

RELATIONAL TECHNOLOGY, INC.

REPORT ON EXAMINATIONS OF FINANCIAL STATEMENTS
for the years ended June 30, 1984 and 1983

Coopers
& Lybrand

Certified Public Accountants

To the Stockholders of
Relational Technology, Inc.:

We have examined the balance sheets of Relational Technology, Inc. as of June 30, 1984 and 1983 and the related statements of income, changes in stockholders' equity, and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the financial position of Relational Technology, Inc. as of June 30, 1984 and 1983, and the results of its operations and the changes in its financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Coopers & Lybrand

San Francisco, California
August 17, 1984

RELATIONAL TECHNOLOGY, INC.
BALANCE SHEETS, June 30, 1984 and 1983

ASSETS	<u>1984</u>	<u>1983</u>
Current assets:		
Cash	-	\$ 52,524
Short-term investments, at cost (approximates market)	\$1,000,000	450,000
Accounts receivable:		
Trade (less allowance for doubtful accounts of \$12,730 in 1984 and \$1,200 in 1983)	3,053,895	527,066
Employees	100,103	-
Prepaid expenses	56,784	29,033
Total current assets	<u>4,210,782</u>	<u>1,058,623</u>
Equipment	2,458,413	731,642
Long-term receivables, less current portion	212,508	122,714
Organization costs	8,788	7,515
Other assets	44,631	19,627
	<u>\$6,935,122</u>	<u>\$1,940,121</u>
LIABILITIES & STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	1,293,862	96,409
Bank overdraft	292,363	-
Notes payable to bank	93,586	120,000
Current portion of long-term debt	12,878	32,772
Income taxes payable	54,716	11,034
Deferred income taxes	8,528	4,277
Other current liabilities	276,375	40,299
Total current liabilities	<u>2,032,308</u>	<u>304,791</u>
Long-term debt, less current portion	52,498	73,737
Deferred income taxes	14,520	10,473
	<u>67,018</u>	<u>84,210</u>
Commitments (Note 8).		
Stockholders' equity:		
Preferred stock (no par value); authorized 2,000,000 shares:		
Series A convertible preferred stock; issued and outstanding 305,000 shares	305,000	305,000
Series B convertible preferred stock; issued and outstanding 192,000 shares	936,400	936,400
Series C convertible preferred stock; issued and outstanding 625,000 shares	2,500,000	-
Common stock (no par value), authorized 25,000,000 shares; issued and outstanding 3,177,679 shares in 1984 and 2,735,210 shares in 1983	308,719	217,025
Retained earnings	785,677	92,695
	<u>4,835,796</u>	<u>1,551,120</u>
	<u>\$6,935,122</u>	<u>\$1,940,121</u>

The accompanying notes are an integral part of these financial statements.

RELATIONAL TECHNOLOGY, INC.
 STATEMENTS OF INCOME
 for the years ended June 30, 1984 and 1983

	<u>1984</u>	<u>1983</u>
Revenues	<u>\$8,130,682</u>	<u>\$3,025,501</u>
Costs and expenses:		
Software development costs	2,545,233	1,132,600
Selling, administrative, and general expenses	<u>4,821,984</u>	<u>1,692,834</u>
	<u>7,367,217</u>	<u>2,825,434</u>
Income from operations	763,465	200,067
Interest income	58,270	101,058
Interest expense	<u>55,119</u>	<u>30,463</u>
Income before taxes on income and extraordinary credit	766,616	270,662
Provision for taxes on income	<u>73,634</u>	<u>95,578</u>
Income before extraordinary credit	692,982	175,084
Extraordinary credit - reduction of income taxes arising from utilization of prior year's accounting loss carryforward	<u>-</u>	<u>69,394</u>
Net income	<u>\$ 692,982</u>	<u>\$ 244,478</u>

The accompanying notes are an integral part of these financial statements.

RELATIONAL TECHNOLOGY, INC.
 STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
 for the years ended June 30, 1984 and 1983

	<u>Common Stock</u>		<u>Series A Preferred Stock</u>		<u>Series B Preferred Stock</u>		<u>Series C Preferred Stock</u>		<u>Retained Earnings</u>	<u>Total</u>
	<u>Shares</u>	<u>Amount</u>	<u>Shares</u>	<u>Amount</u>	<u>Shares</u>	<u>Amount</u>	<u>Shares</u>	<u>Amount</u>		
Balances, July 1, 1982	477,500	\$179,750	305,000	\$305,000	192,000	\$936,400			\$(151,783)	\$1,269,367
Five-for-one common stock split	1,910,000									
Issue of common stock under employee stock purchase plan	332,710	36,675								36,675
Issue of common stock	15,000	600								600
Net income									244,478	244,478
Balances, June 30, 1983	2,735,210	217,025	305,000	305,000	192,000	936,400			92,695	1,551,120
Issue of Series C preferred stock							625,000	\$2,500,000		2,500,000
Issue of common stock under employee stock purchase plan	567,000	93,884								93,884
Issue of common stock	3,000	360								360
Repurchase of common stock	(127,531)	(2,550)								(2,550)
Net income									692,982	692,982
Balances, June 30, 1984	<u>3,177,679</u>	<u>\$308,719</u>	<u>305,000</u>	<u>\$305,000</u>	<u>192,000</u>	<u>\$936,400</u>	<u>625,000</u>	<u>\$2,500,000</u>	<u>\$ 785,677</u>	<u>\$4,835,796</u>

The accompanying notes are an integral part of these financial statements.

RELATIONAL TECHNOLOGY, INC.
 STATEMENTS OF CHANGES IN FINANCIAL POSITION
 for the years ended June 30, 1984 and 1983

	<u>1984</u>	<u>1983</u>
Sources of working capital:		
Net income	\$ 692,982	\$ 244,478
Charges not affecting working capital:		
Depreciation	305,724	140,834
Deferred taxes on income	4,047	10,473
Loss on sale of equipment	-	5,564
Amortization of organization costs	<u>3,499</u>	<u>3,340</u>
Working capital provided by operations	1,006,252	404,689
Issuance of common stock for cash	94,244	37,275
Issuance of preferred stock for cash	2,500,000	-
Increase in long-term debt	<u>52,498</u>	<u>-</u>
Total sources of working capital	<u>3,652,994</u>	<u>441,964</u>
Uses of working capital:		
Equipment additions	2,032,496	464,474
Increase in long-term receivables	89,794	122,714
Decreases in long-term debt	73,737	30,041
Repurchase of common stock for cash	2,550	-
Addition to organization cost	4,772	-
Other, net	<u>25,003</u>	<u>11,133</u>
Total uses of working capital	<u>2,228,352</u>	<u>628,362</u>
Net increase (decrease) in working capital	<u>\$ 1,424,642</u>	<u>\$ (186,398)</u>
Increase (decrease) in working capital accounts:		
Cash	(52,524)	(10,841)
Short-term investments	550,000	(288,899)
Accounts receivable, net	2,626,932	134,502
Prepaid expenses	27,751	21,390
Accounts payable	(1,197,453)	89,589
Bank overdraft	(292,363)	-
Notes payable to bank	26,414	(120,000)
Current portion of long-term debt	19,894	2,731
Income taxes payable	(43,682)	(11,034)
Deferred income taxes	(4,251)	(4,277)
Other current liabilities	<u>(236,076)</u>	<u>441</u>
	<u>\$ 1,424,642</u>	<u>\$ (186,398)</u>

The accompanying notes are an integral part of these financial statements.

RELATIONAL TECHNOLOGY, INC.
NOTES TO FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies:

Revenue Recognition:

Software license fees are recorded in the accounts when the software is accepted by the customer. Software licenses sold on an installment basis are recorded currently at their present value. Software royalties are recorded when reported by the vendor. Other royalty income is reported based on the company satisfying the related contract terms. Interest income is earned as the payments become due.

Software Development Costs:

Software development costs are charged to expense in the year incurred.

Equipment:

Equipment is stated at cost. Leasehold improvements are capitalized and amortized over the remaining life of the lease. Depreciation on equipment is computed using the straight-line method beginning the first full month of operation over the following ranges of estimated useful lives:

	<u>Range of Depreciable Lives</u>	<u>1984</u>	<u>1983</u>
Computer equipment	5	\$2,213,867	\$692,401
Office equipment	5	600,332	169,639
Leasehold improvements	Various	<u>134,299</u>	<u>53,962</u>
		2,948,498	916,002
Less accumulated depreciation and amortization		<u>490,085</u>	<u>184,360</u>
		<u>\$2,458,413</u>	<u>\$731,642</u>

Organization Costs:

Organization costs are being amortized on a straight-line basis over a period of five years.

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RELATIONAL TECHNOLOGY, INC.
NOTES TO FINANCIAL STATEMENTS, Continued

1. Summary of Significant Accounting Policies, continued:

Tax Credits:

Investment tax credits and the credit for increasing research activities reduce income tax in the year realized.

Overhead Costs:

Overhead costs are allocated between research and development expenses and selling, general and administration expenses based on employee count.

Reclassifications:

Certain reclassifications have been made to the 1983 financial statements to conform with accounting classifications adopted in 1984. There is no effect on net income.

2. Transactions with Related Parties:

During the years ended June 30, 1984 and 1983, the company paid approximately \$58,470 and \$42,150, respectively, in consulting fees to officers who are shareholders but not salaried employees of the company. This amount is included in software development costs.

During the year ended June 30, 1984, the company paid a bridge loan for one of its officers in connection with his relocation in the amount of \$90,000 plus interest. The company was reimbursed by the employee subsequent to June 30, 1984.

3. Long-Term Receivables:

Long-term receivables consists of installment sales of software licenses at interest rates varying between 13% and 21%. The annual principal payments on these notes are as follows:

1985	\$257,430
1986	107,828
1987	51,709
1988	33,884
1989	19,087
	<u>\$469,938</u>

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