



**Software AG
Systems, Inc.**

1984 Annual Report



Software AG Systems, Inc., and its operating unit, Software AG of North America, Inc., specializes in systems software for mainframe computers and computer networks. Software AG develops and markets an advanced integrated line of software products designed to make information easier to create, access, manage, and distribute.

These products include: ADABAS, one of the world's most widely used relational data base management systems; NATURAL, the premier fourth-generation application development language system; COM-PLETE, a teleprocessing system that manages information flow in distributed environments; PREDICT, an online dictionary used to facilitate and control access to data; and NATURAL/CONNECTION, a product that enables users of personal computers within an organization to upload and download information stored in corporate mainframe computer systems, without compromising security or data integrity.

Software AG customers typically have extensive information processing needs. For this reason the products' design philosophy is strongly oriented toward the requirements of their actual end-users—management professionals who need flexible, easy-to-use tools for solving problems and making decisions.

TABLE OF CONTENTS

3	Letter to Stockholders
4	John Norris Maguire and Stuart J. Miller: A Conversation
7	Software AG in the Mid-1980s: Widening Circles of Impact
16	Management's Discussion and Analysis
18	Consolidated Financial Statements and Notes

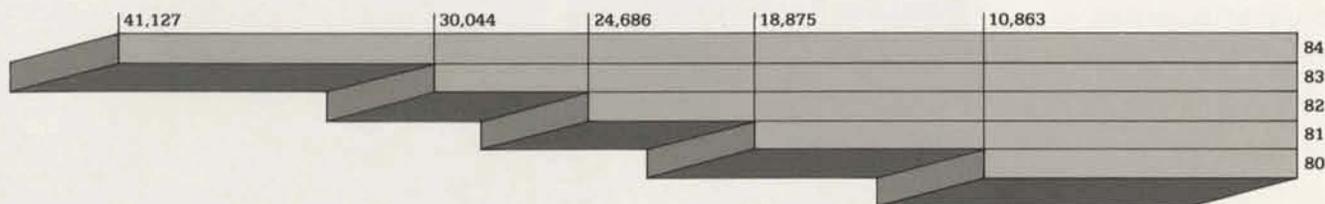
ABOUT THE COVER

Concentric rings document the impact of a stone upon a pool of still water. They also suggest the relationships among Software AG's products, and between those products and their users. This Annual Report offers a look at those relationships.

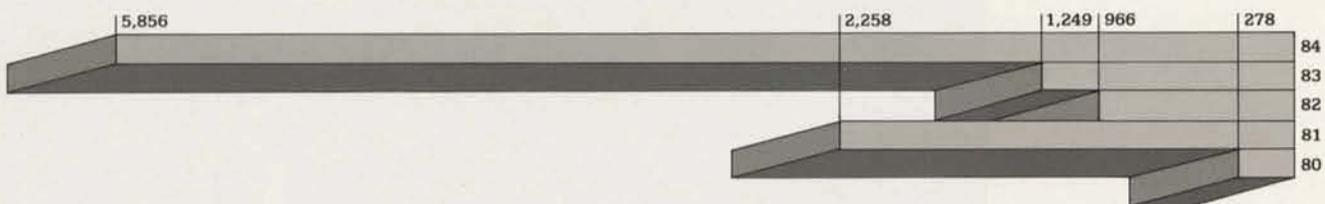
The cover also marks the start of a chain of portraits that runs throughout the following pages. The portraits are of Software AG employees—people whose contributions are essential to the success of our Company and our customers.

Selected Consolidated Financial Data

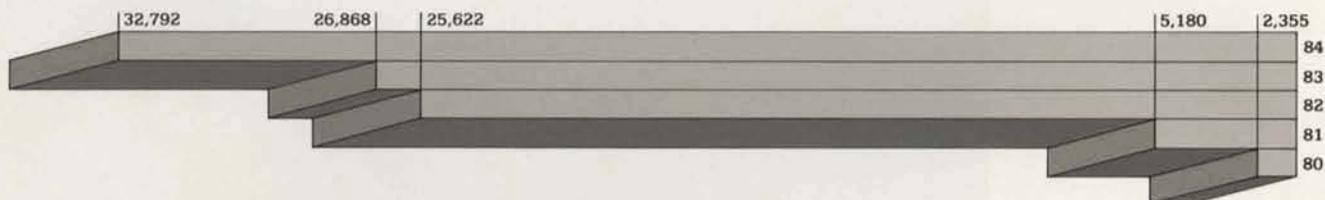
REVENUE (in Thousands)



NET INCOME (in Thousands)



STOCKHOLDERS' EQUITY (in Thousands)



Years Ended May 31	1984	1983	1982	1981	1980
Revenues	\$41,126,605	\$30,043,891	\$24,685,852	\$18,875,070	\$10,863,319
Net Income	\$ 5,855,697	\$ 1,248,903	\$ 965,755	\$ 2,258,160	\$ 278,369
Net Income Per Common Share	\$.95	\$.20	\$.16	\$.49	\$.06
Number of Shares Used to Compute Net Income Per Common Share	6,145,465	6,131,741	6,088,910	4,610,550	4,501,162
Working Capital	\$23,380,945	\$15,187,049	\$13,326,504	\$ 1,667,559	\$ 470,934
Total Assets	\$51,154,893	\$35,882,737	\$33,781,243	\$21,582,135	\$ 8,099,894
Total Stockholders' Equity	\$32,792,453	\$26,867,774	\$25,622,022	\$ 5,179,610	\$ 2,355,262



*Stuart J. Miller,
President & Chief
Executive Officer (left)
and John Norris
Maquire, Chairman
of the Board (right).*





To our stockholders:

In this Annual Report we are pleased to present to you a Company which has gained strength in all areas and has generated strongly improved performance as a result.

For the fiscal year ended May 31, 1984, both revenues and earnings rose to record levels. Revenues were \$41,126,605, an increase of 37% over 1983. Net income was \$5,855,697, or \$.95 per share, an increase of 375%. Behind these numbers is a trend worth noting: our continued quarter-to-quarter earnings improvement. By the end of fiscal 1984, we had achieved eight consecutive quarters of consistent growth in earnings per share from operations.

People

With this steady growth, we are now experiencing the rewards of the improved accounting and cost-control systems implemented in 1983. The extraordinary efforts of all our employees during that transition period are paying off, and they deserve our most sincere thanks. On May 3 of this year, our top management team took on an important new dimension, in keeping with the Company's change from an entrepreneurial entity to a major international force in the software industry.

Stuart J. Miller was elected President and Chief Executive Officer of Software AG Systems, Inc., and its operating subsidiary, Software AG of North America, Inc. John Norris Maguire continues as Chairman of the Board.

The pages immediately following this letter contain a more extended, informal discussion of this appointment and its implications for the Company's next stage of growth.

Products

The pace of product development continued during 1984, as we witnessed the first installations of PREDICT, NATURAL/VSAM, and the NATURAL Security System, as well as the introduction of NATURAL/CONNECTION at our annual Users' Conference this past April. This last product represents an important new thrust in our present family.

With NATURAL/CONNECTION, we have bridged the gap between personal computers and large mainframe systems by enabling PC users throughout an organization to use the full power of our NATURAL system in conjunction with up-to-date information in mainframe data bases. This product extends our reach into the personal business computer marketplace, while also reaffirming our dedication to our primary task of helping to make mainframe systems as responsive as possible to end-user needs.

Commitment to service

It goes without saying that we could not have come as far as we have without a strong partnership with our customers. Their willingness to invest in the use of our products reflects their recognition that we are committed to their interests over the long term. We take pride in the continued vigor of our Users' Group, as well as in the growing roster of organizations that have passed the ten-year mark as Software AG customers. We are pleased to welcome many new customers to the Software AG family this year, and expect to be working with them in meeting their goals.

As a Company, we believe that the further enhancement of our service capability is a requirement for stable long-term growth in our industry. This commitment to service will go a long way to ensure that we remain responsive to user needs—while strengthening our customer base as a source of new product ideas and new market opportunities in our new fiscal year. We look forward to all these new opportunities—and to the challenge of continuing our growth in service and earnings.

John Norris Maguire
Chairman of the Board

Stuart J. Miller
President and Chief Executive Officer



John Norris Maguire and Stuart J. Miller: a conversation

Miller: I think two of the questions that may be in the minds of readers of this Annual Report are, first, why the change in top management at this time? And, second what does the change signify in terms of the Company's future direction?

Maguire: To answer those questions, Stu, we should go back a bit into our history. Back in the early seventies we were a very small company. We fought a lot of uphill battles in order to gain acceptance, not just for our products but for the point of view they represented, which was very different from



most of the prevailing approaches at that time.

Today we're a different kind of company. Our product philosophy has now been accepted by a very large percentage of the information processing industry. And as a consequence, our revenues have climbed to over \$40 million this year, our employees number over 250, and our worldwide customer base continues to grow steadily.

Miller: The Company is entering a new phase, a new period in its growth.

Maguire: Exactly. We've achieved the initial entrepreneurial objectives: we've built credibility for ourselves and our products; we've established good market share and good relations with our customer base; and we've developed a product strategy and product development capability that will keep us going well into the future. But now we also need some new organizational resources, and some new skills, to carry us through our next phase, into a significantly larger and more complex organization. And one of the key ways to achieve that is through new leadership.

Miller: We certainly don't want to lose the entrepreneurial spirit that has been part of the Company's character from the start. But even from a purely administrative standpoint, you can't grow to a multi-hundred million dollar company over the next five to ten years without some degree of change

in that character. The trick is to achieve the structural and procedural sophistication of the larger company without sacrificing the leanness and drive of the original venture . . . and at the same time, maintain consistent profitability within the context of large annual growth rates.

Maguire: Yes, I agree. Your prior experience in bringing a business unit past the \$100-million mark in the computer industry gives you the precise qualifications required by Software AG.

Miller: And what impressed me was the capability of the Company's products, its people, and the superior reputation they both enjoy throughout our industry. Having a strong product family that's recognized by your customers and your





peers is a terrific foundation for future growth.

Maguire: We take great pride in that. A lot of the confidence around here stems from knowing we have a good set of building blocks in place.

Miller: They're more than just building blocks—in many cases they're milestones for our industry. Take NATURAL, which was the first fourth-generation language to achieve a high degree of acceptance. Much of today's worldwide interest in fourth-generation languages would not be there but for NATURAL—just as the existence of ADABAS anticipated the general acceptance of relational data bases.

Maguire: Your comment about worldwide interest in NATURAL underscores an important point—our market is a worldwide market.



And with our unique roster of international affiliations, we're well equipped to stay on top of developments on a global scale—both in our marketing and in our product development.

Miller: Yes, we are. We have, and will continue to have, three major sources of new products and new software technology. The first one is internal development, as exemplified currently by NATURAL/CONNECTION. The second source is the continuing flow of products from our affiliate in West Germany, Software AG of Darmstadt. And the third source, which is now becoming much more available to us as we grow larger, is the acquisition of software products or components from independent developers, who are typically in search of a strong marketing force such as ours.

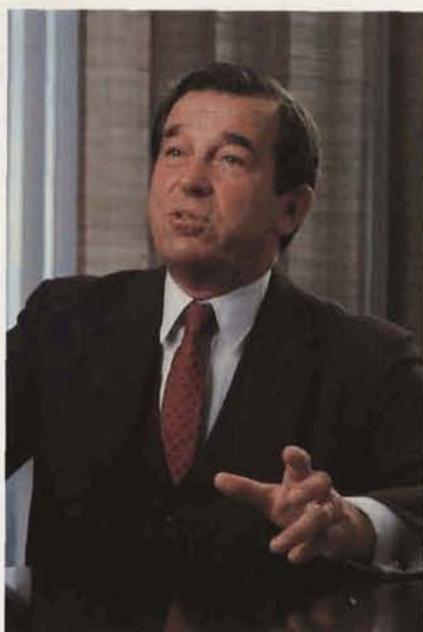
Maguire: But even the best products in the world need dedicated, capable people to make them work to customers' satisfaction. So when we talk product, we're really talking about people, too.

We have a saying around here: "Quality products are a direct result of quality people with a quality-through-service attitude." We're not just committed to that idea as a philosophy—we're committed to taking the actions that accomplish it.

Miller: Definitely. Maintaining our product edge is vital, but we can only do it through our people. They must have not only the required

skills, but also the motivation that comes from feeling personally contributive and growing. That's why one of our key goals is to strengthen further our lines of internal communication as we grow. By keeping everyone abreast of changes, it's much easier to stay focused on where they fit in relation to the Company and to the customer.

I should add that we're also taking steps to strengthen our long-term customer relationships, too. These long-term customer partnerships have a special value for companies on a high-growth path such as ours—they protect us from the market swings that have made the micro software marketplace so volatile. And that's just one more reason why I'm glad to be here—to continue along that growth path that you have laid down so well.

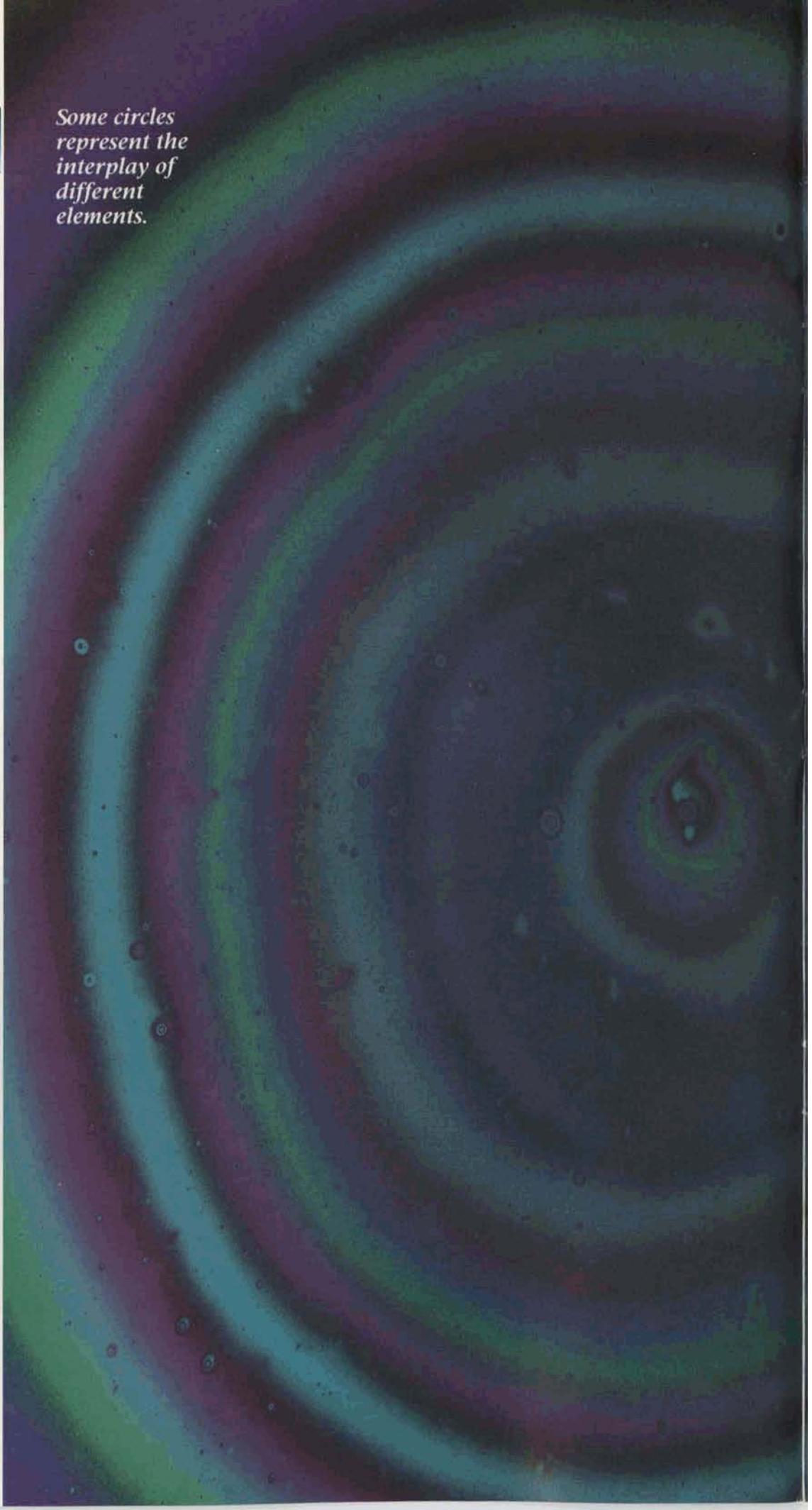




Ducks Unlimited Canada (DU) is the Canadian arm of North America's oldest private, nonprofit waterfowl conservation organization. DU is dedicated to the perpetuation of waterfowl resources through preservation, restoration, and creation of prime breeding habitat. Using NATURAL and ADABAS, DU has developed a comprehensive information system. This system covers the biological, engineering, legal, and financial aspects of more than 2,300 developed wetlands projects and more than 3.3 million acres of land under easement or reservation across Canada. Additional systems handle DU's register of landowners, contributors, and public relations contacts.



Some circles represent the interplay of different elements.



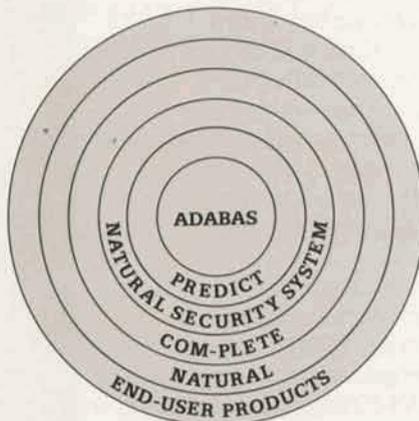


Software AG in the mid-1980s: widening circles of impact

Circles are everywhere in nature. And throughout history, their simple perfection has appealed powerfully to the human imagination.

At Software AG, we use concentric circles as a convenient way to describe the steady growth of our product offering, and the growing universe of users whose lives those products affect. Recently, we have come to see something else within these circular patterns: a series of relationships among our products, and between individual users and the data they need to solve their problems.

The photographs in the pages of this Annual Report illustrate some of the qualities of nature's circular patterns: interplay of different elements, strength, power, growth, and universality. We also find these traits in our own circles.

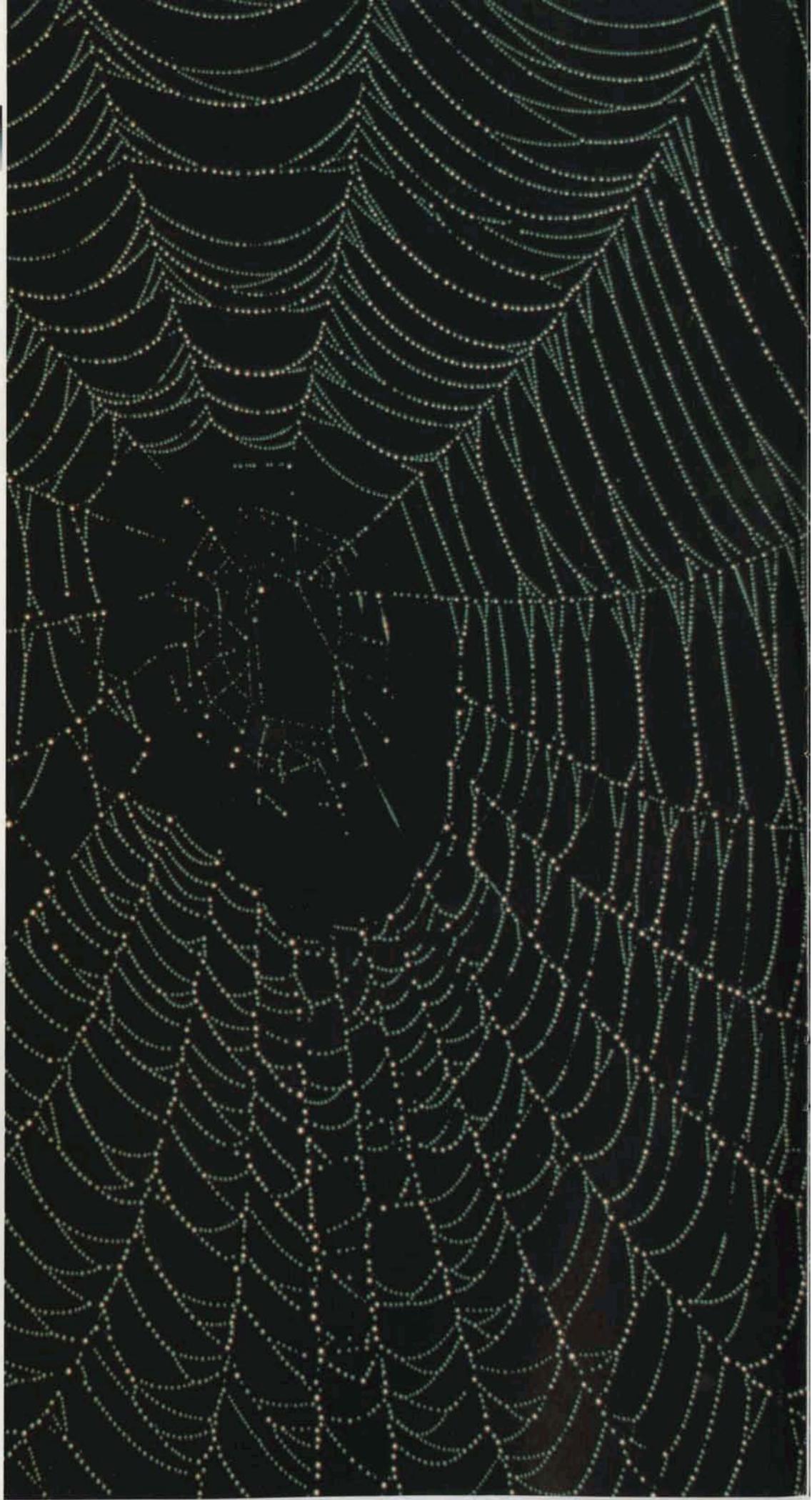


This diagram illustrates the functional integration of Software AG products, and the role each product plays in relation to the rest. From the innermost circle (where data is stored and managed) to the outer perimeter of user needs, each product's position reflects the internal logic of the total system—as well as the paths of access between users and the information they need:

- **ADABAS** Data base management, the software function with which Software AG began, still forms the core of what we provide—in much the same way that the data itself is at the core of any information system. At the time of its introduction, ADABAS was a pioneering data base management system—based on different architecture from prevailing systems,



TABWA is the Totalisator Agency Board of Western Australia—the state's only legal off-track betting service. TABWA services are available by telephone as well as through 180 outlet agencies. With all bets sold real-time, the software systems for the 380 selling terminals plus 150 on-course terminals represent a sizable investment. Operations Manager John Field says that NATURAL "considerably enhances the ease of development and support of these systems." Users code their own report programs, notes Field. "NATURAL substantially reduces the training needed for a programmer to be fully productive."



Some circles
have hidden
strength.



because it was designed with different priorities in mind. Where other DBMS products were designed to save hardware resources, ADABAS was designed to save on the cost of human resources by means of a "relational" approach that made information easier to access and use. Time has since proved the wisdom of ADABAS's design approach, so that now other vendors are beginning to offer relational systems. But in the meantime ADABAS rolls on, with nearly fifteen years' worth of experience and enhancements, including a version that is now operational on Digital Equipment Corporation's VAX hardware.

● **PREDICT** ADABAS's design encompasses many of the control functions of traditional data dictionaries. But in the increasingly complex interactive environments of the 1980s, these control functions have also become more complex. PREDICT is Software AG's answer to this need: a sophisticated online dictionary that defines data, identifies data locations, and ensures the integrity of data base information. Through PREDICT, users can access information in ADABAS data bases without compromising the quality or integrity of those data bases.

● **NATURAL SECURITY SYSTEM** Beyond dictionary control lie more extensive procedures designed to offer convenient access to data for *authorized* users, while providing flexible and highly effective protection against *unauthorized* access. NATURAL Security System is a powerful, versatile system whose provisions can be applied at virtually any level of the diagram, from the individual user or terminal on the outer ring to the individual data base, file, record, or field at the inner core.

● **COM-LETE** COM-LETE is a teleprocessing system: it manages the flow of data through distributed processing environments, forming a bridge between the inner and outer parts of the diagram. COM-LETE routes appropriate data base information to the individual users or terminals requesting it, regardless of their position on a network and without disrupting the flow of other data or commands to and from other users.

● **NATURAL** NATURAL, Software AG's fourth-generation language, serves as the principal intermediary between users and data—the primary tool by which users communicate with the system, and with the data. NATURAL's



*Some circles
emanate from a
powerful center.*

Insurance policy writing used to be anything but real-time: heavily paper-dependent, and highly error-prone. But at American Family Mutual Insurance, real-time underwriting is fast becoming a reality. Company spokesperson Carol Scott notes that with policy rates and schedules stored online, underwriters will soon be able to handle all the details from their terminal without handling paper—"taking days out of the whole process, while adding immensely more accuracy and flexibility." American Family uses Software AG's NATURAL, ADABAS, NATURAL/VSAM, and PREDICT.





powerful commands make it possible to access data, manipulate it, and transform it into timely, accurate management reports. Since its introduction in the late 1970s, NATURAL has become the world's most widely installed fourth-generation language. Just as ADABAS set the pattern for the data base management industry, NATURAL set the pattern for fourth-generation languages.

● **END-USER PRODUCTS**

Beyond NATURAL is a series of add-on products designed to facilitate system access for inexperienced users, while allowing information to be customized to meet specific user needs. These products include:

NATURAL/VSAM, a full-functioned implementation of our fourth-generation language for users of VSAM files;

SUPER/NATURAL, a menu-driven facility which enables inexperienced users to obtain a variety of management reports with *no* programming;

NATURAL/GRAPHICS, which allows users to translate up-to-date data base information into colorful, practical business graphics; and

NATURAL/CONNECTION, our newest product, which enables users of personal business computers to use NATURAL to access information on the corporate mainframe.

These products, together with others yet to be released on this outer ring, all share a common purpose: to help business people solve problems by providing accurate, timely information in the forms in which they need it.

An expanding universe of users.

Beyond the product relationships themselves, two other points emerge from the preceding diagram. First, the "outward" evolution of Software AG itself, from a provider of a data base management system to a provider of total solutions to business problems. And secondly, the extraordinary breadth and growth of our user community—thousands of people working with a single series of tools to accomplish an infinite variety of tasks.

Software AG's principal market has been, and continues to be, the mainframe software market, which is now more than \$10 billion in total annual volume and is still growing at a rate of more than 35% each year. This continuing steady growth contrasts with the far more volatile progress of the microcomputer software business.

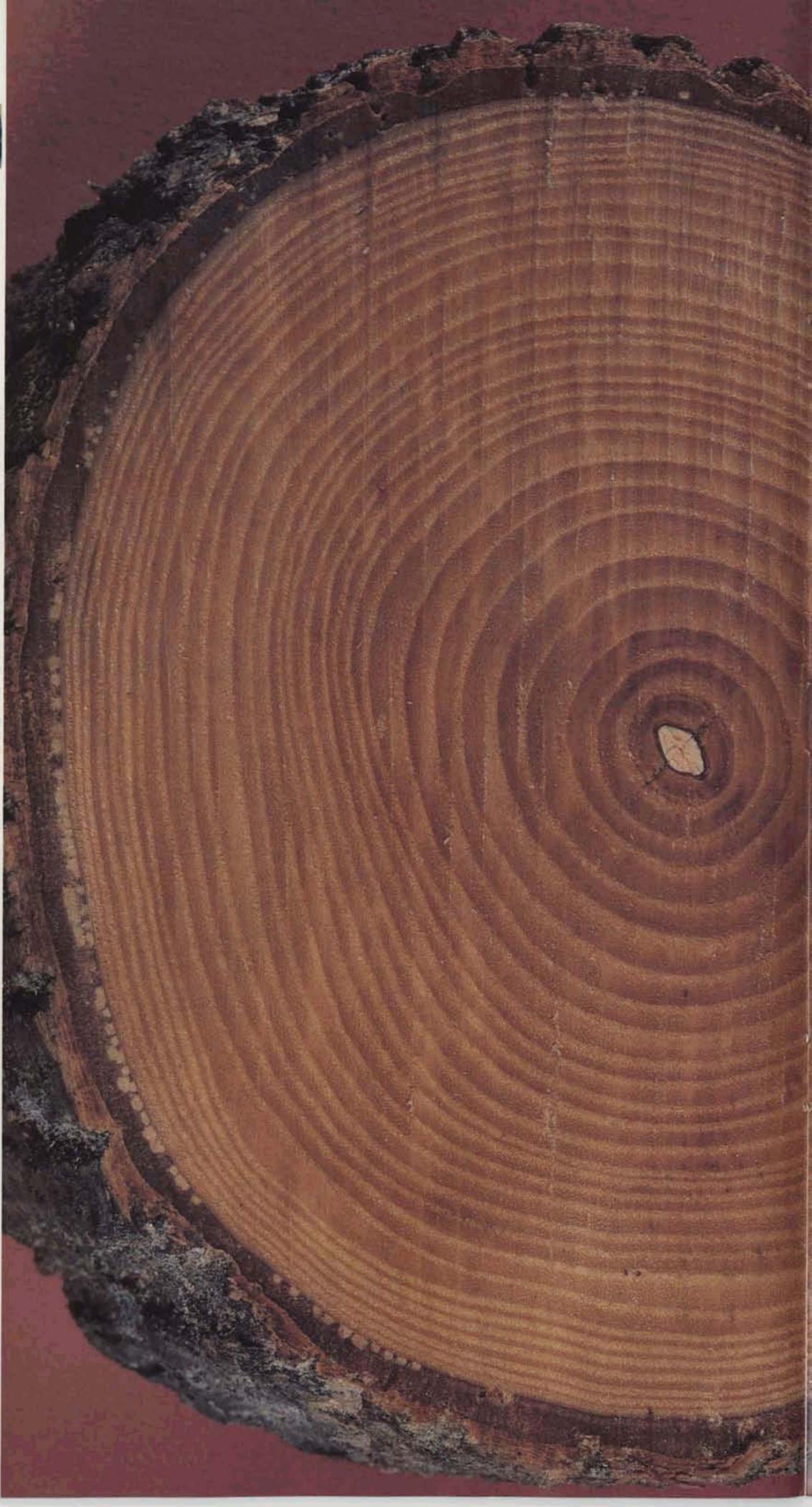
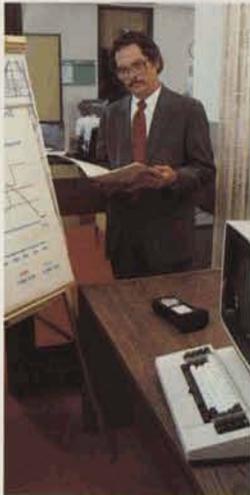


Olathe, Kansas, is a small suburb of Kansas City. Yet some of its municipal planning and management systems are as sophisticated as can be found anywhere.

Through the use of ADABAS, NATURAL, and NATURAL/GRAPHICS, Olathe officials can monitor city services on the "living map" of a video display screen.

For Ron Mason, Olathe's Financial Director, the systems are a powerful resource.

"Our city government faces the same cost squeeze as any other public body," says Mason. "The better we can monitor performance, the more services our citizens are going to be able to get per dollar of municipal expenditure."



Some circles
result from
steady growth.



Yet while the markets for mainframe and microcomputer software differ, they are both increasingly fueled by a single phenomenon: the escalating worldwide demand for personal computers and resulting increase in the number of active end-users.

For thousands of users, one of the chief limitations of PCs has been the difficulty of tying them together into corporate mainframe systems where most organizational data is stored. This difficulty has given rise to a major marketing opportunity for Software AG, with its unsurpassed expertise in mainframe software systems. Our success with NATURAL/CONNECTION testifies to the scope of this opportunity.

But the exploding PC marketplace reflects a still broader change in our user base. In the past, direct users of our products were drawn from the population of MIS managers and data base administrators—about 25,000 in the United States. Today our users are mostly programmers—roughly 400,000 of them. And in the near future (through products ranging from SUPER/NATURAL to a full array of office information systems facilities) we will increasingly be addressing a far larger group—the 30 million-plus managers and other professionals who are *becoming* direct computer users.

This continued "outward" thrust is in line with our long history of

making all our systems as responsive and easy to use as possible. And while it embraces more and more end-users, it also pays important dividends to our traditional customers in the MIS departments—who are now (with our tools) better equipped than ever to satisfy these rising end-user demands.

Not surprisingly in light of this growth, our Users' Group continues to be one of the largest and most active in our industry. Our annual Users' Conference is a unique event which regularly attracts wide press coverage not only as an occasion for previews of upcoming Software AG products but also as a newsworthy event in its own right. More important than an opportunity for the announcement of new products, the Users' Conference is recognized as a valuable forum for exchanges of professional opinion on technical and applications questions.

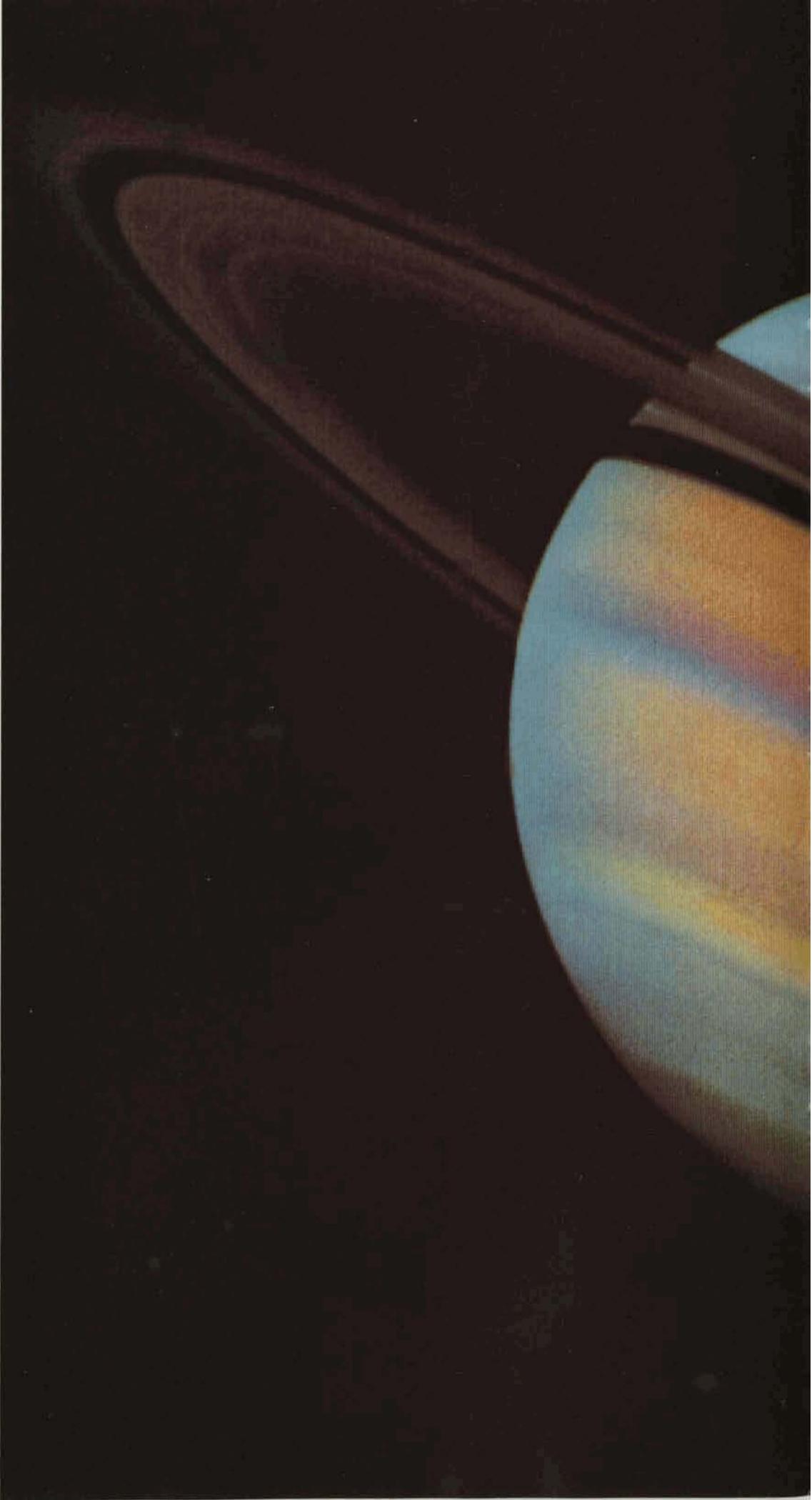
For brief highlights on a few of our users and their applications, see the left-hand pages of this Report.

NATURAL/ CONNECTION: payoff for integration.

An elegant diagram about the integration of products and users is only useful if it corresponds to reality. At Software AG, the experience of the past year supports both the outward thrust of our product



"In the old days, we practically had to force our services on the company's operating divisions," says Glenn Belter, Director of MIS at Guardsman Chemicals, Inc. "Now the tables are reversed. The word is out on what we're doing, and it seems like everyone wants it." What Belter's department has done is to switch from COBOL to NATURAL and NATURAL/VSAM for new systems development. The result has been faster response to user requests, plus systems that give users more of the information they need—in sales, in order tracking, in R&D, and even in the production of the firm's proprietary chemical coatings.



*Some circles
demonstrate
universality.*



strategy and the benefits to be derived from comprehensive product-line integration. An example of that experience is the story of NATURAL/CONNECTION.

NATURAL/CONNECTION, first shown at our Users' Conference in April 1984, is the joint creation of Software AG and its users. User input at our 1983 conference sparked the product's development, and our engineering and marketing personnel from Reston spent much of the following months on detailed interaction with users on a wide range of questions regarding specific product features and functions.

With less product-line integration, the result of such discussions might have been a product plagued by internal inconsistency. But because of the integration of the underlying NATURAL/ADABAS system, NATURAL/CONNECTION's development proceeded quickly and smoothly once consensus was achieved on development objectives. And the result, as unveiled a year later, fulfills the promise of the original concept—extending the power of NATURAL to personal computer users, while enabling them to access data hitherto unavailable except on mainframe systems.

NATURAL/CONNECTION is only one example of our continuing movement from core products to

end-user facilities. Yet it illustrates our ability not only to meet changing end-user needs, but to attract new and larger user constituencies, and from them to build new markets for our entire Company.

Along with this growth, we are also committed to the continued enhancement of our existing products. But as we look to a future in which more and more users will be using computers to solve more and more problems—and with less and less training—the scope of our opportunities for service and growth expands accordingly.



**The Software
the pros use.**

Software AG, through its Software Engine program, is leveraging its products by making them available to major applications software vendors. This program enables the applications vendor to modernize and enhance his products by using our state-of-the-art tools—ADABAS, NATURAL, COM-LETE, and related products. The application vendor benefits by having an expanded product to offer his prospects. Software AG benefits by greater exposure, increased market share, and an additional revenue stream.

Management's Discussion and Analysis

Liquidity and Capital Resources

The Company believes that it has substantial cash and cash equivalents at fiscal year-end to meet its needs. The current ratio is 2.5 to 1. Cash flow is enhanced by regular collection of accounts receivable and lease contracts receivable. Long-term lease contracts receivable of \$4,559,256 at fiscal year-end provide an additional source of future cash flow. The Company also has a line of credit of \$4,000,000 with a commercial bank, \$2,000,000 of which is earmarked to meet working capital needs. There have been no borrowings under this agreement. Uses of cash are currently confined primarily to expenditures for staff, staff facilities, travel, communications, and administration. Some cash payments from distributors are collected by Software AG of Darmstadt, West Germany (SAG) on behalf of the Company and are used by SAG to offset royalties due them.

The Company's commitments consist primarily of costs to maintain operations, such as salaries and leased premises. The Company believes that its capital resources are adequate to meet its commitments.

Results of Operations

Fiscal 1984 Compared to Fiscal 1983

Revenues increased 37% to \$41,127,000. In general, the increase in revenue is attributable to a greater volume of licenses. Maintenance fees increased primarily as a result of increased sales. International revenues increased 51% to \$8,559,000. Interest income on short-term investments contributed \$1,379,000 (3%) to revenues. Revenues from new products was 11% of total revenue.

Salaries, Wages and Commissions increased 1% to \$9,634,000. The slight increase is the result of salary increases and commissions on higher sales offset by a decrease in salary rates caused by turnover.

Royalty fees increased as a percentage of revenue primarily due to expanded international sales revenue, whose royalty rate is higher than other revenues.

Other Operating Expenses decreased 7% to \$13,477,000. Included in fiscal 1983 was a \$1,500,000 legal settlement as discussed elsewhere. After considering the legal settlement, Other Operating Expenses increased 4%, which is attributable to increases in travel, facilities and communications.

Income Before Income Taxes increased to \$10,936,000 compared to \$2,234,000 in fiscal 1983 primarily due to an increase in revenue while operating costs remained stable.

The income tax rate in fiscal 1984 increased to 46.5% compared to a 44.1% rate for fiscal 1983. The increase is principally due to the increase in Income Before Income Taxes and the decrease in foreign and investment tax credits.

Fiscal 1983 Compared to Fiscal 1982

Revenues increased 22% to \$30,044,000. In general, the increase in revenue is attributable to a greater volume of licenses and the effect of price increases during fiscal 1983 amounting to an average of 7%. Maintenance fees increased primarily as a result of an increase in the user base. Royalty expense increased as a result of increased sales. This increase, along with the amortization of the Computer System Software Marketing License, caused royalty fees to remain constant as a percentage of revenues. Interest income on short-term investments contributed \$801,000 (3%) to revenues. In general the revenue increase is due to a greater volume of licenses for the Company's products. International revenues increased 23% to \$5,662,000. Revenues from new products were not significant.

Salaries, Wages and Commissions increased 9% to \$9,545,000, an increase which results from salary increases and commissions on higher sales revenues.

Other Operating Expenses increased 22% to \$14,454,000. The increase was due in part to the legal settlement of a litigation involving ADABAS-M in the amount of \$1,500,000 and the balance attributable to an across-the-board increase for facilities, travel, communications, marketing, and administration.

In general, the relatively lower rate of inflation in fiscal 1983 as compared to fiscal 1982 had less adverse effect on revenues and income before income taxes. Salaries, wages and facilities costs, which are the major cost elements to the Company, and to a lesser extent, the price charged for the Company's products are more likely to reflect the changes in the rate of inflation.

Income Before Income Taxes increased to \$2,234,000 compared to \$1,101,000 in fiscal 1982 primarily due to an increase in revenue.

The income tax rate in fiscal 1983 increased to 44.1% compared to a 12.3% rate for fiscal 1982. The increase is attributable, in part, to a lesser amount of investment tax credit available and the absence of research and development tax credit, and, in part, to an increase in Income Before Income Taxes.

Fiscal 1982 Compared to Fiscal 1981

Revenues increased 31% to \$24,686,000. Product pricing during fiscal 1982 compared to fiscal 1981 was relatively unchanged. Maintenance fees increased in some instances; new products, such as ADABAS-M and the Data Base Machine, were not significant contributors to revenues. Royalty expense increased as a result of increased sales and extension of the royalty agreement to include maintenance contracts. These increases, along with the amortization of the Computer System Software Marketing License, caused royalty fees to remain constant as a percentage of revenues. Interest income on short-term investments contributed \$1,390,000 (5.6%) to revenues. In general, the revenue increase is due to a greater volume of licenses for the Company's products.

Intensive domestic marketing sustained the revenue increase in fiscal 1982 despite a poor economic climate. International revenues remained substantially the same.

Salaries, Wages and Commissions increased 54% to \$8,751,000, an increase which is comparable to the previous fiscal year and again results from staff increases, salary increases and commissions on higher sales revenues. An accrual of \$198,000 for vacation costs was recorded for the first time. (Fiscal 1981 results were also adjusted by a \$120,000 vacation accrual charge.)

Other Operating Expenses increased 81% to \$11,801,000 and were largely an across-the-board increase for facilities, travel, communications, marketing and administration, as well as the result of certain specific charges to income for receivables determined in 1982 to be uncollectible, for expenses relating to the relocation of the Company's research and development facilities, and for reduction of a common stock investment to its net realizable value, in the amounts of \$516,000, \$250,000 and \$113,000, respectively. Professional fees and other expenses associated with being a publicly held company were first encountered this year and increased costs.

In general, the Company's profitability is adversely affected by higher rates of inflation. Revenues derived from license of the Company's products do not fluctuate linearly with inflation, but salaries, wages and facilities costs, which are the major cost elements to the Company, are more likely to parallel changes in the rates of inflation.

Income Before Income Taxes decreased to \$1,101,000 compared to \$4,315,000 in fiscal 1981 because of the comparatively smaller revenue increase compared to higher costs and expenses, particularly Other Operating Expenses.

The income tax rate in fiscal 1982 dropped to 12.3% compared to a 47.7% rate for fiscal 1981 because tax credits of specific amounts offset comparatively lower pre-tax income. The major credits were investment tax credits, credits for foreign taxes withheld, and the newly available research and development tax credit.

Consolidated Statements of Income

Software AG Systems, Inc. and Subsidiaries
For the Three Years Ended May 31, 1984

	1984	1983	1982
Revenues (Notes 2, 3, and 10)	\$41,126,605	\$30,043,891	\$24,685,852
Costs and Expenses			
Salaries, Wages and Commissions	9,633,979	9,545,173	8,750,633
Royalty Fees (Note 5)	7,080,086	3,810,546	3,033,010
Other Operating Expenses (Note 11)	13,476,843	14,454,269	11,801,454
Total Costs and Expenses	30,190,908	27,809,988	23,585,097
Income Before Income Taxes	10,935,697	2,233,903	1,100,755
Income Taxes (Note 6)	5,080,000	985,000	135,000
Net Income	\$ 5,855,697	\$ 1,248,903	\$ 965,755
Net Income Per Common Share	\$.95	\$.20	\$.16
Number of Shares Used to Compute			
Net Income Per Common Share	6,145,465	6,131,741	6,088,910

See accompanying notes to consolidated financial statements.

Consolidated Statements of Stockholders' Equity

Software AG Systems, Inc. and Subsidiaries
For the Three Years Ended May 31, 1984

	Common Stock \$.01 Par Value		Additional Paid-In Capital	Retained Earnings
	Shares	Amount		
Balance June 1, 1981	4,923,363	\$49,234	\$ 820,239	\$4,310,137
Shares Issued Pursuant to Public Offering (Note 12)	1,212,500	12,125	19,464,532	---
Net Income	---	---	---	965,755
Balance May 31, 1982	6,135,863	61,359	20,284,771	5,275,892
Shares Retired	(21,060)	(211)	(17,790)	---
Exercise of Stock Options (Note 13)	1,980	20	14,830	---
Net Income	---	---	---	1,248,903
Balance May 31, 1983	6,116,783	61,168	20,281,811	6,524,795
Shares Retired	(16,740)	(167)	(14,233)	---
Exercise of Stock Options (Note 13)	9,155	91	83,291	---
Net Income	---	---	---	5,855,697
Balance May 31, 1984	6,109,198	\$61,092	\$20,350,869	\$12,380,492

See accompanying notes to consolidated financial statements.

Consolidated Balance Sheets

Software AG Systems, Inc. and Subsidiaries
May 31, 1984 and 1983

	1984	1983
ASSETS		
Current Assets:		
Cash and Short-Term Investments (Note 2)	\$21,195,493	\$ 8,683,872
Accounts Receivable (Note 3)	11,860,030	8,191,207
Current Portion of Lease Contracts Receivable (Note 3)	4,527,250	4,083,032
Income Taxes Receivable	11,033	11,033
Other Current Assets	932,972	447,628
Total Current Assets	38,526,778	21,416,772
Property, Equipment and Leasehold Improvements, less Accumulated Depreciation and Amortization (Note 4)	2,486,092	2,937,033
Computer Software Marketing License, Net of Amortization (Note 5)	4,661,301	5,478,036
Lease Contracts Receivable (Note 3)	4,559,256	5,721,416
Other Assets	921,466	329,480
Total Assets	\$51,154,893	\$35,882,737

	1984	1983
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Short-Term Debt	\$ 41,736	\$ 38,709
Current Portion of Royalties Payable	4,824,850	1,063,664
Accounts Payable	504,569	518,081
Income Taxes Payable	2,910,000	—
Deferred Income Taxes (Note 6)	4,420,221	2,747,552
Capitalized Lease Obligations (Note 9)	79,038	125,550
Other Current Liabilities (Note 8)	2,365,419	1,736,167
Total Current Liabilities	15,145,833	6,229,723
Royalties Payable (Note 5)	715,000	615,000
Capitalized Lease Obligations (Note 9)	154,747	252,262
Deferred Income Taxes (Note 6)	2,300,000	1,810,000
Other Liabilities	46,860	107,978
Total Liabilities	18,362,440	9,014,963
Commitments and Contingencies (Notes 9 and 14)	—	—
Stockholders' Equity:		
Preferred Stock, \$10 Par Value; Authorized 2,500,000 Shares, None Issued	—	—
Common Stock, \$.01 Par Value; Authorized 10,000,000 Shares, Issued 6,109,198 and 6,116,783 shares respectively (Note 12)	61,092	61,168
Junior Common Stock, \$.01 Par Value; Authorized 1,000,000 Shares, None Issued	—	—
Additional Paid-In Capital (Note 12)	20,350,869	20,281,811
Retained Earnings	12,380,492	6,524,795
Stockholders' Equity	32,792,453	26,867,774
Total Liabilities and Stockholders' Equity	\$51,154,893	\$35,882,737

See accompanying notes to consolidated financial statements.

Consolidated Statements of Changes in Financial Position

Software AG Systems, Inc. and Subsidiaries

For the Three Years Ended May 31, 1984

	1984	1983	1982
SOURCES OF WORKING CAPITAL:			
Net Income	\$5,855,697	\$1,248,903	\$ 965,755
Items Which Do Not Use			
Working Capital:			
Depreciation and Amortization of Property, Equipment and Leasehold Improvements	783,520	746,821	578,357
Amortization of Marketing License	816,735	612,483	480,491
Provision for Deferred Income Taxes	490,000	385,000	397,373
Working Capital Provided by Operations	7,945,952	2,993,207	2,421,976
Increase in Royalties Payable	100,000	—	394,094
Increase in Capitalized Lease Obligations	—	—	185,744
Decrease in Lease Contract Receivable	1,162,160	—	—
Proceeds from Public Offering of Stock	—	—	19,476,657
Decrease in Other Assets	68,982	289,859	310,489
	9,277,094	3,283,066	22,788,960
USES OF WORKING CAPITAL:			
Additions to Property, Equipment and Leasehold Improvements, Net of Disposals	301,485	626,500	2,149,704
Increase in Lease Contracts Receivable	—	275,961	1,656,032
Increase in Other Assets	623,080	—	—
Marketing License Obligation	—	249,235	7,305,850
Decrease in Royalties Payable	—	60,000	—
Decrease in Capitalized Lease Obligations	97,515	168,483	—
Decrease in Other Liabilities	61,118	39,191	18,429
Other, Net	—	3,151	—
	1,083,198	1,422,521	11,130,015
Increase in Working Capital	\$ 8,193,896	\$ 1,860,545	\$11,658,945

	1984	1983	1982
SUMMARY OF CHANGES IN WORKING CAPITAL:			
Increase (Decrease) in Current Assets:			
Cash and Short-Term Investments	\$12,511,621	\$ 1,207,862	\$ 7,449,513
Accounts Receivable	3,668,823	1,339,366	1,613,279
Current Portion of Lease Contracts Receivable	444,218	974,422	836,209
Income Taxes Receivable	—	(644,213)	(173,152)
Other Current Assets	485,344	(29,241)	36,860
	17,110,006	2,848,196	9,762,709
Increase (Decrease) in Current Liabilities:			
Short-Term Debt	3,027	5,250	(2,048,679)
Current Portion of Royalties Payable	3,761,186	914,227	(213,697)
Accounts Payable	(13,512)	(787,459)	295,542
Income Taxes Payable	2,910,000	—	—
Deferred Income Taxes	1,672,669	592,384	(92,626)
Capitalized Lease Obligations	(46,512)	(39,433)	12,996
Other Current Liabilities	629,252	302,682	150,228
	8,916,110	987,651	(1,896,236)
Increase in Working Capital	\$ 8,193,896	\$ 1,860,545	\$11,658,945

See accompanying notes to consolidated financial statements.

Software AG Systems, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Principles of Consolidation

The Consolidated Financial Statements include the accounts of the Company, Software AG Systems, Inc., and its wholly owned subsidiaries Software AG of North America, Inc., and Computer Aided Transcriptions, Inc.

(b) Revenue Recognition

The Company sells, or leases under arrangements equivalent to a sale, a license to use its systems software products. Revenue is recognized when the contract is executed. Ten percent of the price is deferred and reflected in revenues when the product is installed. In contracts where the terms indicate a sale upon the satisfaction of other criteria, such as acceptance upon approval, revenue recognition is delayed until those specific terms are met (Note 3).

There are no significant future costs associated with the Company's products that are not a part of the ongoing conduct of its business; these costs, therefore, are charged to operations as incurred. All costs associated with development and improvement of software products are charged to operations as incurred. Accordingly, maintenance fees charged to customers are recorded as revenue when billed.

(c) Cash and Short-Term Investments

The Company invests its excess operating funds in time deposits and U.S. Treasury Notes which are stated at cost which approximates market.

(d) Property, Equipment, and Leasehold Improvements

Property, equipment, and leasehold improvements are carried at cost. Certain items of equipment acquired under capital lease agreements have been capitalized and the related lease obligations are classified as long-term liabilities on the Consolidated Balance Sheet.

Property and equipment, including property covered by capital leases, are depreciated on a straight line basis over their respective estimated useful lives. Leasehold improvements are amortized on a straight line basis over their respective lease terms.

(e) Income Taxes

Deferred income taxes are provided to reflect the tax effect of timing differences between financial and tax reporting. The Company accounts for investment tax credit as a reduction of income tax expense in the year the related assets are placed in service (flow through method).

(f) Net Income Per Common Share

Net income per common share during each period is net income divided by the weighted average number of common shares outstanding and common share equivalents resulting from dilutive stock options. Primary and fully diluted earnings per share are essentially the same.

2. CASH AND SHORT-TERM INVESTMENTS

Cash and short-term investments at May 31 are as follows:

	1984	1983
Cash	\$ 631,602	\$1,020,872
Time Deposits	14,579,000	7,163,000
U.S. Treasury Notes	5,984,891	—
Marketable Securities	—	500,000
	\$21,195,493	\$ 8,683,872

Interest and dividends from short-term investments for the years ended May 31, 1984, 1983 and 1982 was \$1,379,000, \$801,000 and \$1,390,000, respectively.

3. ACCOUNTS RECEIVABLE AND LEASE CONTRACTS RECEIVABLE

The Company includes in Accounts Receivable amounts due from the outright sale of rights to its products and for related supporting technical services. The Company also recognizes revenue upon entering into sales-type leases for the license of its products for periods of up to five years.

At May 31, 1984 and 1983 Accounts Receivable and Lease Contracts Receivables are net of \$1,135,747 and \$660,000, respectively, for allowance for specific accounts not considered to be collectible.

The receivables from sales-type leases as of May 31 include the following components:

	1984	1983
Minimum Lease Payments Receivable	\$12,414,831	\$13,786,893
Less: Unearned Interest Income	3,328,325	3,982,445
Lease Contracts Receivable	9,086,506	9,804,448
Less: Current Portion	4,527,250	4,083,032
Lease Contracts Receivable—Long Term	\$ 4,559,256	\$ 5,721,416

Future minimum amounts receivable from contracts under sales-type leases for each of the next five years:

1985	\$ 5,868,605
1986	3,377,011
1987	1,852,330
1988	903,302
1989	413,583
TOTAL	<u>\$12,414,831</u>

Unearned interest income represents the interest factor implicit in the lease payments. Interest income earned on lease contracts receivable for the years ended May 31, 1984, 1983, and 1982 was \$1,488,100 and \$1,354,337, \$1,192,775 respectively.

4. PROPERTY, EQUIPMENT AND LEASEHOLD IMPROVEMENTS

A summary of property, equipment and leasehold improvements at May 31, follows:

	1984	1983	Estimated Life (Years)
Office Furniture, Fixtures and Equipment	\$2,872,377	\$2,892,856	5-10
Leasehold Improvements	987,594	900,059	2-5
Transportation Equipment	20,390	19,710	3-5
Capitalized Equipment Leases	741,156	833,478	2-5
	4,621,517	4,646,103	
Less: Accumulated Depreciation and Amortization	2,135,425	1,709,070	
Net Property, Equipment and Leasehold Improvements	\$2,486,092	\$2,937,033	

5. COMPUTER SYSTEMS SOFTWARE MARKETING LICENSE

In January 1981, the Company renegotiated its license with Software AG of Darmstadt, West Germany (SAG) for the ADABAS system, its principal product, and acquired a fifteen-year exclusive right to market ADABAS together with all related improvements developed by the Company, SAG or any licensee, in North, Central and South America, Africa, the Middle East, Far East and Australia. The agreement also includes an option to continue the right beyond the fifteen-year period. The total consideration for these rights was \$7,929,765 consisting of cash and common stock of the Company. The amount was reduced by \$894,442 which represents the effect of the reduction in royalty expense applicable to the Lease Contracts Receivable at May 31, 1980. The net amount of \$7,035,343 is being amortized on a basis related to revenues which management estimates will amortize the cost over approximately seven years.

Amortization expense for the years ended May 31, 1984, 1983, and 1982 was \$816,735, \$612,483, and \$480,491 respectively.

The agreements provide that the Company will pay SAG royalties ranging from 5% of the standard user's fee for licenses granted in North America to 50% of the fees received for licenses or maintenance for users elsewhere. The agreement also provides that SAG will pay the Company royalties ranging from 15% of revenues received by SAG for maintenance and support services to 25% to 50% of the fees received for products of the Company licensed by SAG.

6. INCOME TAXES

The provisions for taxes on income consist of the following:

Year Ended May 31,	1984	1983	1982
Federal:			
Current	\$2,390,000	\$ —	\$ —
Deferred	2,020,000	835,000	50,000
	4,410,000	835,000	50,000
State:			
Current	520,000	—	—
Deferred	150,000	150,000	85,000
	670,000	150,000	85,000
	\$5,080,000	\$985,000	\$135,000

The difference between the effective income tax rate and that computed by applying the statutory federal income tax rate is summarized as follows:

Year Ended May 31,	1984	1983	1982
Statutory Federal Income Tax Rate	46.0%	46.0%	46.0%
Surtax Exemption	(.2)	(.9)	(1.7)
State Income Taxes (net of federal tax benefit)	3.3	3.7	4.2
Investment Credit	(.1)	(2.1)	(19.3)
Research and Development Credit	—	—	(9.1)
Credit for Foreign Tax Withheld	(2.1)	(4.6)	(12.0)
Officer's Life Insurance	—	.9	3.5
Dividend Income Exclusion	(.5)	—	—
Other	.1	1.1	.7
Effective Rate	46.5%	44.1%	12.3%

Deferred income tax expense resulting from timing differences between taxable and financial statement income is summarized as follows:

Year Ended May 31,	1984	1983	1982
Revenue Recognition (Cash to Accrual)	\$ (674,000)	\$942,000	\$579,300
Depreciation and Amortization	9,000	127,000	114,400
Foreign Taxes Withheld	671,000	(204,000)	(245,300)
Investment Tax Credits	384,000	(46,000)	(213,200)
Research and Development Tax Credits	95,000	—	(100,200)
Jobs Tax Credit	48,000	—	—
Effect of Net Operating Loss Carryforwards for Tax Purposes	1,637,000	166,000	—
	\$2,170,000	\$985,000	\$135,000

In 1984 the Company recognized its remaining net operating loss and tax credit carryforwards for income tax purposes. The amount of the net operating loss carryforward utilized in 1984 was \$3,560,000.

7. RETIREMENT BENEFIT PLAN

The Company has maintained a defined contribution retirement plan for substantially all of its employees since May 31, 1978. Contributions to the Plan are at the discretion of the Board of Directors. There were no contributions made in fiscal 1984, 1983 or 1982.

8. OTHER CURRENT LIABILITIES AND LINE OF CREDIT

Other Current Liabilities at May 31 are as follows:

	1984	1983
Salaries, Wages, Commissions and Related Expenses	\$1,615,532	\$1,152,871
Deferred Revenue (Note 1)	749,887	258,766
Other	—	324,530
	\$2,365,419	\$1,736,167

The Company has a Revolving Line of Credit of \$4,000,000 of which \$2,000,000 is available for general working capital and \$2,000,000 is only available for acquisitions. The Revolving Promissory Note will bear interest at the bank's prime rate. As of May 31, 1984, no amounts had been drawn against this line of credit.

9. LEASES

The future minimum lease payments under capital leases included in property, equipment, and leasehold improvements at May 31, 1984 are as follows:

Year	Amount
1985	\$148,185
1986	181,261
1987	49,346
1988	—
1989	—
Total Minimum Lease Payments	378,792
Less: Amount Representing Interest	145,007
Present Value of Minimum Lease Payments	\$233,785

Depreciation of these assets is included in Other Operating Expenses.

The future minimum rental payments required under operating leases at May 31, 1984 are as follows:

Year	Equipment	Facility	Total
1985	\$202,926	\$1,606,591	\$1,809,517
1986	78,743	1,535,151	1,613,894
1987	40,480	1,439,873	1,480,353
1988	4,597	871,813	876,410
1989	367	794,855	795,222
Thereafter	—	7,224	7,224
	\$327,113	\$6,255,507	\$6,582,620

10. BUSINESS SEGMENT AND INTERNATIONAL REVENUES

The Company is engaged in one industry segment, the development and marketing of systems software, both domestically and worldwide. Sales to international customers are priced in U.S. dollars and are comparable to those charged to U.S. customers. Sales to international customers are as follows:

Year Ended May 31.	1984	1983	1982
Geographical Region:			
Far East and Australia	\$3,733,780	\$2,821,816	\$2,246,975
Mexico and South America	403,400	734,797	179,201
Mid-East and South Africa	3,021,567	1,045,858	854,743
Canada and Europe	1,400,004	1,059,273	1,306,166
	\$8,558,751	\$5,661,744	\$4,587,085

Included in accounts receivable and lease contracts receivable are amounts due from international customers at May 31, 1984 and 1983 as follows:

	1984	1983
Far East and Australia	\$2,821,028	\$1,815,803
Mexico and South America	—	241,293
Mid-East and South Africa	2,570,031	1,470,817
Canada and Europe	462,162	875,213
	\$5,853,221	\$4,403,126

11. SUPPLEMENTARY INFORMATION

Amounts charged to Other Operating Expenses include the following:

Year Ended May 31.	1984	1983	1982
Depreciation and Amortization of Property, Equipment and Leasehold Improvements	\$ 783,520	\$ 746,821	\$ 578,357
Taxes other than Income Taxes:			
Payroll	573,446	509,288	295,451
Foreign	410,573	221,175	245,300
Other	87,299	66,748	11,805
Advertising	399,898	458,425	837,566
Rental Expense for Operating Leases	2,210,591	1,883,638	1,153,050

Direct costs for product development during fiscal years 1984, 1983, and 1982 were approximately \$720,000, \$600,000 and \$1,300,000 respectively. These amounts are included in Salaries, Wages, and Commissions and in Other Operating Expenses in the accompanying Consolidated Statements of Income.

12. SALE OF COMMON STOCK TO PUBLIC

In June 1981, the Company made its first sale of common stock to the public, resulting in an increase in shares outstanding from 4,923,363 at May 31, 1981 to 6,135,863. Shareholders' equity was increased with the proceeds of the sale net of expenses in the amount of \$19,476,657. Part of the proceeds of the sale was used to satisfy short-term debt and bank borrowings totaling \$2,000,000 and Computer Systems Software Marketing License Payable to SAG in the amount of \$7,305,850.

13. STOCK OPTIONS—KEY EMPLOYEE INCENTIVE PLAN

The Company has granted common stock options to some of its key employees under the Key Employee Incentive Plan of 1981, which authorizes the granting of awards to key employees in the form of options to purchase shares of the Company's common stock, cash bonuses and awards, and cash or stock performance awards. The Company may grant up to a maximum of 450,000 shares prior to termination of the Plan on April 1, 1991. Stock options granted may receive tax treatment as "incentive stock options" under the Economic Tax Recovery Act of 1981. The option price shall be the fair market value on the date of grant. Shares are exercisable ratably over a five-year period.

The Plan provides, at the discretion of the Compensation Committee, that a participant may, either at the time of grant or at the time of exercise of a stock option, receive stock or a cash payment in an amount equal to the difference between the option price and the fair market value at the time of surrender of the shares. Accordingly, payment may be made in cash, in shares, or a combination of both.

The following schedule summarizes the changes in stock options outstanding for the three fiscal years ended May 31, 1984.

	1984	1983	1982
Outstanding, beginning of year	113,309	74,041	45,550
Granted (at an exercise price of \$9.68 to \$12.19 in 1984, \$7.69 to \$9.94 in 1983, and \$9.31 to \$13.00 in 1982)	192,400	77,603	35,741
Exercised (at prices of \$7.50, \$8.44 and \$9.31 in 1984 and at \$7.50 in 1983)	(9,155)	(1,980)	—
Expired or cancelled	(32,969)	(36,355)	(7,250)
Outstanding, end of year	263,585	113,309	74,041
Exercisable, end of year	61,194	19,640	8,660
Available for grant, end of year	186,415	336,691	375,959

14. LITIGATION

In February, 1983, the Company reached an agreement with Mini-Technology, Inc. in settlement of a lawsuit filed in 1981 against the Company, certain of its directors and Software AG of Darmstadt, West Germany. The terms of the settlement required a payment of \$1,500,000, which was charged to operations. The effect of this settlement on Net Income Per Common Share for the year ended May 31, 1983 was \$.13.

Report of Independent Certified Public Accountants

The Board of Directors
Software AG Systems, Inc.:

We have examined the consolidated balance sheets of Software AG Systems, Inc. and Subsidiaries as of May 31, 1984 and 1983 and the related consolidated statements of income, stockholders' equity, and changes in financial position for each of the years in the three-year period ended May 31, 1984. 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 aforementioned consolidated financial statements present fairly the financial position of Software AG Systems, Inc. and Subsidiaries at May 31, 1984 and 1983 and the results of their operations and the changes in their financial position for each of the years in the three-year period ended May 31, 1984 in conformity with generally accepted accounting principles applied on a consistent basis.

PEAT, MARWICK, MITCHELL & CO.

July 20, 1984
Washington, D.C.

Stock Information

The common stock of Software AG Systems, Inc. has been traded in the over-the-counter market (NASDAQ Symbol: SAGA) since June 9, 1981. Effective June 19, 1984, the Company's common stock commenced reporting on the NASDAQ National Market System. Prior to June 1981, there was no public market for the Company's common stock.

The 1984 Annual Meeting of Stockholders will be held at 10:30 a.m., local time, on October 24, 1984, at the Dulles Marriott Hotel, 331 W. Service Road, Chantilly, VA 22041.

Form 10-K

A copy of the Company's Annual Report of form 10-K for the year ended May 31, 1984, together with financial statements and financial statement schedules as filed with the Securities and Exchange Commission, contain additional information about the Company and is available without charge upon written request. Direct inquiries to Gilbert Markbein, Treasurer and Controller, Software AG Systems, Inc. 11800 Sunrise Valley Drive, Reston, Virginia, 22091. Phone (703) 860-5050.

Transfer Agent and Registrar

Manufacturers Hanover Trust
Company
Box 24935
Church Street Station
New York, New York 10249

Summary of Quarterly Financial Data

(Unaudited)

The following is a summary of selected quarterly financial data for 1984 and 1983:

	Quarter Ended			
	August 31, 1983	November 30, 1983	February 29, 1984	May 31, 1984
1984:				
Total Revenues	\$8,663,495	\$9,905,622	\$10,528,006	\$12,029,482
Net Income	1,117,753	1,292,946	1,662,328	1,782,670
Net Income Per Share	.18	.21	.27	.29
	Quarter Ended			
	August 31, 1982	November 30, 1982	February 28, 1983	May 31, 1983
1983:				
Total Revenues	\$6,382,383	\$7,201,109	\$7,604,489	\$8,855,910
Net Income (Loss) (a)	148,785	370,498	(253,151)	982,771
Net Income (Loss) Per Share	.02	.06	(.04)	.16

(a) The net loss for the quarter ended February 28, 1983 includes a \$1,500,000 settlement of the litigation with Mini-Technology, Inc. (see Note 14 of Notes to Consolidated Financial Statements). The effect of the settlement on net loss and loss per share was \$810,000 and \$.13, respectively.

Stock Price Range and Dividends

	1984		1983		1982	
	High	Low	High	Low	High	Low
First Quarter	12 $\frac{1}{8}$	9 $\frac{1}{4}$	9	5	25	14 $\frac{1}{4}$
Second Quarter	12 $\frac{7}{8}$	9 $\frac{3}{8}$	15	6 $\frac{3}{4}$	17	10 $\frac{3}{4}$
Third Quarter	13 $\frac{7}{8}$	10 $\frac{1}{4}$	14	9 $\frac{3}{4}$	16	8
Fourth Quarter	14	9 $\frac{3}{4}$	12 $\frac{1}{2}$	7 $\frac{3}{4}$	9 $\frac{3}{4}$	6 $\frac{3}{4}$

The Company has never paid a cash dividend, and it is the present policy of the Company not to do so. The Company believes that the growth and acquisition opportunities in the computer software industry require it to retain its earnings to support future business activity. Payment of future dividends will be dependent upon the earnings and financial condition of the Company and other factors which the Board of Directors may deem appropriate.

Officers and Directors

DIRECTORS

John Norris Maguire
Chairman of the Board
Software AG Systems, Inc.

- □ **Charles B. Branch**
Former Chairman of the Board
and Chief Executive Officer
Dow Chemical Company
- □ **Robert A. Burgin**
Former Chairman of the Board
and Chief Executive Officer
Leaseway Transportation Corporation
- □ **W. H. Conzen**
Former Chairman of the Board
and Chief Executive Officer
Schering-Plough Corporation

Stuart J. Miller
President and Chief Executive Officer
Software AG Systems, Inc.

- **Peter M. Schnell**
President
Software AG
Darmstadt, West Germany

- Audit Committee
- Compensation and Organizational Committee

OFFICERS

Stuart J. Miller
President and Chief Executive Officer

Edward J. Forman
Senior Vice President, Technology
and Advanced Markets

Michael E. Jakes
Senior Vice President, International

Gilbert Markbein
Treasurer and Controller

Charles R. Collins
Secretary
Gibson, Dunn, & Crutcher



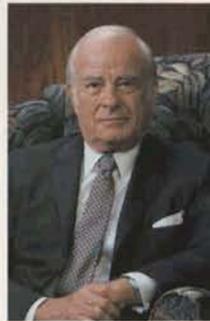
John Norris Maguire



Charles B. Branch



Robert A. Burgin



W. H. Conzen



Stuart J. Miller



Peter M. Schnell

Offices and Distributors

CORPORATE HEADQUARTERS

Software AG of North America, Inc.
11800 Sunrise Valley Drive
Reston, VA 22091
(703) 860-5050

OFFICES

Atlanta

6201 Powers Ferry Road, N.W.
Atlanta, GA 30339
(404) 952-5666

Boston

50 Milk Street
Boston, MA 02109
(617) 423-7292

100 Grand View Road
Braintree, MA 02150

Chicago

Citicorp Plaza
8420 W. Bryn Mawr Avenue
Chicago, IL 60631
(312) 693-0430

Cleveland

24650 Center Ridge Road
Westlake, OH 44145
(216) 892-0700

Dallas

8111 L.B.J. Freeway
Dallas, TX 75251
(214) 437-2022

Denver

300 Union Boulevard
Lakewood, CO 80228
(303) 987-3972

Detroit

400 Renaissance Center
Detroit, MI 48243
(313) 446-6809

Hasbrouck Heights

Heights Plaza
777 Terrace Avenue
Hasbrouck Heights, NJ 07604
(201) 288-8111

Houston

3845 West F.M. 1960
Houston, TX 77068
(713) 444-2651

Kansas City

8900 Indian Creek Parkway
Overland Park, KS 66212
(913) 451-1651

Los Angeles

1 Newport Place
1301 Dove Street
Newport Beach, CA 92660
(714) 851-9905

Minneapolis

One Appletree Square
Bloomington, MN 55420
(612) 854-2298

New York

122 East 42nd Street
New York, NY 10017
(212) 682-2780

Orlando

3421 Dawn Court
Lake Mary, FL 32746
(305) 831-4800

Philadelphia

3 Neshaminy Interplex
Trevose, PA 19047
(215) 245-0122

Pittsburgh

The Landmark Building
1 Station Square
Pittsburgh, PA 15219
(412) 471-4667

San Francisco

444 Castro Street
Mountain View, CA 94041
(415) 965-7970

Seattle

1800 112th Avenue NE
Bellevue, WA 98004
(206) 451-8055

Washington, D.C.

11490 Commerce Park Drive
Reston, VA 22091
(703) 620-0100

White Plains

244 Westchester Avenue
White Plains, NY 10604
(914) 946-1000

DISTRIBUTORS

Argentina

Teleinformatica S.A.
Avenida Corrientes 345
Piso 4
Buenos Aires, Argentina 1043
Phone: (541)34-313-1747
Telex: (390)18791

Australia

S.P.L. (Australia) Pty. Ltd.
PO Box 125
Lane Cove NSW 2066, Australia
Phone: (61)2-427-6888
Telex: (790)26151

Brazil

CONSIST, EDIFICIO CONSIST
Alameda Jau'-1.177
CEP-01420
Sao Paulo, SP, Brazil
Phone: (55)11-289-4455
Telex: (391)1132546

Canada

Software AG of Canada
1425 Bishop
Cambridge, Ontario
Canada N1R6J9
Phone: (519)653-6142
Telex: (069)59451

Israel

SPL System Programming
(Israel) Ltd.
53 Petach Tikva Road
67138 Tel Aviv, Israel
Phone: (972)3-268241
Telex: (922)342459

Japan

Software AG of Far East, Inc.
7-2 Yaesu 2-chome
Chuo-ku, Tokyo 104, Japan
Phone: (81)03-278-0258
Telex: (781)J29349

Mexico

Teleinformatica de Mexico SA
Arenal #40 Col. Chimalistac
Mexico 01070 DF, Mexico
Phone: (905)550-8033
Telex: (383)1772472

Panama

Software Technology, Inc.
Apartado 6-8168
El Dorado, Panama R.P.
Phone: (507)64-3806
Telex: (328)2318

Singapore

Asian Computer Services
154 Clemenceau Avenue
#02-00
Haw Par Centre
Singapore 0923
Phone: (65)336-0011
Telex: (786)34131

South Africa

Systems Programming
(PTY) Limited
PO 2822
364 Kent Avenue
Ferndale Randburg
Republic of South Africa 2125
Phone: (27)(011)789-2740
Telex: (960)430682

Venezuela

A.P.S.
Apartado 61260, 1060A
Chacao, Caracas, Venezuela
Phone: (58)2-329205
Telex: (395)25535

EUROPEAN DISTRIBUTION

Denmark

Software AG (Scandinavia)
Kronprinsensgade 13
DK-1114 Copenhagen-K, Denmark
Phone: 1-122176
Telex: (855)16191

France

Software AG of France
55, Rue D'Amsterdam
F-75008 Paris, France
Phone: (33)01-281-3011
Telex: (842)650083

Italy

Selesta Sistemi S.P.A.
Via Volta, 16
I-20093 Cologno Monzese,
Milan, Italy
Phone: 2-2538912
Telex: 311354

Netherlands

Automations Centre Volmac B. V.
Catharijnesingel 33
NL-3500 GN Utrecht, Netherlands
Phone: (31)30-334421
Telex: (844)70644

Spain

Software AG Espana
Paseo De La Habana 26
Madrid, Spain

United Kingdom

ADABAS Software Limited
Laurie House-22 Colyear Street
GB-Derby, DE1 1LA, England
Phone: 332-372535
Telex: 377995

West Germany

Software AG
Hilpertstrasse 20
D-6100 Darmstadt
West Germany
Phone: (49)06151-84072
Telex: (841)4197104



SOFTWARE AG

Software AG
of North America, Inc.
11800 Sunrise Valley Drive
Reston, VA 22091
(703) 860-5050

