its professional staff; however, to date no software has been produced for distribution.

The Company's two principal business segments are: Computer and Engineering Services and Microcomputer and Other Products. The following table sets forth the revenues for each of the Company's product lines and segments and operating profits for each of the Company's segments during the three years ended December 31, 1981, and six months ended June 30, 1982. See "Management's Discussion and Analysis of Results of Operations and Financial Conditions" with regard to the effects of acquisitions on revenues.

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

Computer and Engineering Services

The three product lines of Computer and Engineering Services are: Systems Development, Training and Consulting; Software Products; and Engineering Services.

Systems Development, Training and Consulting

Systems development consists of analyzing a client's information processing requirements, developing specifications for software which satisfies the client's needs and designing and implementing the software. In general, the Company focuses on designing complete application software solutions for its clients. The Company believes that by offering total systems development packages it can better meet its clients' data processing needs. However, at times, the Company will provide only limited services such as implementing projects that have been designed by the client or simply providing contract personnel to work at the direction of the client's in-house staff.

Most of the Company's clients have in-house professional staff. The Company believes that clients with in-house staff utilize its services to obtain faster, more efficient service and to obtain additional technical skills or expertise which are not readily available in a timely fashion or which do not justify permanent personnel increases.

The Company has a professional staff of approximately 275 persons providing services in this area. Substantially all the Company's systems development services are performed on clients' premises as part of projects varying in length from a period of a few months to many years. The majority of the Company's systems development work is done for large telecommunications and insurance companies and banks. For its largest client, Bell Laboratories, the Company was engaged in 25 projects principally related to the Bell System's entry into unregulated markets. In 1981, Bell Laboratories accounted for approximately 14% of the Company's operating revenues. The loss of Bell Laboratories, which has been a client since 1969, would have an adverse effect in this area of the Company's business. Other software projects completed since the beginning of 1981 or currently under way include a financial reporting

system for International Telephone & Telegraph Company and a system for measuring the profitability of large commercial loans for Citibank.

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

The Company's training services assist users of large-scale computer systems by developing qualified in-house personnel for computer operations and train project managers in planning and managing complex projects. Principal training activities provided during 1981 and 1982 included training in entry level programming, data base management and assembler languages for clients such as The Chase Manhattan Bank, Commercial Union Corp. and Manufacturers Hanover Trust Company.

The Company also provides consulting services, including conducting feasibility studies, evaluating alternatives and making recommendations with respect to the development of computer systems and the management of projects.

The Company provides training and consulting services both as separate products and in support of its systems development work and its standard software products. Although sales of training and consulting services as separate products contributed only a minor portion of the Company's revenues, the Company considers them to be significant because they may lead to systems development work and sales of the Company's proprietary software products.

A high proportion of the Company's systems development, training and consulting business comes from clients for which the Company has previously performed services. Approximately 90% of its 1980 clients were also clients during 1981, and approximately 90% of its 1981 clients have been clients thus far during 1982. No client in this area, other than Bell Laboratories, accounted for more than 3% of the Company's operating revenues in 1981.

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

Software Products

The Company designs, markets and maintains proprietary software products for use in project management and on September 21, 1982, acquired Atlantic, which also provides proprietary software products. The Company's software products aid in the planning and control of complex projects by keeping track of activities, resources and expenses and forecasting completion dates and the effect that various changes will have on the project. The Company has entered into approximately 850 licenses of its software products for use in a variety of fields including development of data processing systems, construction and engineering, research and product development, government contracting and maintenance planning. The Company often provides consulting and training services in connection with its software products sales.

The Company currently markets the following software products:

PAC I. PAC I is designed for scheduling a single, small to medium sized construction or engineering project. The program includes a schedule and cost control system, which utilizes critical path scheduling techniques for the proper allocation and timing of project resources. PAC I operates on Digital Equipment Corp. computer models PDP-11/34 and 11/70.

PAC II. PAC II incorporates all the components of PAC I and in addition includes comprehensive fiscal budgeting features that monitor current costs and provide cash flow projections. PAC II enables users to budget, analyze and report on any type of project. PAC II operates on a wide variety of computers, including IBM, Honeywell Inc., Control Data Corp. and Burroughs Corporation. PAC II systems are used in a variety of fields, including research and product development, government contracting, development of data processing systems and maintenance planning, and they have been installed with American Telephone & Telegraph Company, Ford Motor Company and Burroughs Corporation, among others.

PAC Macro. PAC Macro allows the PAC II system to be used to plan multiple projects within a single department or among various departments and provides the user with simulation scheduling and planning tools to allocate resource assignments among a mix of projects. PAC Macro operates on IBM and Univac computers.

PAC III. PAC III is a highly sophisticated system for planning and controlling complex multi-location projects. It is designed for use with large construction and engineering projects, as well as in manufacturing, shipbuilding and other fields. PAC III operates on IBM computers. PAC III systems have been installed with General Motors Corporation, Deere & Company and Continental Illinois National Bank and Trust Company of Chicago, among others.

The Company also markets a number of proprietary software product options, such as graphic displays and report writing systems, which can be used with the Company's software products. The Company plans to introduce a new software product, "Office Pro," in the third quarter of 1982. Office Pro, which is in a developmental stage, is expected to provide electronic mail and storage of information, such as office communications, meeting schedules and addresses. The Company is currently evaluating the introduction of additional office related software packages capable of operating on mainframe computers, minicomputers and microcomputers. However, the Company has not developed office related software products other than Office Pro, and no assurance can be given that it will do so in the future.

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

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

Engineering Services

The Company provides project engineering services and engineering and technical support services. Engineering services are provided throughout the northeastern United States, principally in New York and Pennsylvania.

Project engineering services include planning, site evaluation, surveying and mapping, environmental assessment, developing contract plans and specifications, materials testing, construction inspection and overall project management. The majority of the Company's project engineering service work has been done for state and local governments in connection with construction of transportation facilities, urban development projects, dams, tunnels, sewage and solid waste facilities and buildings. The Company also provides project engineering services to Federal agencies, private companies and architects and developers. There are currently approximately 30 clients utilizing the Company's project

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

Large companies utilize the Company's engineering and technical support staff to work on particular projects requiring a larger technical staff than would be justified on a permanent basis. The use of temporary personnel to supplement in-house staff on a project basis has been a standard practice in the engineering field since World War II. Approximately 30 clients, including Nestle Company, Inc. and General Foods Corporation, are currently utilizing 125 of the Company's technical personnel on a contract basis. These services are provided on a time and expense basis under agreements which may be terminated by the client at any time.

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

Microcomputer and Other Products

The Company, through its 67% owned subsidiary, Micro Distributors, Inc., is an independent distributor of microcomputer products, including microcomputers, related peripheral equipment and software, in the mid-Atlantic and southeastern United States. The Company's line of products includes those manufactured by Altos, Atari, NEC, North Star, Televideo, OKI and Visicorp. The Company's principal customers are computer stores, original equipment manufacturers and systems integrators. Peripheral equipment accounts for almost one-half of the Company's sales, with microcomputers accounting for somewhat less than peripherals and software accounting for only a small portion. The Company also provides technical support and marketing assistance to its computer store customers and services the equipment which it sells.

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

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

The Microcomputer and Other Products segment of the Company also designs and sells customized business forms principally through the Company's New York and New Jersey offices.

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

Marketing

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

Company's technical computer staff is often involved in marketing Systems Development, Training and Consulting services. Engineering Services are marketed principally by the Company's professional engineering staff. Sales employees are compensated on a salary and commission basis.

Microcomputer and Other Products. Microcomputer and business form products are marketed by a staff of 20 sales and marketing support employees located in Florida, Georgia, Maryland, New York, New Jersey and Pennsylvania. Sales employees are compensated on a salary and commission basis.

Product Development

Substantially all the Company's research and development activities are in the area of proprietary software products. Rapid technological change in the computer industry requires the Company to make continual expenditures for development and improvement of its proprietary software products. To the extent that the Company fails to achieve technological advances comparable to those made by others in the computer industry, its products may become obsolete. The Company incurred software product development costs amounting to \$519,000, \$662,000 and \$1,151,000 during the years ended December 31, 1979, 1980 and 1981, respectively (approximately 29%, 23% and 24% of the Company's software products revenues for the respective periods). All costs associated with the development of new products and the maintenance and enhancement of existing products are charged against income as incurred. It is customary in the computer industry to modify computer programs to accommodate changes in hardware and software and to add additional features. The Company is continuously updating and enhancing its products in addition to engaging in the development of new software products.

Rapid technological change in the computer industry requires the Company to provide education and training opportunities for its own computer programming and systems development staff. The Company conducts training programs from time to time and makes training materials and facilities available for the use of its technical staff at all times.

Product Protection

Under existing law, software products have been difficult to patent, and copyright laws offer only limited protection. However, the Company treats its software products as proprietary and relies upon trade secret laws and internal nondisclosure safeguards, as well as restrictions incorporated in its software products license agreements. Notwithstanding those restrictions, it may be possible for competitors of the Company to copy aspects of its products. The Company believes that, because of the rapid pace of technological change in the computer industry, patent or copyright protection is of less significance than factors such as the knowledge and experience of the Company's management and personnel and their ability to acquire, develop, enhance and market new systems and products. To date, the Company has had no indication of any breaches of the security of its products.

Competition

The business areas in which the Company engages are highly competitive. There are a large number of companies that compete with the Company in each of its business areas, some of which have been established longer and have substantially greater financial resources, and some of which, while smaller than the Company, are more specialized.

In the area of Systems Development, Training and Consulting, the Company competes primarily with potential customers' own in-house data processing departments, both in initial development of systems and in the enhancement of systems provided by the Company. Competition also comes from the major accounting firms, independent software companies and consulting firms. Potential competitors include computer manufacturers, which have the resources and technical ability to market software and services similar to those offered by the Company. In this area the Company competes primarily on

the basis of the quality of its work, the specific technical skills it offers, the productivity and availability of its personnel and price.

In the Software Products area, the Company competes with computer hardware companies, other software companies and companies in other fields, such as construction and accounting firms. In this area the Company competes on the basis of its expertise, the quality of its products, its maintenance and price.

In the Engineering Services area, the Company competes with project engineering firms and with firms providing contract personnel. In this area the Company competes primarily on the basis of the quality of its work, the specific technical skills it offers, the productivity and availability of its personnel and price.

In the Microcomputer and Other Products area, there are a number of computer manufacturers, including Apple Computers Inc., IBM and Tandy Corp., which sell their own microcomputer systems to retailers or directly to end users and have greater resources and broader distribution capabilities than the Company. The Company, however, believes that it is the largest independent distributor of microcomputers in the southeastern and mid-Atlantic United States. Potential competitors in the distribution and sale of microcomputers include those microcomputer manufacturers who do not currently distribute their own products, including some of those who distribute their products through the Company. In this area, the Company competes primarily on the basis of price, its ability to provide a wide range of products to its customers without delay and its reputation and expertise.

Employees

On June 30, 1982, the Company employed over 700 employees and consultants. Approximately 90% of those employed in the Systems Development, Training and Consulting and Software Product areas hold college degrees, and 15% of those also have graduate degrees. Approximately 90% of the Company's professional engineering staff hold college degrees, and 10% of those also have graduate degrees.

The Company believes that its success has been due in large part to the high quality of its professional personnel and that its continued success, especially in Systems Development, Training and Consulting, which is heavily dependent upon highly competent, technically trained personnel, will depend on the Company's ability to continue to attract and retain highly qualified individuals. There is intense competition for the limited number of qualified personnel, and the Company's business will be adversely affected if a sufficient number of qualified employees are not retained. Due to the shortage of personnel with the training and experience required by the Company and its competitors, the Company has in recent years experienced a turnover rate of approximately 30% and has incurred significant recruiting costs. The Company believes that its turnover has been approximately equivalent to that experienced by most of its competitors and that in general its employee relations are satisfactory. The Company's competitors for such personnel include not only other companies supplying computer-related professional services, but also companies that do such work in-house. The Company historically has been able to recruit and retain sufficient qualified personnel and believes that its recruiting, training and employee relations programs will permit it to continue to attract and retain qualified personnel. No employees are covered by a collective bargaining agreement or are represented by a labor union.

Property and Equipment

Real Properties. The Company leases approximately 79,000 square feet of office space in 16 locations throughout the country and approximately 14,000 square feet of warehouse space in two locations for aggregate annual rentals of approximately \$506,000. Of this space, computer and engineering services activities occupy 75,000 square feet of office space at an aggregate annual rental of approximately \$441,000, and microcomputer and other products activities occupy approximately 4,000

square feet of office space and all the Company's warehouse space at an aggregate annual rental of approximately \$65,000. The Company believes that its facilities are well-maintained and are adequate for the Company's present operations and for its reasonably anticipated future needs.

Data Processing Equipment. The Company utilizes two large-scale computers and four minicomputer systems, principally for support of employee training and product development activities, and to a lesser extent to serve its customers. The Company owns a majority of its computer equipment and leases the remainder. The Company believes that its data processing equipment is adequate to serve its current and reasonably anticipated customer and development needs.

Acquisitions

The Company has an active acquisition program which is based upon two objectives. First, as a supplier of technical services and computer expertise, the Company believes that purchasing an existing computer services or related business is more cost effective than incurring the large start-up expenses and long lead time associated with opening and staffing new operations. Second, the Company has sought to acquire businesses that offer complementary services or product lines in order to provide customers a broader range of capabilities to satisfy their data processing and project development requirements.

In January 1981, the Company purchased a controlling (50.5%) interest in Micro Distributors, Inc., which is an independent distributor of microcomputers and related peripheral equipment and software in the southeastern and mid-Atlantic United States, for approximately \$581,000. Pursuant to the purchase agreement, the Company purchased additional unissued capital stock of Micro Distributors, Inc. valued at \$1,220,000 in several installments since the date of acquisition. As a result of these purchases, the Company now holds 67% of the issued and outstanding shares of Micro Distributors, Inc. The Company is an obligor under a certain line of credit of Micro Distributors, Inc.

In February 1981, the Company purchased all the assets of Eastern Design Company, Inc., which provides engineering and technical support personnel to clients on a contract basis, for \$1.9 million in cash, the final installment being made in January 1982.

In January 1982, the Company acquired the several concerns in New York and Pennsylvania comprising the engineering firm of Erdman, Anthony Associates for approximately \$530,000. In connection with this transaction the acquired entities incurred indebtedness of \$1.2 million, which is guaranteed by the Company.

In February 1982, the Company acquired International Systems, Inc., which develops, designs and markets standardized computer software for use in project management, in exchange for 435,000 shares of its Common Stock.

On September 21, 1982, the Company purchased Atlantic for \$2,000,000 in cash and 240,000 shares of Common Stock of the Company. Atlantic will be combined with International Systems, Inc.'s software products operations, whose products and services to some degree overlap with those of Atlantic, and the combined business will be operated as a unit. The Agreement of Merger relating to the acquisition provides that the Company will grant options under the Company's Incentive Stock Option Plan for 10,000 shares of its Common Stock to each of the two principal stockholders of Atlantic and options for 50,000 shares of its Common Stock to employees of Atlantic designated by such principal stockholders. (See "Management—Stock Options and Other Plans"). In addition, the two principal stockholders of Atlantic may receive additional cash and shares of Common Stock of the Company annually through 1986 based upon a percentage of the earnings of the combined software operations for each year in excess of the current level. In connection with this transaction the Company incurred indebtedness of \$2,000,000.

Atlantic is located in Philadelphia, Pennsylvania, and is principally engaged in designing, manufacturing and licensing proprietary software products for the planning and controlling of projects and resources. Atlantic also provides proprietary education products and education and consulting services to its clients. Atlantic currently serves the same basic market as that served by the Company in the software products area. (See "Business—Software Products" and "Business—Competition").

Atlantic designs, markets and services two principal software products through licensing agreements:

Systems Development Methodology/70. The SDM/70 provides a set of procedures, the ability to estimate, documentation and administrative guidelines to aid customers in developing and maintaining computerized systems.

Project Control/70. The PC/70 is a system for managing projects and resources. PC/70 assists management in planning projects by organizing them into manageable parts, selecting tasks to be performed, allocating resources, and estimating the work effort required for each task. It monitors performances by evaluating the status of work in progress. It compares results with the original plan as to starting, target and completion dates; it measures work effort by comparing work accomplishment with work remaining to be done; it compares expenditures with amounts remaining to be spent to complete the project.

Atlantic has licensed approximately 1,000 of its products. No single customer accounted for more than 5% of Atlantic's operating revenues in 1981.

Set forth below are the revenues and net income of Atlantic for each of the three years ended December 31, 1981, and the six months ended June 30, 1981, and 1982.

	Three Years Ended December 31,			Six Months Ended June 30,	
	1979	1980	1981	1981	1982
	(in thousands)				
Revenues	\$3,105	\$4,133	\$5,061	\$2,496	\$2,495
Net income	139	(68)	249	130	32

While Atlantic revenues have increased significantly in each of 1980 and 1981 over the prior year, it incurred a loss in 1980 because of increases in research and development and marketing costs associated with the introduction of a new version of the SDM/70. Due to weakness in the general economy, the Company experienced lower unit sales in the first half of 1982 as compared to the corresponding period in 1981, but revenues remained approximately level because of increased prices. First half 1982 net income decreased significantly as compared to the first half of 1981 because of increased cost of personnel and costs associated with increased product research and expansion of the sales force.

It is the intent of the Company to account for the cost associated with developing new computer software programs and enhancing existing software programs in accordance with Statement of Financial Accounting Standards No. 2, Accounting for Research and Development Costs, and FASB Interpretation No. 6, Applicability of FASB Statement No. 2 to Computer Software. As a result when the development of software is undertaken to create a new or significantly improved product, all costs incurred for conceptual formulation or translation of knowledge into a design will be expensed. However, when costs are incurred to improve an existing product or modify a product to a particular requirement or customer need, these costs will be capitalized and amortized over the period of their estimated useful lives.

MANAGEMENT

Executive Officers and Directors

The executive officers and directors of the Company are as follows:

<u>Name</u>	<u>Age</u>	<u>Position</u>
Lawrence J. Schoenberg	50	Chairman of the Board, Chief Executive Officer, Treasurer and Director
Joseph Abrams	46	President, Chief Operating Officer, Secretary and Director
Anthony F. Stepanski	40	Executive Vice President and Director
Peter Graf	46	Director
Arnold H. Kroll	47	Director
H. Dennis Moore	43	President, Micro Distributors, Inc.
Kurt Hurst	63	President, Eastern Design Company, Inc.

All directors hold office until the next annual meeting of shareholders of the Company and until their successors have been elected and qualified. Officers serve at the discretion of the Board of Directors.

Mr. Schoenberg, a founder of the Company, has been a director and Chief Executive Officer since its inception. He served as President from 1967 until he was elected Chairman of the Board in October 1981. He has also held the office of Treasurer since 1980.

Mr. Abrams, a founder of the Company, has been an executive officer and director since its inception. He was Vice President from 1967 to November 1968 and Executive Vice President from November 1968 to October 1981, at which time he was elected President and Chief Operating Officer.

Mr. Stepanski has been with the Company since October 1968. He became Vice President of Marketing in December 1969. He has been a Senior Vice President and a director since 1972, and became Executive Vice President in October 1981.

Mr. Graf, a founder of the Company, has been a director of the Company since its inception. He has never been an operating officer of the Company, although he held the office of Treasurer from 1967 to 1980. He is a partner in Joseph Graf & Company, certified public accountants.

Mr. Hurst served as General Manager and Chief Engineer of Eastern Design Company, Inc. from 1945 through February 1981. In February 1981, he became President of Eastern Design Company, Inc.

Mr. Moore has been President of Micro Distributors, Inc. since its founding in June 1979. Prior to 1979, he was an area manager for Electronic Marketing Associates.

Mr. Kroll has served as Director of the Company since May 1982. He is a partner in the investment banking firm of L. F. Rothschild, Unterberg, Towbin, the Representative of the Underwriters, and has been with that firm or its predecessor since 1972. (See "Underwriting".)

Remuneration

The following table sets forth certain information with respect to the year ended December 31, 1981, as to each of the five most highly compensated executive officers of the Company and as to all officers and directors as a group.

Cash and Cash Equivalent Remuneration

<u>Name of Individual or Number of Persons in Group</u>	<u>Capacities in Which Served</u>	<u>Salaries</u>	<u>Commissions and Bonuses(1)</u>	<u>Securities and Personal Benefits(2)</u>	<u>Aggregate of Contingent Forms of Remuneration(3)</u>
Lawrence J. Schoenberg . . .	Chairman, Treasurer and Director	\$ 87,672	\$ 75,000	\$ 729	\$ 8,447
Joseph Abrams	President, Secretary and Director	87,672	75,000	711	10,684
Anthony F. Stepanski	Executive Vice President and Director	20,000	295,414	729	27,251
H. Dennis Moore	President, Micro Distributors, Inc.	55,000	102,123	0	4,160
Kurt Hurst	President, Eastern Design Company, Inc.	170,000	0	0	0
All officers and directors as a group (13 persons) . . .		\$757,873	\$607,323	\$10,849	\$67,807

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- (1) Includes amounts paid under employment agreements described below pursuant to which the officer is entitled to a percentage of the profits or revenues of the Company or the operation for which they are primarily responsible.
 - (2) The Company has made available to some of its officers automobiles which are used primarily for business purposes. It is impossible to exactly value that portion of use which might be deemed personal in nature.
 - (3) Includes contributions to the Company's Profit Sharing Plan on behalf of participants.
 - (4) During 1981, the Company paid no compensation to the directors for their services in that capacity. Beginning in July 1982, the Company will pay directors who are not employees of the Company an annual fee of \$4,000, plus \$400 for each Board of Directors meeting attended, and will reimburse directors for reasonable expenses incurred in attending such meetings.

Stock Options and Other Plans

The Company's Incentive Stock Option Plan ("ISOP") was adopted by the Board of Directors of the Company in February 1982 and approved by its stockholders at the May 1982 Annual Meeting. There are authorized 250,000 shares to be reserved for issuance under the ISOP. The maximum annual grant per employee is limited to the number of shares having an aggregate fair market value at the date of grant of \$100,000 and exercise price must be at least 100% of market value at time of the grant (except for grants to greater than 10% owners of voting stock of the Company which must be at 110% of market value). Options may be exercisable for a maximum of 10 years (except for grants to owners of more than 10% of the voting stock, which may be exercisable for a maximum of 5 years). Options for 118,350 shares are outstanding under the ISOP.

There are outstanding options to purchase 24,600 shares of Common Stock under a terminated stock option plan.

The following sets forth as to all directors and officers of the Company as a group, information with respect to stock options granted or exercised during the period January 1, 1981-June 30, 1982, and the net value thereof, and the number of options outstanding as of the end of such period and the potential value thereof.

	<u>All Directors and Officers as a Group (13 persons)</u>
<i>Granted—1/1/81-6/30/82:</i>	
Number of shares subject to options	15,000
Average per share exercise price	\$3.50
<i>Exercised—1/1/81-6/30/82:</i>	
Number of shares	36,000
Net value realized (market value(1) less any exercise price)	\$82,000
<i>Outstanding—6/30/82:</i>	
Number of shares subject to options	15,000
Potential (unrealized) value—(market value(2) less exercise price)	\$ 90,000

- (1) Based upon average bid and asked prices in the over-the-counter market on the date of exercise.
(2) Based upon an assumed market value of 9.50 per share.

The Company's Profit Sharing Plan ("PSP") was established in December 1973. Contributions to the PSP are made each year in an amount determined by the Board of Directors based upon Company profits. No Company contribution may be in excess of 7% of an employee's total wages in excess of such employee's Social Security tax wage base. Employees may contribute up to 10% of their total compensation. Contributions become fully vested after 7 years and begin to vest after 3 years at 20% with an additional 20% each subsequent year.

Employment Contracts

Messrs. Schoenberg and Abrams each entered into employment contracts with the Company on May 2, 1979, which were amended in May 1982 and which will expire on December 31, 1984. Each contract calls for a base salary of \$72,000 (to be adjusted by the Consumer Price Index) and additional incentive compensation of 3% of income before income taxes as set forth in the Company's consolidated income statement, provided that earnings per share have increased as compared to earnings per share in the prior period. The above-described provision for additional incentive compensation was adopted in May 1982. The amount of incentive compensation received by each of Messrs. Schoenberg and Abrams in 1981 under the provisions then in effect equaled 2.5% of income before income taxes.

Mr. Stepanski entered into an employment contract with the Company on March 25, 1981, which will expire on December 31, 1986. Pursuant to the contract, Mr. Stepanski will receive a salary of \$108,000 per year plus 4% of sales made by him, plus an additional 4% with respect to such sales in excess of \$5,000,000.

In connection with the acquisition in 1981 of a controlling interest in Micro Distributors, Inc., the Company guaranteed the employment contract of Mr. Moore, Chief Executive Officer of Micro Distributors, Inc., which expires on January 3, 1984. Mr. Moore receives \$60,000 a year in base compensation and 20% of Micro Distributors, Inc.'s net income in excess of \$125,000. Micro Distributors, Inc.'s net income for the year ended December 31, 1981, was \$297,000.

In connection with the acquisition in February 1981 of Eastern Design Company, Inc., the Company guaranteed the employment contract of Mr. Hurst, President and Chief Executive Officer of Eastern Design Company, Inc. The contract terminates on February 23, 1983, and provides for a base annual compensation of \$200,000 and an annual bonus of 3% of sales exceeding \$6.4 million. Mr. Hurst will also receive as an additional annual bonus of 1% of all sales in excess of \$7 million for the first year and \$7.5 million thereafter and 2% of all revenues received by AGS Computers, Inc. as a result of customers introduced by Mr. Hurst. Eastern Design Company, Inc.'s sales for the year ended

December 31, 1981, were \$5,297,000, and Mr. Hurst received no compensation for revenues of AGS Computers, Inc.

Certain Transactions

In July 1977, the four directors and principal stockholders of the Company formed a partnership in order to purchase certain computer equipment and lease such equipment to the Company. The lease expires in 1982, and rental payments thereunder were \$65,000 annually through 1981 and will total \$38,000 in 1982. The price paid by the four directors for the computer equipment in July 1977 was \$255,427. Management believes the terms of the lease are at least as advantageous to the Company as would be available in an arm's-length transaction.

In March 1981, Mr. Stepanski, Vice President and Director of the Company, subscribed to purchase 240,000 shares of Common Stock for \$640,000 (\$2.67 per share, the then current market price), evidenced by a note payable in installments of \$320,000 on July 1, 1982, and \$64,000 to be paid on each July 1 thereafter through 1987, together with interest of 5% during 1981 and 16% thereafter. On May 15, 1982, Mr. Stepanski prepaid this note.

On January 1, 1982, prior to the merger with the Company, International Systems, Inc. sold its banking and medical software packages (the costs of which were expensed as incurred) to Pearl Data Systems, Inc. (PDS), a newly-formed company owned by the President of International Systems, Inc. The terms of the agreement call for 25 quarterly installments of \$4,000 with interest on the unpaid balance at 9% commencing July 1, 1982. As part of this transaction International Systems, Inc. agreed to lend PDS a maximum of \$100,000 on an as needed basis through December 31, 1982. The total borrowings (\$60,000 at June 30, 1982) are to be repaid in 25 quarterly installments commencing on April 1, 1983 with interest at 9% on the outstanding balance. Effective July 1, 1982, PDS commenced paying interest at 9% on a quarterly basis on outstanding borrowings.

PRINCIPAL STOCKHOLDERS

The following sets forth certain information as of June 30, 1982, with respect to the beneficial ownership of Common Stock by all stockholders known by the Company to be the beneficial owners of more than 5% of its outstanding Common Stock, by directors and by all officers and directors as a group.

Name or Identity or Group	Shares Beneficially Owned	
	Number	Percent
Lawrence J. Schoenberg(1)	662,850(2)	19.8%
Joseph Abrams(1)	594,000	17.7%
Peter Graf(3)	604,800(4)	18.1%
Anthony F. Stepanski(1)	304,000	9.1%
All officers and directors as a group (13 persons) . .	2,227,750	66.4%

- (1) Address is care of the Company.
- (2) Includes 68,850 shares held by Mr. Schoenberg's children, in which Mr. Schoenberg disclaims any beneficial interest.
- (3) Mr. Graf's address is care of Joseph Graf & Company, 1212 Avenue of the Americas, New York, N.Y. 10036.
- (4) Includes 594,000 shares held of record by Jografco, Inc., of which Peter Graf is the owner of 100% of the outstanding capital stock.

DESCRIPTION OF DEBENTURES

The Debentures offered hereby are to be issued under an Indenture dated as of October 1, 1982 (the "Indenture") between the Company and Midlantic National Bank, as Trustee (the "Trustee"). Interest at the rate per annum set forth on the cover page of this Prospectus will be payable

semiannually on April 1 and October 1 to the persons in whose names the Debentures are registered on the Debenture Register at the close of business on the interest record date next preceding such April 1 and October 1 and, unless other arrangements are made, will be paid by checks mailed to such persons at their registered addresses. (§ 3-1)

The Debentures are to mature on October 1, 2002, will be unsecured obligations of the Company and will be limited to \$10,000,000 aggregate principal amount. The Debentures will be issued in fully registered form, in denominations of \$1,000 and integral multiples of \$1,000. (§§ 3-1 and 3-2)

Principal and any premium will be payable, and the Debentures may be presented for registration of transfer, exchange or conversion, at the corporate trust office of the Trustee in Edison, New Jersey or at the corporate trust office of Morgan Guaranty Trust Company of New York, co-paying agent, co-registrar and co-conversion agent, in the Borough of Manhattan, City and State of New York, without any service charge and subject to the limitations provided in the Indenture. (§§ 3-1, 3-5, 5-2 and 14-1)

A copy of the Indenture in the form in which it is to be executed is filed as an exhibit to the Registration Statement of which this Prospectus is a part. The statements under this caption relating to the Debentures and the Indenture are summaries and are subject to the detailed provisions of the Indenture, to which reference is hereby made for a complete statement of such provisions. Whenever particular provisions of the Indenture or terms defined therein are referred to herein, such provisions or definitions are incorporated by reference as a part of the statements made, and the statements are qualified in their entirety by such reference.

Conversion Rights

The Debentures will be convertible at their principal amount or any portion thereof which is an integral multiple of \$1,000 into Common Stock at any time on or prior to October 1, 2002, at the conversion price per share set forth on the cover page of this Prospectus, subject to earlier redemption and to adjustment of the conversion price. The conversion price is subject to adjustment in certain cases, including the issuance of stock of the Company as a stock dividend; the combination, subdivision, or reclassification of the Common Stock; the issuance to all holders of Common Stock of rights or warrants to subscribe for or purchase Common Stock at less than the current market price (as defined) of the Common Stock; or the distribution to all holders of Common Stock of evidences of indebtedness or assets (excluding cash dividends) or rights or warrants to subscribe (other than those mentioned above). No adjustment of the conversion price will be required until cumulative adjustments amount to 1% or more of the conversion price. (§§ 14-1 and 14-4)

In the event of a capital reorganization of the Company, or reclassification of the Common Stock or a consolidation or merger of the Company with or into, or a disposition of its properties and assets substantially as an entirety to, any other corporation, the Debentures then outstanding will thereafter be convertible into the kind and amount of shares of stock or other securities or property (including cash) to which the holders thereof would have been entitled if they had converted such Debentures into Common Stock immediately prior to such reorganization, reclassification, consolidation, merger or disposition. (§ 14-6)

No fractional shares of Common Stock or scrip representing fractional shares shall be issued upon conversion; any fractional interest in a share of Common Stock resulting from conversion shall be paid in cash based on the market price of the Common Stock on the last business day prior to the date of conversion. On conversion during any period beginning at the opening of business on an interest payment date and ending at the close of business on the next following interest record date, no payment of accrued interest will be made. Any Debentures surrendered for conversion during any period beginning subsequent to the close of business on an interest record date and ending at the opening of business on the interest payment date next following such interest record date (excluding Debentures or portions thereof called for redemption on a redemption date during such period) must be accompanied by payment in New York Clearing House funds or other funds reasonably acceptable to the Company of an amount equal to the interest payable on such interest payment date on the principal amount of

Debentures then being converted. The right to convert Debentures called for redemption terminates at the close of business on the date fixed for redemption. (§§ 14-1 and 14-5)

Conversion price adjustments, or the omission to make such an adjustment, may under certain circumstances be deemed to be distributions that could be taxable as dividends under the United States Internal Revenue Code to holders of Debentures or to holders of Common Stock.

Subordination

The payment of the principal, sinking fund requirements and interest, and premium, if any, on the Debentures is subordinated in right of payment, as set forth in the Indenture, to the prior payment in full of all Superior Indebtedness of the Company, whether outstanding on the date of the Indenture or thereafter incurred. There are no restrictions in the Indenture upon creation of Superior Indebtedness or any other indebtedness. (Articles I and XIII) Such Superior Indebtedness to which the Debentures would have been subordinate at August 31, 1982, aggregated approximately \$3.5 million.

No payment on account of principal of, or premium, if any, or interest on, the Debentures, including sinking fund payments, shall be made if any default or event of default with respect to any Superior Indebtedness which permits the holders thereof (or a trustee on their behalf) to accelerate the maturity thereof shall have occurred. Upon any distribution of the assets of the Company upon any dissolution, winding-up, total or partial liquidation or reorganization of the Company, the holders of the Superior Indebtedness will be entitled to receive payment in full before the Debentureholders are entitled to receive any payment. (§ 13-2)

By reason of such subordination, in the event of insolvency, creditors of the Company who are holders of Superior Indebtedness, as well as general creditors of the Company, may recover more, ratably, than the holders of the Debentures.

Superior Indebtedness is defined in the Indenture as the principal of, and premium, if any, and accrued and unpaid interest on, (a) indebtedness of the Company for money borrowed, (b) guarantees by the Company of indebtedness for money borrowed by or performance obligations due from any other person, (c) purchase money indebtedness evidenced by notes, lease-purchase agreements or similar instruments for the payment of which the Company is responsible or liable, (d) obligations of the Company under any agreement to lease, or lease of, any real or personal property which are required to be capitalized in accordance with generally accepted accounting principles or which are expressly designated as Superior Indebtedness, (e) performance, completion or similar bonds of the Company and (f) modifications, renewals, extensions and refundings of any such indebtedness, guarantees, obligations or bonds; unless in the instrument creating or evidencing the same or pursuant to which the same is outstanding, it is provided that such indebtedness, guarantees, obligations or bonds are not superior in right of payment to the Debentures. (§ 1-1)

Redemption

The Debentures are redeemable, at the Company's option, as a whole or from time to time in part, on at least 30 days but not more than 60 days notice, given by first class mail to each holder at such holder's address as it appears on the Debenture Register, on any date on or after October 1, 1983, and prior to maturity at the following redemption prices (expressed as percentages of principal amount) plus accrued interest to the redemption date:

If redeemed during the twelve months beginning October 1,

<u>Year</u>	<u>Percentage</u>	<u>Year</u>	<u>Percentage</u>
1983	110.91%	1989	104.36%
1984	109.82	1990	103.27
1985	108.73	1991	102.18
1986	107.64	1992	101.09
1987	106.55	1993 and thereafter	100.00%
1988	105.45		

The right to convert a Debenture called for redemption terminates at the close of business on the date fixed for redemption. (§§ 4-1, 4-5 and 14-1)

Sinking Fund

The Indenture requires the Company to redeem through a mandatory sinking fund commencing on October 1, 1993, and on each succeeding October 1 to and including October 1, 2001, \$834,000 aggregate principal amount of Debentures, at a redemption price equal to the principal amount thereof plus accrued interest thereon to the redemption date. At its option the Company may redeem through an optional sinking fund, commencing on October 1, 1993, and on each succeeding October 1 to and including October 1, 2001, an additional amount not to exceed \$834,000 aggregate principal amount of Debentures. Such option to make an additional redemption is not cumulative, and any such additional redemption may not be used to reduce the amount of any mandatory sinking fund payment. Debentures acquired and delivered for cancellation, converted or redeemed by the Company, otherwise than through the mandatory or optional sinking fund, may be used, at the principal amount thereof, to reduce the amount of any mandatory sinking fund payment. (§ 4-1) The right to convert Debentures called for redemption through the mandatory or optional sinking funds terminates at the close of business on the date fixed for redemption. (§ 14-1)

Restrictions on Dividends

The Indenture prohibits the payment of dividends and other distributions on the stock of the Company (other than dividends payable in stock of the Company) and the purchase, redemption or other retirement of any shares of such stock (except fractional shares) by the Company or any subsidiary of the Company unless after giving effect thereto the aggregate amount expended for such purposes during the period commencing September 20, 1982, does not exceed the sum of (i) the aggregate amount of Consolidated Net Income (as defined) accrued subsequent to September 30, 1982, (ii) the aggregate net cash proceeds received by the Company from sales of its stock for cash subsequent to the day after the sale of the Debentures to the Underwriters and (iii) the aggregate net cash proceeds received by the Company from sales subsequent to the day after the sale of the Debentures to the Underwriters of indebtedness of the Company convertible into stock of the Company to the extent such indebtedness has been converted into such stock. (§ 5-8)

Defaults and Certain Rights on Default

An Event of Default is defined in the Indenture as (a) default for 30 days in payment of any interest on the Debentures, (b) default for 30 days in payment of any sinking fund installment in respect of the Debentures, (c) default in payment of principal of, and premium, if any, on, the Debentures, (d) default for 60 days after notice in performance of any other covenant in the Indenture or (e) certain events of bankruptcy, insolvency, receivership or reorganization. The Company will be required to file annually with the Trustee a written statement as to the fulfillment of its obligations under the Indenture. In case an Event of Default should occur and be continuing, the Trustee or the holders of at least 25% in principal amount of the Debentures then outstanding may declare the principal of all the Debentures to be immediately due and payable. Such declaration may under certain circumstances be rescinded by the holders of a majority in principal amount of the Debentures at the time outstanding. (§§ 5-4, 7-1 and 7-13)

The Trustee may withhold notice to the Debentureholders of any default (except a default in the payment of principal of, or premium, if any, or interest on, the Debentures or in the payment of any sinking fund installment) if the Trustee considers it in their interests to do so. (§ 8-2)

Subject to the provisions of the Indenture relating to the duties of the Trustee in case an Event of Default shall occur and be continuing, the Trustee shall be under no obligation to exercise any of the rights or powers under the Indenture at the request or direction of any of the Debentureholders, unless such Debentureholders shall have offered to the Trustee reasonable security or indemnity. Subject to such provisions for indemnification and certain limitations contained in the Indenture, the holders of a

majority in principal amount of the Debentures at the time outstanding shall have the right to direct the time, method and place of conducting any proceeding for any remedy available to the Trustee or exercising any trust or power conferred on the Trustee. Such holders may, in certain cases, waive any past default except a default in payment of principal of, or premium, if any, or interest on, the Debentures. (§§ 7-7, 7-12, 7-13, 8-1 and 8-3)

Modification of Indenture and Waiver of Certain Covenants

With the consent of the holders of at least 66 $\frac{2}{3}$ % in principal amount of the outstanding Debentures, the Trustee and the Company may execute a supplemental indenture to add provisions to, or change in any manner or eliminate any provision of, the Indenture or modify in any manner the rights of the Debentureholders, provided that, without the consent of the holder of each outstanding Debenture so affected, no such supplemental indenture shall, among other things, (a) change the date of payment of principal of or interest on any Debenture or reduce the principal amount thereof or the interest thereon or any premium payable upon the redemption thereof, (b) reduce the aforesaid percentage of Debentureholders whose consent shall be required for the authorization of any such supplemental indenture or for any waiver provided for in the Indenture and (c) adversely affect the right to convert the Debentures. (§ 9-2)

Compliance by the Company with certain covenants contained in the Indenture may be waived by the holders of at least a majority in aggregate principal amount of the Debentures at the time outstanding. (§ 5-9)

The Trustee

Midlantic National Bank will be the Trustee under the Indenture and the paying agent, registrar and conversion agent for the Debentures. Morgan Guaranty Trust Company of New York will act as co-registrar, co-paying agent and co-conversion agent.

DESCRIPTION OF COMMON STOCK

Common Stock

Holders of the Common Stock are entitled to one vote per share on all matters to be voted upon by the stockholders generally, including the election of directors. Stockholders are entitled to receive such dividends as may be declared from time to time by the Board of Directors out of funds legally available therefor, and in the event of liquidation, dissolution or winding up of the Company, to share ratably in all assets remaining after payment of liabilities. The holders of the Common Stock have no preemptive or conversion rights and are not subject to further calls or assessments by the Company. There are no redemption or sinking fund provisions applicable to the Common Stock. The shares of Common Stock currently outstanding are, and the shares of Common Stock which may be issued upon conversion of the Debentures pursuant to the terms thereof will be, validly issued, fully paid and nonassessable. Under the Company's Revolving Credit Agreement the Company is prohibited from, and under the Indenture pursuant to which the Debentures are to be issued the Company is subject to restrictions on, declaring cash dividends and redeeming stock.

Shares Eligible for Future Sale

Immediately after the offering pursuant to this Prospectus, 3,594,700 shares of Common Stock will continue to be held by existing shareholders. Of such shares, 2,994,700 were acquired in reliance upon the "private placement" exemption under the Securities Act of 1933 (the "Act") (such shares of Common Stock being referred to as "Restricted Shares"). Of those Restricted Shares, 2,553,800 shares are owned by persons who may be deemed to be affiliates of the Company. Restricted Shares may not be sold unless they are registered under the Act or are sold pursuant to an applicable exemption from registration, including an exemption under Rule 144. Beginning 90 days after the date of this Prospectus, Restricted Shares may be sold in accordance with Rule 144 if the conditions of that Rule

have been met. Restricted Shares may not be sold under Rule 144 unless they have been fully paid for and held for two years. After such two-year holding period the Restricted Shares may be sold in brokers' transactions in an amount in any three months not in excess of the greater of 1% of the number of shares of Common Stock then outstanding or the average weekly trading volume for a four-week period prior to each such sale. Restricted Shares that have been paid for and held for more than three years, if held by persons who are not affiliates of the Company, may be sold without limitations. However, under Rule 144, Restricted Shares held by affiliates must continue, after the three-year holding period, to be sold in brokers' transactions subject to the volume limitations described above. The above is a summary of Rule 144 and is not intended to be a complete description thereof.

An aggregate of 2,073,800 Restricted Shares will be eligible for sale pursuant to Rule 144 beginning 90 days after the date of this Prospectus, and many of these shares may be salable, other than pursuant to Rule 144, pursuant to the exemption under Section 4(1) of the Act prior to that date. No additional shares will be eligible for sale pursuant to Rule 144 prior to May 15, 1984.

There has been only a limited public market for the Common Stock of the Company. No precise predictions can be made of the effect, if any, that market sales of shares or the availability of shares for sale will have on the market price prevailing from time to time. Nevertheless, sales of substantial amounts of the Common Stock of the Company in the public market could adversely affect prevailing market prices.

Transfer Agent and Registrar

The transfer agent and registrar for the Common Stock is Registrar and Transfer Company.

Reports to Shareholders

The Company will distribute to its shareholders annual reports containing financial statements which have been certified by its independent public accountants and intends to distribute quarterly reports containing unaudited financial information for the first three quarters of each year.

UNDERWRITING

In the Purchase Agreement, the Underwriter, L.F. Rothschild, Unterberg, Towbin, has agreed, subject to the terms and conditions therein set forth, to purchase, and the Company has agreed to sell to it, \$10,000,000 principal amount of Debentures. The Underwriter is committed to take and pay for all Debentures, if any Debentures are taken.

The Underwriter proposes initially to offer the Debentures to the public at the offering price set forth on the cover page of this Prospectus. The Underwriter may allow concessions not exceeding 2.50% of the principal amount of the Debentures to selected dealers who are members of the National Association of Securities Dealers, Inc. and to certain foreign dealers, and the Underwriter may allow, and such dealers may reallow, to members of the National Association of Securities Dealers, Inc. and to certain foreign dealers, concessions not exceeding 0.50% of the principal amount of the Debentures. After the initial public offering, the public offering price and the concessions may be changed.

The Company has agreed to indemnify the Underwriter against certain liabilities which may be incurred in connection with this offering, including certain liabilities arising under the Securities Act of 1933, or to contribute to payments the Underwriter may be required to make in respect thereof.

Arnold H. Kroll, a Partner of L.F. Rothschild, Unterberg, Towbin has been a director of the Company since May 1982.

The Underwriter does not intend to confirm sales to any accounts over which it exercises discretionary authority.

Pricing of the Offering

Prior to this offering, there has been a limited public market for the shares of Common Stock. The conversion price and the other terms of the Debentures have been determined through negotiations

between the Underwriter and the Company. Such terms have been based on a number of factors including the following: the market price of the shares; the historical results of operations of the Company; the estimated near and intermediate term results of operations of the Company; an assessment of the Company's management; the consideration of the above factors in relation to market valuation of comparable companies; the current condition of the industry and the economy as a whole; and prevailing conditions in the credit markets.

LEGAL MATTERS

The validity of the issuance of the Debentures offered hereby will be passed upon for the Company by Greenberg, Margolis, Ziegler & Schwartz, P.A., Roseland, New Jersey, and for the Underwriter by Cravath, Swaine & Moore, New York, New York.

EXPERTS

The consolidated financial statements and related schedules of the Company and the financial statements of certain subsidiaries (prior to consolidation) included in this Prospectus and elsewhere in the Registration Statement have been examined by Coopers & Lybrand, Laventhol & Horwath, S. Norman Cogan and Rudolph, Palitz & Company, independent certified public accountants, to the extent and for the periods indicated in their reports with respect thereto, and are included herein in reliance upon such reports and upon the authority of such firms as experts in auditing and accounting.

ADDITIONAL INFORMATION

The Company has filed with the Securities and Exchange Commission, Washington, D.C. 20549, a Registration Statement under the Securities Act of 1933 with respect to the Debentures offered by this Prospectus. This Prospectus does not contain all the information set forth in the Registration Statement and the exhibits and schedules thereto. For further information with respect to the Company and such Debentures, reference is made to such Registration Statement, exhibits and schedules.