AUTO GRAPHICS INC
Form 10-Q
November 14, 2002

SECURITIES AND EXCHANGE COMMISSION
Washington, D. C. 20549

FORM 10-Q

QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

For Quarter Ended:

September 30, 2002	Commission File Number 0-4431

AUTO-GRAPHICS, INC.
(Exact name of registrant as specified in its charter)

California	95-2105641
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

3201 Temple Avenue, Pomona, California	91768
(Address of principal executive offices)	(zip code)

Registrant's telephone number, including area code: (909) 595-7204

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes X No ___

Total shares of Common Stock outstanding: 4,997,234 (1)

(1) The Company has filed a motion in Federal District Court under Case No. CV 01-5891 PA seeking to impose a constructive trust over 231,000 shares of Common Stock for the benefit of Auto-Graphics, Inc. and its shareholders (See Part II - Legal Proceedings).

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Item 1. Financial Statements.

Unaudited Condensed Consolidated
Statements of Operations and Comprehensive Income (Loss)
For the Nine Months Ended September 30, 2002 and 2001

	2002	2001

Net sales (See Note 3)	$4,866,022	$6,658,139
Costs and expenses:		
Cost of sales	2,708,909	4,597,657
Selling, general & administrative	2,063,570	3,402,704
Total costs and expenses	4,772,479	8,000,361
Income (loss) from operations	93,543	(1,342,222)
Interest/other	(44,712)	(102,488)
Income (loss) before taxes	48,831	(1,444,710)
Provision (benefit) for taxes based on income (See Note 4)	4,600	(213,915)
Minority interest	(40,779)	(252,863)
Net income (loss) and comprehensive income (loss)	$ 85,010	$ (977,932)
Basic earnings (loss) per share	$ 0.02	$ (0.20)
Weighted average shares outstanding	4,997,234	4,997,234
Diluted earnings (loss) per share	$ 0.02	$ (0.20)
Weighted average shares outstanding	5,109,734	4,997,234

See Notes to Unaudited Condensed Consolidated Financial Statements

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Unaudited Condensed Consolidated
Statements of Operations and Comprehensive Income (Loss)
For Three Months Ended September 30, 2002 and 2001

	2002	2001
Net sales (See Note 3)	$1,633,762	$1,942,027
Costs and expenses:		
Cost of sales	904,066	1,668,674
Selling, general & administrative	715,104	1,263,235
Total costs and expenses	1,619,170	2,931,909
Income (loss) from operations	14,592	(989,882)

Interest/other expense	(8,786)	(37,704)
Income (loss) before taxes	5,806	(1,027,586)
Provision (benefit) for taxes based on income (See Note 4)	1,600	(219,131)
Minority interest	(26,615)	(67,956)
Net income (loss) and comprehensive income (loss)	$ 30,821	$ (740,499)
Basic earnings (loss) per share	$ 0.01	$ (0.15)
Weighted average shares outstanding	4,997,234	4,997,234
Diluted earnings (loss) per share	$ 0.01	$ (0.15)
Weighted average shares outstanding	5,211,401	4,997,234

See Notes to Unaudited Condensed Consolidated Financial Statements

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Unaudited Condensed Consolidated Balance Sheets
September 30, 2002 and December 31, 2001

ASSETS	2002	2001 (Audited)
Current Assets:		
Cash & cash equivalents	$ 22,462	$ 122,029
Accounts receivable, less allowance for doubtful accounts ($145,000 in 2002 and 2001)	444,102	695,789
Unbilled production costs	15,639	11,013
Other current assets	277,224	210,288
Total current assets	759,427	1,039,119
Software, net	3,400,417	3,458,256
Equipment, furniture and leasehold improvements, net	901,038	1,216,175
Other assets	70,546	87,210
	$ 5,131,428	$ 5,800,760
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 366,125	$ 361,421
Deferred income	896,894	1,255,006
Other accrued liabilities	291,529	205,316

Accrued payroll and related liabilities	202,439	468,408
Notes Payable	1,184,004	1,380,427
Total current liabilities	2,940,991	3,670,578
Deferred taxes based on income	151,600	148,900
Total liabilities	3,092,591	3,819,478
Minority interests	(160,492)	(119,714)
Stockholders' equity:		
Notes receivable - stock	(73,297)	(75,364)
Common stock, 12,000,000 shares authorized, 4,997,234 shares issued and outstanding in 2002 and 2001	4,201,755	4,201,755
Accumulated deficit	(1,929,407)	(2,014,414)
Accumulated comprehensive income (loss)	278	(10,981)
Total stockholders' equity	2,199,329	2,100,996
	$ 5,131,428	$ 5,800,760

See Notes to Unaudited Condensed Consolidated Financial Statements

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Unaudited Statements of Cash Flows
For the Nine Months Ended September 30, 2002 and 2001

	2002	2001
Cash flows from operating activities:		
Decrease in Cash		
Net income (loss)	$ 85,010	$ (977,932)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	876,280	1,078,172
Allowance for doubtful accounts		50,000
Deferred income taxes		(219,131)
Minority interest	(40,779)	(252,863)
Changes in operating assets and liabilities:		
Accounts receivable	241,398	564,462
Unbilled production costs	(4,626)	195,931
Other current assets	(69,831)	(13,650)
Other assets	16,651	--
Accounts payable	6,452	32,182
Deferred income	(351,094)	(146,631)
Other accrued liabilities	88,601	160,270

Accrued payroll and related liabilities	(261,374)	(4,028)
Net cash provided by operating activities	586,688	466,782
Cash flows from investing activities:		
Capital expenditures	(505,840)	(1,036,893)
Cash flows from financing activities:		
Net principal borrowings (payments) under debt agreements	(196,428)	311,161
Sale of capital stock, net	2,067	2,136
Net cash provided by (used in) financing activities	(194,361)	313,297
Net decrease in cash	(113,513)	(256,814)
Foreign currency effect on cash	13,946	--
Cash & cash equivalents at beginning of year	122,029	1,202,442
Cash & cash equivalents at end of period	$ 22,462	$ 945,628
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest	$ 79,679	$ 135,355
Income taxes	6,917	2,147

See Notes to Unaudited Condensed Consolidated Financial Statements

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Notes to Unaudited Condensed Consolidated Financial Statements

September 30, 2002

NOTE 1. Basis of Presentation

The unaudited condensed consolidated financial statements included herein have been prepared by the Registrant and include all normal and recurring adjustments which are, in the opinion of management, necessary for a fair presentation of the financial position at September 30, 2002, the results of operations for the three and nine months ended September 30, 2002 and 2001 and the statement of cash flows for the nine months ended September 30, 2002 and 2001 pursuant to the rules and regulations of the Securities and Exchange Commission("SEC"). The consolidated financial statements include the accounts of Auto-Graphics, Inc., its wholly-owned and its majority-owned subsidiaries. All material intercompany accounts and transactions have been eliminated.

The results of operations for the subject periods are not necessarily indicative of the results for the entire year.

This Quarterly Report on Form 10-Q is qualified in its entirety by the information included in the Company's Annual Report to the SEC on Form 10-K/A for the period ending December 31, 2001 including, without limitation, the financial statements and notes included therein.

NOTE 2. Business

As of September 30, 2002, the Company was in compliance with all of its loan covenants. The Company's primary bank renewed and extended the terms of its credit agreement for an additional year through June 2, 2003. The credit facility is a $1.6 million revolving line of credit, which decreases by $175,000 each quarter on September 30, 2002, December 31, 2002 and March 31, 2003 consistent with the Company's forecasted declining requirements for bank financing.

In March 2001, the Company licensed the use of its REMARC(TM) bibliographic database of Library of Congress pre-1968 holdings to a Japanese Company for use exclusively in Japan for a one-time payment of $1.5 million. This transaction has had a material positive effect on the results of operations reported by the Company for the first nine months ended September 30, 2001.

Asset Purchase of Maxcess Library Systems Verso Software: In February 2001, the Company completed the purchase of software, customer contracts and related assets of Maxcess Library Systems, Inc. The Verso software product expands the Company's ASP (Application Service Provider) product line into the integrated library automation business.

Asset Purchase of Pigasus Wings Software: In June 2001, the Company acquired the software and rights to Wings, an ISO compliant inter-library loan software program developed by Pigasus, Inc. On November 6, 2001, the Company filed suit against Pigasus, Inc. and its principals (See Note 7 Legal Proceedings). In August 2002, following delivery by Pigasus of a complete and fully functional ISO (International Standards Organization) compliant interlibrary loan software product, the Company concluded the acquisition of the Wings software product in settlement of the lawsuit. The Wings software will provide ISO compliant functionality for the Company's Impact/ONLINE(TM) interlibrary loan software module currently in use at over 10,000 libraries.

Note 3. Operating Segments

Statement of Financial Accounting Standards No. 131, "Disclosures about Segments of an Enterprise and Related Information" establishes standards for reporting information about operating segments in interim and annual financial statements.

The following table summarizes sales based on the location of the customers and assets based on the location of the asset presented on the basis of generally accepted accounting principles for the nine months ended September 30, 2002, and 2001:

	2002	2001
Geographic areas		
Net sales		
United States	$ 4,249,407	$ 4,064,376
Foreign - Canada/Other	616,615	2,593,763
Long-lived assets, net		
United States	4,280,029	5,002,663
Foreign - Canada	21,426	80,245

Note 4. Income Taxes

Deferred tax assets and liabilities are recognized for the expected future tax consequences of events that have been reported in the Company's financial statements or tax returns. At December 31, 2001, the Company had available approximately $1,115,000 in federal ($3,728,000 including Dataquad and LibraryCard subsidiaries), $1,055,000 in state and $199,000 in foreign net operating loss carryforwards, for income tax purposes. These net operating loss carryforwards expire in 2021 for federal taxes, 2007 for state and 2006 for foreign taxes. Because the NOL tax benefit for losses incurred in Dataquad and LibraryCard is unlikely to be realized, no tax benefit has been recognized and a valuation allowance has been established offsetting these potential future tax benefits.

Note 5. Earnings Per Share

Statement of Financial Accounting Standards No. 128, "Earnings per Share" requires the presentation of basic earnings per share and diluted earnings per share. Basic and diluted earnings per share computations presented by the Company conform to the standard and are based on the weighted average number of shares of Common Stock outstanding during the year. For the year ended December 31, 2001, there were no common stock equivalents (warrants, options or convertible securities) outstanding. On May 3, 2002, the Company's Board of Directors granted stock options for 220,000 shares of the Company's restricted Common Stock to a director and certain officers and technical staff.

The following is a reconciliation of the numerators and denominators of the basic and diluted earnings per share computations:

	Net Income	Shares	Per Share
Three months ended September 30, 2002			

	Net Income	Shares	Per Share
Basic earnings per share			
Net income available to common stockholders	$ 30,821	4,997,234	$ 0.01
Effect of dilutive securities			
Stock options		214,167	
Diluted earnings per share			
Net income available to common stockholders	$ 30,821	5,211,401	$ 0.01

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Notes to Unaudited Condensed
Consolidated Financial Statements
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Note 5. Earnings Per Share (Continued)

	Net Income	Shares	Per Share
Three months ended September 30, 2001			
Basic earnings per share			
Net income available to common stockholders	($ 740,499)	4,997,234	($ 0.15)
Effect of dilutive securities			
Diluted earnings per share			
Net income available to common stockholders	($ 740,499)	4,997,234	($ 0.15)
Nine months ended September 30, 2002			
Basic earnings per share			
Net income available to common stockholders	$ 85,010	4,997,234	$ 0.02
Effect of dilutive securities			
Stock options		112,500	
Diluted earnings per share			
Net income available to common stockholders	$ 85,010	5,109,734	$ 0.02
Nine months ended September 30, 2001			
Basic earnings per share			
Net income available to common stockholders	($ 977,932)	4,997,234	($ 0.20)
Effect of dilutive securities			
Diluted earnings per share			
Net income available to common stockholders	($ 977,932)	4,997,234	($ 0.20)

The Company has filed a motion in Federal District Court under Case No. CV 01-5891 PA seeking to impose a constructive trust over 231,000 shares of Common Stock for the benefit of Auto-Graphics, Inc. (See Note 7 of Notes to Unaudited Condensed Consolidated Financial Statements).

Notes to Unaudited Condensed
Consolidated Financial Statements
September 30, 2002

Note 6. Stock Option Plans

As permitted by Statement of Financial Accounting Standards No. 123, "Accounting for Stock Based Compensation", the Company has continued to account for employee stock options under Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees", and related interpretations.

The Company adopted a 1997 Non-qualified Stock Option Plan effective December 31, 1997. The Plan consists of 300,000 shares of the Company's authorized but unissued Common Stock which shares have been reserved for possible future issuance under the Plan. The plan is a non-qualified plan covering only senior executives and related persons. As of September 30, 2002, there were no outstanding grants of options under the plan and no grants are currently planned.

The Company adopted a qualified and non-qualified stock option plan following approval by its shareholders at its 2001 annual shareholder's meeting held on February 27, 2002. The plan consists of 499,000 shares with approximately 350,000 qualified shares reserved for employees and 149,000 non-qualified shares reserved for directors. On May 3, 2002, the Company's Board of Directors granted stock options for 220,000 shares of the Company's restricted Common Stock to an outside director (60,000 non-qualified shares), and officers and technical staff (160,000 qualified shares). On July 17, 2002, the Company's Board of Directors granted stock options for 35,000 non-qualified shares of the Company's restricted Common Stock to its outside directors.

In June 2000, 700,000 shares each of Dataquad and LibraryCard Common Stock were sold to a trustee (Corey M. Patick) on a note to be held in trust ("trust shares") for use in a future stock purchase/option plan. As a result of the issuance, the Company's interest in the subsidiaries was diluted which resulted in a charge to Stockholders' Equity in the amount of $104,769. In January 2001, Robert S. Cope replaced Mr. Patick as trustee for the above trust shares. Under the trust agreement, the subsidiaries have the option to repurchase the stock on December 31, 2002. The effect of the repurchase would be a charge to earnings of approximately $120,000, a net increase in Minority Interests and a corresponding decrease in Stockholder's Equity of up to $280,500 ($180,250 for Dataquad and $100,250 for LibraryCard). In July, 2002 the Company exercised its right of first refusal and acquired 1,919,400 shares of common stock in each of its majority-owned subsidiaries, Dataquad, Inc. and LibraryCard, Inc. from a major investor bringing the Company's ownership to 6,609,400 (85.8%) in each subsidiary.

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Notes to Unaudited Condensed
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Note 7. Legal Proceedings

On May 9, 2001 the Company terminated its long-time outside counsel, Robert H. Bretz, who had provided legal services and was compensated through his professional corporation, Robert H. Bretz, PC. Mr. Bretz is also a former director of the Company. Following Mr. Bretz' termination he began to file lawsuits for and on behalf of the Company that had not been authorized by Company's management or the Board of Directors. On August 8, 2001 one particular case filed by Mr. Bretz in the name of the Company, Case No. BC252517, was dismissed by the Los Angeles California Superior Court holding that the Action by Unanimous Written Consent signed solely by Mr. Bretz in reference to the filing of the case was invalid because it failed to satisfy the requirements of California Corporations Code Section 307(b).

On June 29, 2001 the Company filed Case No. BC253322 in Los Angeles California Superior Court captioned Auto-Graphics, Inc. vs. Robert H Bretz et al., alleging breach of fiduciary duty by Mr. Bretz and that Mr. Bretz had become disruptive and harmful to the business operations of the Company and damaged the Company by his various actions including his excessive billings to the Company. In retaliation to the complaint filed by the Company, Mr. Bretz filed a derivative cross-complaint against three of the Company's officers, Robert S. Cope, Michael K. Skiles and Michael F. Ferguson for breach of fiduciary duty, fraud & deceit, misrepresentation, breach of contract/employment, removal for cause and other declaratory and injunctive relief. The original cross-complaint was filed on July 16, 2001 in Los Angeles California Superior Court under Case No. BC253322. The Company's management believes that the derivative cross-complaint filed by Mr. Bretz does not have any merit and that the Company will eventually prevail. The court ruled that the derivative cross-complaint was unlikely to benefit the Company or its shareholders and ordered Mr. Bretz to post the maximum ($50,000) bond in order to continue his lawsuit. The Company was notified that Mr. Bretz posted the bond on March 21, 2001. Mr. Bretz filed a motion to exonerate the bond or for reconsideration of the court order to post the bond. The court ruled against Mr. Bretz and upheld the bond requirement. Mr. Bretz appealed the ruling to the Court of Appeal of the State of California, Second Appellate District. The court of appeal ruled against Mr. Bretz and denied the appeal. Mr. Bretz filed a motion for summary judgement in this case, which was denied by the court at a hearing on November 8, 2002. Mr. Bretz also filed a motion to dismiss the derivative cross-complaint against the Company (a nominal defendant) and against the above three officers, which was granted by the court at the same hearing. Mr. Bretz also filed a motion to exonerate his $50,000 bond, which was deferred by the court to a hearing on January 14, 2003. The Company intends to seek recovery of the bond as reimbursement for legal fees expended in defending the Company and its officers in the cross-complaint.

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On December 10, 2001, Mr. Bretz filed another complaint in Los Angeles Superior Court under Case No. BC263256 against the Company, two of the Company's officers, Robert S. Cope and Daniel E. Luebben, the Company's general counsel, Craig O. Dobler, and a director, James R. Yarter. The complaint seeks to enforce a director's inspection and copying rights under California Corporations Code ("CCC") Section 1602 and seeks injunctive relief, attorney's fees and costs. The Company and individual defendants filed a demurrer (a formal objection to the legal sufficiency of the opponent's pleading). In response, Mr. Bretz amended his complaint and has dismissed all of the above individual defendants. The Company has provided Mr. Bretz with copies of the minutes of the Board of Director meetings and copies of the Company's financial statements to which Mr. Bretz is entitled as a shareholder, but is withholding other documents pending a final determination by the court. At a hearing on November 8, 2002, the court denied a motion for summary judgement filed by Mr. Bretz.

On February 19, 2002, Robert H. Bretz amended a complaint in Federal District Court under Case No. CV 01-5891 PA originally filed in June 2001 by Mr. Bretz in the name of the Company seeking a temporary restraining order (TRO) and preliminary injunction blocking the 2001 annual shareholder's meeting scheduled for February 27, 2002, which had been delayed from October 31, 2001. At a hearing on February 26, 2002, the court denied the application for a temporary restraining order and ruled that the shareholder meeting could proceed as scheduled, but requested that the results of the proxy solicitation not be made public or be implemented until after a further hearing on March 22, 2002. The 2001 annual shareholder's meeting was conducted on February 27, 2002 and adjourned solely for the purpose of consideration on March 27, 2002 of a shareholder proposal sponsored by Mr. Bretz establishing a maximum age limit for directors of 67 years, which was the subject of a supplemental proxy statement later issued on March 4, 2002. On March 27, 2002, the vote was conducted at the adjourned meeting on the shareholder proposal. On April 26, 2002 the court issued its ruling, which denied the request by Mr. Bretz for a preliminary injunction and authorized the Company to release and implement the results of the vote from its February 27, 2002 shareholder meeting following completion of the vote on the shareholder proposal. As a result of a vote by the shareholders, Mr. Bretz is no longer a director of the Company. The Company recently filed a motion to disqualify Mr. Bretz as a derivative plaintiff and establish a constructive trust for 231,000 shares of Company stock and cash received by Mr. Bretz from defendant, Steve White. At a hearing on October 4, 2002, the court heard oral arguments, took the matter under submission and is expected to rule shortly.

The Company has filed complaints with the California State Bar alleging violations of ethics codes by Mr. Bretz and the State Bar has conducted an investigation of the matter. The State Bar has announced publicly that charges were filed against Mr. Bretz on September 26, 2002. The State Bar complaint contains nine counts, eight of which were based on information provided by the Company.

Recently, a former officer, Corey M. Patick and Mr. Bretz have offered to terminate the above lawsuits if a shareholder group led by Robert S. Cope, the Company's Chairman and President, will purchase 1,000,000 shares of the Company's outstanding Common Stock for $1.08 per share (having a current market price of $0.45 per share). It is the Company's understanding that no Schedule 13d's have been filed with the SEC by Messrs. Patick and Bretz reporting their shareholder group's holdings (which exceed 20% of the outstanding shares) and their intentions. No agreement has been entered and Mr. Bretz' conduct was reported to the court in the motion to remove Mr. Bretz as a derivative plaintiff in Case No. CV 01-5891 PA.

The Company filed a complaint in Los Angeles, California, Superior Court, Case No. BC261175 on November 6, 2001 against Pigasus, Inc. and its principals, Arthur and Candy Zemon. The suit alleges a lack of informed consent, fraud, deceit, intentional and negligent misrepresentation, lack of consideration, and breach of contract and seeks to rescind the contract for the Company's acquisition of the Wings software developed by Pigasus and seeks damages in excess of $400,000. Subsequently, Pigasus Software, Inc., Arthur Zemon and Candace Zemon filed suit in the Circuit Court of Saint Charles County, State of Missouri, Civil Action No. 01CV129525, against Auto-Graphics, Inc. for breach of contract, and they seek damages in excess of $500,000. Both actions were removed to the local Federal District Courts and the California District Court has transferred the matter to the District Court in Missouri. The parties reached an agreement in principle on a settlement following the delivery of a fully functional and compilable ISO interlibrary loan software system by Pigasus to the Company in July 2002. The settlement was concluded on August 21, 2002.

Note 8. Recently Issued Accounting Pronouncements

In June 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standard (SFAS) No. 141, Business Combinations (SFAS 141), and No. 142, Goodwill and Other Intangible Assets (SFAS 142):

SFAS 141 requires the use of the purchase method of accounting and prohibits the use of the pooling-of-interests method of accounting for business combinations initiated after June 30, 2001. SFAS 141 also requires that the Company recognize acquired intangible assets apart from goodwill if the acquired intangible assets meet certain criteria. SFAS 141 applies to all business combinations initiated after June 30, 2001 and for purchase business combinations completed on or after July 1, 2001. It also requires, upon adoption of SFAS 142, that the Company reclassify the carrying amounts of intangible assets and goodwill based on the criteria in SFAS 141.

SFAS 142 requires, among other things, that companies no longer amortize goodwill, but instead test goodwill for impairment at least annually. In addition, SFAS 142 requires that the Company identify reporting units for the purposes of assessing potential future impairments of goodwill, reassess the useful lives of other existing recognized intangible assets, and cease amortization of intangible assets with an indefinite useful life. An intangible asset with an indefinite useful life should be tested for impairment in accordance with the guidance in SFAS 142. SFAS 142 is required to be applied in fiscal years beginning after December 15, 2001 to all goodwill and other intangible assets recognized at that date, regardless of when those assets were initially recognized. SFAS 142 requires the Company to complete a transitional goodwill impairment test six months from the date of adoption. The Company is also required to reassess the useful lives of other intangible assets within the first interim quarter after adoption of SFAS 142.

The Company adopted SFAS 141 and SFAS 142 as of January 1, 2002 and the adoption had no material impact on its financial statements.

In August 2001, the FASB issued SFAS No. 143, Accounting for Asset Retirement Obligations. SFAS No. 143 requires the fair value of a liability for an asset retirement obligation to be recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. The associated asset retirement costs are capitalized as part of the carrying amount of the long-lived asset. SFAS No. 143 is effective for fiscal years beginning after June 15, 2002. The Company believes the adoption of this Statement will have no material impact on its financial statements.

In October 2001, the FASB issued SFAS No. 144, Accounting for the Impairment or Disposal of Long-lived Assets. SFAS 144 requires that those long-lived assets be measured at the lower of carrying amount or fair value less cost to sell, whether reported in continuing operations or in discontinued operations. Therefore, discontinued operations will no longer be measured at net realizable value or include amounts for operating losses that have not yet occurred. SFAS 144 is effective for financial statements issued for fiscal years beginning after December 15, 2001 and, generally, are to be applied prospectively. The Company adopted this Statement as of January 1, 2002 and the adoption had no material impact on its financial statements.

In April 2002, the FASB issued SFAS No. 145, Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections, which rescinds FASB Statement No. 4, Reporting Gains and Losses from Extinguishment of Debt, and an amendment of that Statement, FASB Statement No. 64, Extinguishments of Debt Made to Satisfy Sinking-Fund Requirements. This Statement amends FASB Statement No. 13, Accounting for

Leases, to eliminate an inconsistency between the required accounting for sale-leaseback transactions and the required accounting for certain lease modifications that have economic effects that are similar to sale-leaseback transactions. The Company believes the adoption of this Statement will have no material impact on its financial statements.

In June 2002, the FASB issued SFAS No. 146, Accounting for Costs Associated with Exit or Disposal Activities, which addresses accounting for restructuring and similar costs. SFAS No. 146 supersedes previous accounting guidance, principally Emerging Issues Task Force (EITF) Issue No. 94-3. The Company will adopt the provisions of SFAS No. 146 for restructuring activities initiated after December 31, 2002. SFAS No. 146 requires that the liability for costs associated with an exit or disposal activity be recognized when the liability is incurred. Under EITF No. 94-3, a liability for an exit cost was recognized at the date of a company's commitment to an exit plan. SFAS No. 146 also establishes that the liability should initially be measured and recorded at fair value. Accordingly, SFAS No. 146 may affect the timing of recognizing future restructuring costs as well as the amount recognized. The Company believes the adoption of this Statement will have no material impact on its financial statements based on the Company's current plans.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

CRITICAL ACCOUNTING POLICIES

The Company maintains its accounting books and records in accordance with accounting principles generally accepted in the United States of America. The preparation of the financial statements of the Company in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect reported amounts of assets and liabilities and sales and expenses during the reporting period. These estimates are based on information available as of the date of the financial statements. Actual results may materially differ from those estimated. The Company's critical accounting policies include the following:

+ Capitalized software development costs

+ Amortization of software development costs

+ Revenue Recognition

The Company accounts for internally developed software in accordance with Statement of Financial Accounting Standard (SFAS) No. 86, "Accounting for the Costs of Computer Software to Be Sold, Leased or Otherwise Marketed." After technical feasibility has been established, the Company capitalizes the average cost per billable hour of its software development process including payroll and payroll benefits, training and recruiting costs. The Company collects and records the software development hours invested in software development projects. Annually, the Company evaluates these accumulated costs for recoverability against estimated future revenues and determines the amount, which will be capitalized. To the extent that more development costs are capitalized, the Company's net income will improve, and, to the extent that more software development costs are expensed instead of capitalized, the Company's net income will decline.

The Company amortizes its software development costs in accordance with the estimated economic life of the software, which generally is seven years. Studies within the library community have indicated that the typical library automation system once installed remains in use for an average of approximately 10 years. Because libraries are generally under-funded, libraries frequently cannot afford the latest computer hardware and software and therefore tend to utilize their system for a longer period of time than in the commercial world. The Company's typical product lifecycle has been about 15 years, which was true for its prior film/fiche product line, current CD-ROM product line and current Internet/Web product line, which has now been deployed for eight years and is still growing. To the extent the average actual useful life varies significantly from the estimated useful life, amortization expense may be understated or overstated. Generally, amortization expense averages less than 10% of the corresponding revenue stream.

Revenue recognition policies vary according to the nature of the revenue. The Company's primary revenue stream is outsourced web hosting services which are sold on a subscription basis. Services are billed in advance on an annual or quarterly basis. Revenue is recognized monthly on a pro-rata basis i.e., for a twelve month contract, one-twelfth of the revenue is recognized each month as services are rendered. Revenues which have been billed and collected in advance are booked to deferred income until the revenues are earned and services provided. Certain small annual subscriptions for databases and software support typically are recognized as revenue in the month they are billed during the year. Certain overhead costs for providing future software support services are accrued as expense in accordance with SOP 97-2, "Software Revenue Recognition," as amended by SOP 98-4 and 98-9, and thereby matching revenues and expenses. Certain contract job processing services are progress billed and revenues recognized as the processing services are performed on a monthly basis. Certain software and hardware sales are billed when the product is shipped and title passes to the customer.

FINANCIAL CONDITION

December 31, 2001 to September 30, 2002

Liquidity and capital resources. Working capital deficit decreased $450,000 in 2002 over 2001 primarily as a result of a decrease in deferred income, accrued payroll and notes payable. Net cash provided by operating activities was $587,000 up $120,000 from $467,000 in the first nine months of 2001. 2001 included a significant cash sale in March 2001 when the Company licensed the use of its REMARC(TM) bibliographic database of Library of Congress pre-1968 holdings to an unaffiliated Japanese Company (for use exclusively in Japan) for a one-time license fee of $1.5 million. This transaction had a material positive effect on the results of operations reported by the Company for the first nine months of 2001.

Capital expenditures are down $531,000 from $1,037,000 for the first nine months of 2001 to $506,000 in 2002. Major expenditures for 2001 included the acquisition of Maxcess Verso software, acquisition of Pigasus Wings software, internally developed software and computer equipment. 2002 capital expenditures include internally developed software, acquisition of Pigasus Wings software and computer equipment.

Management believes that liquidity and capital resources should be adequate to fund operations and expected reductions in bank debt during 2002 and into 2003. As of September 30, 2002, the Company was in compliance with all of its loan covenants. The Company's primary bank renewed and extended the terms of its credit agreement for an additional year to June 2, 2003. The credit facility is a $1.6 million revolving line of credit, which decreases by $175,000 each quarter on September 30, 2002, December 31, 2002 and March 31, 2003 consistent with the Company's forecasted declining requirements for financing.

RESULTS OF OPERATIONS

First Nine Months of 2002 as Compared to First Nine Months of 2001

Net sales decreased $1,792,000 or 27% from $6,658,000 in 2001 to $4,866,000 in 2002. In March 2001, the Company licensed the use of its REMARC(TM) bibliographic database of Library of Congress pre-1968 holdings to an unaffiliated Japanese Company (for use exclusively in Japan) for a one-time license fee of $1.5 million. This transaction had a material positive effect on the results of operations reported by the Company for the first nine months of 2001. Excluding this license fee, sales were down $292,000 from $5,158,000 in 2001 versus $4,866,000 in 2002 due primarily to sales declines in the Company's Canadian subsidiary.

Cost of sales decreased $1,889,000 or 41% as a result of major cost reductions in payroll and production costs in late 2001. Gross margins improved from 31% in 2001 to 44% in 2002. 2001 gross margins were unusually high primarily as a result of the licensing of the Remarc(TM) database as described above, which had insignificant costs associated with its production and delivery. Excluding this transaction, gross margins which would have been 11% in 2001 improving to 44% in 2002.

Selling, general and administrative expenses decreased $1,339,000 or 39% in 2002 as a result of major expense reductions in administrative and sales and marketing payroll and expenses in late 2001. 2002 general & administrative expenses include $750,000 in legal expenses due primarily to the ongoing lawsuits initiated by the Company's former general counsel, Robert H. Bretz. (See Note 7 of Notes to Unaudited Consolidated Financial Statements).

Income/(loss) from operations increased $1,436,000 from a loss of $1,342,000 in 2001 to an income of $94,000 in 2002. The first nine months of 2001 would have been a loss from operations of $2,842,000 excluding the effect of the above Remarc(TM) license fee of $1.5 million.

Interest/other expense was $45,000 in 2002 down from $102,000 in 2001 due to lower average borrowings, lower interest rates and bad debt collection.

Provision for taxes based on income in 2002 and 2001 reflect minimum state tax payments and the effect of federal and state net operating loss carryforwards (See Note 4 of Notes to Unaudited Consolidated Financial Statements).

Minority interests reflects the outside owners' share of the losses realized by the majority-owned Dataquad subsidiary in 2002 compared to the two majority-owned (85%) subsidiaries, Dataquad and Librarycard in 2001. The reduction of $212,000 in the minority interests in the losses of majority-owned subsidiaries reflects the major reductions in payroll and expenses and a substantial curtailment of the losses of these two subsidiaries. Having exhausted the minority investor's capital, the Company must now recognize 100% of the losses for LibraryCard, although these losses are now immaterial.

Net income was $85,000 in 2002 compared to a net loss of $978,000 in 2001, an improvement of $1,063,000. Both basic and diluted earnings per share were $0.02 in 2002 compared to a loss per share of $0.20 in 2001. The 2001 net loss would have been approximately $2,478,000 excluding the Remarc(TM) database license fee (as described above) of $1.5 million, which represents a net income improvement of $2,563,000 in 2002. The 2001 net loss would have resulted in a basic and diluted loss per share of approximately $0.50, excluding the Remarc(TM) database license fee (as described above) of $1.5 million.

Third Quarter of 2002 as Compared to Third Quarter of 2001

Net sales were down $308,000 or 16% at $1,634,000 in 2002 as compared to $1,942,000 in 2001 due primarily to the completion of a major processing project in the Company's Canadian subsidiary in 2001.

Cost of sales decreased $765,000 or 46% as a result of major cost reductions in payroll and production costs in late 2001. Gross margins improved from 14% in 2001 to 45% in 2002 as the Company has refocused on its core library ASP (Application Software Provider) services business.

Selling, general and administrative expenses decreased $548,000 or 43% in 2002 as a result of major reductions in administrative and sales and marketing payroll and expenses in late 2001. 2002 general & administrative expenses also include $216,000 in legal expenses due primarily to the ongoing dispute with the Company's former general counsel, Robert H. Bretz. (See Note 7 of Notes to Unaudited Consolidated Financial Statements).

Income from operations increased $1,005,000 from a loss of $990,000 in 2001 to an income of $15,000 in 2002 as a result of substantial cost and expense reduction measures in late 2001.

Interest/other expense was $9,000 in 2002 down from $38,000 in 2001 due to lower average borrowings, lower interest rates and bad debt collections.

Provision for taxes based on income in 2002 and 2001 reflect minimum state tax payments and the effect of federal and state net operating loss carryforwards (See Note 4 of Notes to Unaudited Consolidated Financial Statements).

Minority interests reflects the outside owners' share of the losses realized by the majority-owned Dataquad subsidiary in 2002 compared to the two majority-owned (61%) subsidiaries, Dataquad and Librarycard in 2001. The reduction of $41,000 in the minority interests in the losses of majority-owned subsidiaries reflects the major reductions in payroll and expenses and a substantial curtailment of the losses of these two subsidiaries. Having exhausted the minority investor's capital, the Company must now recognize 100% of the losses for LibraryCard, although these losses are now immaterial.

Net income was $31,000 in 2002 compared to a net loss of $740,000 in 2001, an improvement of $771,000. Both basic and diluted earnings per share were $0.01 in 2002 compared to a net loss per share of $0.15 in 2001 for the reasons covered above.

This Report includes forward-looking statements which reflect the Company's current views with respect to future events and financial performance. The Company undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Recently Issued Accounting Pronouncements

See Note 8 to Unaudited Condensed Consolidated Financial Statements.

ITEM 4. Controls and Procedures

As of September 30, 2002, an evaluation was performed under the supervision and with the participation of the President and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures. Based on that evaluation, the President and Chief Financial Officer, concluded that our disclosure controls and procedures were effective as of September 30, 2002. No significant changes in internal controls or in other factors have occurred that could significantly affect controls subsequent to September 30, 2002.

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AUTO-GRAPHICS, INC.
Form 10-Q

PART II - OTHER INFORMATION

Item 1. Legal Proceedings.

On May 9, 2001 the Company terminated its long-time outside counsel, Robert H. Bretz, who had provided legal services and was compensated through his professional corporation, Robert H. Bretz, PC. Mr. Bretz is also a former director of the Company. Following Mr. Bretz' termination he began to file lawsuits for and on behalf of the Company that had not been authorized by Company's management or the Board of Directors. On August 8, 2001 one particular case filed by Mr. Bretz in the name of the Company, Case No. BC252517, was dismissed by the Los Angeles California Superior Court holding that the Action by Unanimous Written Consent signed solely by Mr. Bretz in reference to the filing of the case was invalid because it failed to satisfy the requirements of California Corporations Code Section 307(b).

On June 29, 2001 the Company filed Case No. BC253322 in Los Angeles California Superior Court captioned Auto-Graphics, Inc. vs. Robert H Bretz et al., alleging breach of fiduciary duty by Mr. Bretz and that Mr. Bretz had become disruptive and harmful to the business operations of the Company and damaged the Company by his various actions including his excessive billings to the Company. In retaliation to the complaint filed by the Company, Mr. Bretz filed a derivative cross-complaint against three of the Company's officers, Robert S. Cope, Michael K. Skiles and Michael F. Ferguson for breach of fiduciary duty, fraud & deceit, misrepresentation, breach of contract/employment, removal for cause and other declaratory and injunctive relief. The original cross-complaint was filed on July 16, 2001 in Los Angeles California Superior Court under Case No. BC253322. The Company's management believes that the derivative cross-complaint filed by Mr. Bretz does not have any merit and that the Company will eventually prevail. The court ruled that the derivative cross-complaint was unlikely to benefit the Company or its shareholders and ordered Mr. Bretz to post the maximum ($50,000) bond in order to continue his lawsuit. The Company was notified that Mr. Bretz posted the bond on March 21, 2001. Mr. Bretz filed a motion to exonerate the bond or for reconsideration of the court order to post the bond. The court ruled against Mr. Bretz and upheld the bond requirement. Mr. Bretz appealed the ruling to the Court of Appeal of the State of California, Second Appellate District. The court of appeal ruled against Mr. Bretz and denied the appeal. Mr. Bretz filed a motion for summary judgement in this case, which was denied by the court at a hearing on November 8, 2002. Mr. Bretz also filed a motion to dismiss the derivative cross-complaint against the Company (a nominal defendant) and against the above three officers, which was granted by the court at the same hearing. Mr. Bretz also filed a motion to exonerate his $50,000 bond, which was deferred by the court to a hearing on January 14, 2003. The Company intends to seek recovery of the bond as reimbursement for legal fees expended in defending the Company and its officers in the cross-complaint.

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AUTO-GRAPHICS, INC.
Form 10-Q

PART II - OTHER INFORMATION

On December 10, 2001, Mr. Bretz filed another complaint in Los Angeles Superior Court under Case No. BC263256 against the Company, two of the Company's officers, Robert S. Cope and Daniel E. Luebben, the Company's general counsel, Craig O. Dobler, and a director, James R. Yarter. The complaint seeks to enforce a director's inspection and copying rights under California Corporations Code ("CCC") Section 1602 and seeks injunctive relief, attorney's fees and costs. The Company and individual defendants filed a demurrer (a formal objection to the legal sufficiency of the opponent's pleading). In response, Mr. Bretz amended his complaint and has dismissed all of the above individual defendants. The Company has provided Mr. Bretz with copies of the minutes of the Board of Director meetings and copies of the Company's financial statements to which Mr. Bretz is entitled as a shareholder, but is withholding other documents pending a final determination by the court. At a hearing on November 8, 2002, the court denied a motion for summary judgement filed by Mr. Bretz.

On February 19, 2002, Robert H. Bretz amended a complaint in Federal District Court under Case No. CV 01-5891 PA originally filed in June 2001 by Mr. Bretz in the name of the Company seeking a temporary restraining order (TRO) and preliminary injunction blocking the 2001 annual shareholder's meeting scheduled for February 27, 2002, which had been delayed from October 31, 2001. At a hearing on February 26, 2002, the court denied the application for a temporary restraining order and ruled that the shareholder meeting could proceed as scheduled, but requested that the results of the proxy solicitation not be made public or be implemented until after a further hearing on March 22, 2002. The 2001 annual shareholder's meeting was conducted on February 27, 2002 and adjourned solely for the purpose of consideration on March 27, 2002 of a shareholder proposal sponsored by Mr. Bretz establishing a maximum age limit for directors of 67 years, which was the subject of a supplemental proxy statement later issued on March 4, 2002. On March 27, 2002, the vote was conducted at the adjourned meeting on the shareholder proposal. On April 26, 2002 the court issued its ruling, which denied the request by Mr. Bretz for a preliminary injunction and authorized the Company to release and implement the results of the vote from its February 27, 2002 shareholder meeting following completion of the vote on the shareholder proposal. As a result of a vote by the shareholders, Mr. Bretz is no longer a director of the Company. The Company recently filed a motion to disqualify Mr. Bretz as a derivative plaintiff and establish a constructive trust for 231,000 shares of Company stock and cash received by Mr. Bretz from defendant, Steve White. At a hearing on October 4, 2002, the court heard oral arguments, took the matter under submission and is expected to rule shortly.

PART II - OTHER INFORMATION

The Company has filed complaints with the California State Bar alleging violations of ethics codes by Mr. Bretz and the State Bar has conducted an investigation of the matter. The State Bar has announced publicly that charges were filed against Mr. Bretz on September 26, 2002. The State Bar complaint contains nine counts, eight of which were based on information provided by the Company.

Recently, a former officer, Corey M. Patick and Mr. Bretz have offered to terminate the above lawsuits if a shareholder group led by Robert S. Cope, the Company's Chairman and President, will purchase 1,000,000 shares of the Company's outstanding Common Stock for $1.08 per share (having a current market price of $0.45 per share). It is the Company's understanding that no Schedule 13d's have been filed with the SEC by Messrs. Patick and Bretz reporting their shareholder group's holdings (which exceed 20% of the outstanding shares) and their intentions. No agreement has been entered and Mr. Bretz' conduct was reported to the court in the motion to remove Mr. Bretz as a derivative plaintiff in Case No. CV 01-5891 PA.

The Company filed a complaint in Los Angeles, California, Superior Court, Case No. BC261175 on November 6, 2001 against Pigasus, Inc. and its principals, Arthur and Candy Zemon. The suit alleges a lack of informed consent, fraud, deceit, intentional and negligent misrepresentation, lack of consideration, and breach of contract and seeks to rescind the contract for the Company's acquisition of the Wings software developed by Pigasus and seeks damages in excess of $400,000. Subsequently, Pigasus Software, Inc., Arthur Zemon and Candace Zemon filed suit in the Circuit Court of Saint Charles County, State of Missouri, Civil Action No. 01CV129525, against Auto-Graphics, Inc. for breach of contract, and they seek damages in excess of $500,000. Both actions were removed to the local Federal District Courts and the California District Court has transferred the matter to the District Court in Missouri. The parties reached an agreement in principle on a settlement following the delivery of a fully functional and compilable ISO interlibrary loan software system by Pigasus to the Company in July 2002. The settlement was concluded on August 21, 2002.

Item 2. Changes in Securities and Use of Proceeds. None.

Item 3. Defaults upon Senior Securities. None.

Item 4. Submission of Matters to a Vote of Security Holders. None.

Item 5. Other Information. None.

Item 6. Exhibits and Reports on Form 8-K.

(a) Exhibits: None.

(b) The Company filed a report on Form 8-K on August 14, 2002 in conjunction with the filing by the Company of its report on Form 10-Q including the certification of its financial statements by the Company's President and Chief Financial Officer under the Sarbanes-Oxley Act of 2002.

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AUTO-GRAPHICS, INC.
Form 10-Q

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

AUTO-GRAPHICS, INC.

Date: November 14, 2002   By: /s/ Robert S. Cope
Robert S. Cope
Chairman of the Board and President

Date: November 14, 2002   By: /s/ Daniel E. Luebben
Daniel E. Luebben
Chief Financial Officer and Secretary

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AUTO-GRAPHICS, INC.
Form 10-Q

CERTIFICATIONS

I, Robert S, Cope, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Auto-Graphics, Inc.;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: November 14, 2002

ss/Robert S. Cope

Robert S. Cope
Chairman of the Board and President

AUTO-GRAPHICS, INC.
Form 10-Q

CERTIFICATIONS

I, Daniel E. Luebben, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Auto-Graphics, Inc.;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a

material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

   a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

   b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

   c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

   a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: November 14, 2002

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ss/Daniel E. Luebben

Daniel E. Luebben
Chief Financial Officer
and Secretary