

software ag

FROM THE DESK OF
JOHN N. MAGUIRE

10-9-2004
SAT

Please

see p. 31

The Three Outside
Directors (and Chas. R.

Collins - Lawyer - SEC Expert)

I put together late 1980 -
early 1981 - went public

June 9, 1981

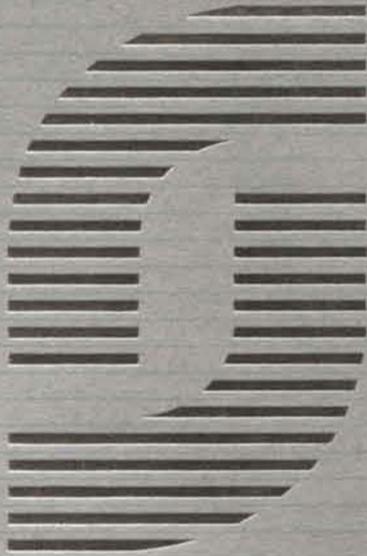
P.T.O.

Boards of mg
competitors (e.g. MSA -
all "inside") paled
by comparison -

John H. Cooney

1986
ANNUAL REPORT

ARE AG
S, INC.



SOFTWARE AG

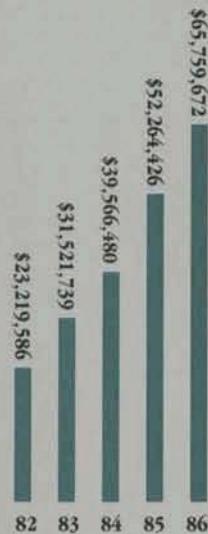
Software AG Systems, Inc., through its unit, Software AG of North America, Inc., develops, markets, and supports an integrated line of advanced system software for use on mainframe computers, departmental systems, and computer networks. This software performs a broad range of functions that make information easier to create, access, manage, and distribute.

In addition to software products, Software AG also provides specialized services, including custom application development and on-site consulting. These products and services are provided to a diverse, worldwide community of users in association with the related but independent Software AG of Darmstadt, West Germany, and other affiliated companies around the world.

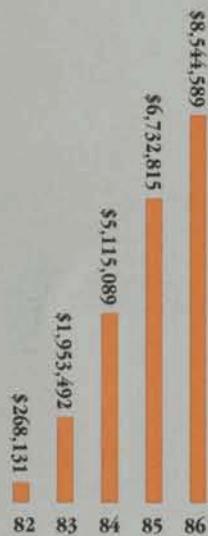
SELECTED FINANCIAL DATA

The following selected financial data are derived from the consolidated financial statements for the years ended May 31, 1982 through 1986. Information for the last three years should be read in conjunction with the consolidated financial statements and related notes included elsewhere herein.

Years Ended May 31	1986	1985	1984	1983	1982
Operating Results:					
Revenues	\$65,759,672	\$52,264,426	\$41,126,605	\$30,043,891	\$24,685,852
Income before Cumulative Effect of Change in Accounting	8,544,589	6,732,815	5,855,697	1,248,903	965,755
Net Income	8,544,589	5,140,153	5,855,697	1,248,903	965,755
Income per Common Share Before Cumulative Effect of Change in Accounting	1.45	1.12	.95	.20	.16
Net Income Per Common Share	1.45	.86	.95	.20	.16
Pro Forma Amounts Assuming the Change in Accounting is Applied Retroactively:					
Revenues	\$65,759,672	\$52,264,426	\$39,566,480	\$31,521,739	\$23,219,586
Net Income	8,544,589	6,732,815	5,115,089	1,953,492	268,131
Net Income per Common Share	1.45	1.12	.83	.32	.05
Financial Position:					
Working Capital	\$32,919,797	\$24,328,840	\$23,380,945	\$15,187,049	\$13,326,504
Total Assets	59,537,066	48,766,551	51,154,893	35,882,737	33,781,243
Long-Term Debt	309,573	475,270	154,747	252,262	420,745
Total Stockholders' Equity	41,842,698	33,091,964	32,792,453	26,867,774	25,622,022



REVENUE



NET INCOME



STOCKHOLDERS'
EQUITY

TO OUR STOCKHOLDERS:

We are pleased to report another year of significant growth for Software AG Systems, Inc. Revenues for the year ended May 31, 1986 totalled \$65.8 million, an increase of 26% over the previous year. Net income was \$8.5 million, representing an increase of 27% from 1985. Earnings per share were \$1.45, up 29% over 1985's \$1.12 per share earnings. The company was able to successfully manage high growth and high profit margins while making proper investments to ensure future growth. Liquidity, as measured by the company's \$25 million in cash and investments, further improved during the year.

Several notable achievements contributed to this strong performance. Chief among them was a 37% increase in our domestic sales, especially satisfying during a year which saw nearly all of our competitors reporting sluggish sales and earnings. Equally satisfying were the results of our first entry into a market composed of thousands of users of Digital Equipment Corporation's VAX super mini-computers. Our sales in this marketplace totalled more than \$1 million for the year.

Yet another contribution to the year's success was made by our network of international distributors, which posted back-to-back, record-breaking quarters in the latter half of the year. The excellent revenue figures being reported from sales of Software AG products around the world con-

firm not only the inherent value and universal acceptance of our product line, but also bespeak our role as the dominant international leader among independent system software vendors.

STRATEGY FOR SUCCESS

While especially proud to report excellent results from another fiscal year, we also recognize that dollar figures and growth rate percentages can only serve as surface indications of success. For an explanation of why our success endures, we look to the foundation of our corporate and product philosophy.

Our strategy from the beginning has been to design and align our products and support services to meet the needs of end users, whether they be experienced data processing professionals, executive decision-makers, or production and clerical personnel. Adherence to this simple tenet in the design of our products and services has allowed us to realize a steady and significant rate of growth, particularly as increasing numbers of non-technical people have come to rely on information management systems. This strategy has propelled us to the forefront of both the technological field in which we develop our products, and the markets in which we offer them.

LEADERSHIP

In keeping with our commitment to meet the changing needs of end users, we have continued to expand our

focus from the single-product company of 1972 to the total information management company of 1986 and beyond. Our leadership role in providing information management solutions to an ever-growing body of users was clearly evidenced in 1986 with the creation of Professional Services and Custom Solutions, two groups which extend our knowledge and technology to a marketplace increasingly in need of such expertise. We have also taken the lead in further extending the use of our products to a wider audience of users via applications, developed by third party vendors, which use our products as their cornerstone.

To further refine our internal structure to meet the demands of the late 1980s and beyond, we also made significant additions to our own leadership team in 1986. Some of our new corporate officers include: E. Linwood Pearce, Executive Vice President for Sales and Marketing; Carlton B. Crenshaw, Vice President of Finance and Administration and Chief Financial Officer; Bruce R. Mancinelli, Vice President for Market Development; and Hilary Reilly, Executive Director of Information Services.

Our entire workforce grew by over 20% during the year, primarily to meet the service and support needs of an increasingly-sophisticated, worldwide user community. Some of our users' sites appear in photographs on the following pages; more than 1200 of our users convened this past May in San Diego, at our 15th International Software AG Users' Conference.

THE FUTURE

As corporations rely more and more on information management systems to ensure their success, we find ourselves uniquely positioned to meet their future needs. Our people, products, and support services are all ideally targeted to address the growing demands for natural, easily accessible information management and decision support systems.

Our task for the future is the same as it has been in the past: to continue to meet the needs of our existing users, while delivering our capabilities to a progressively wider circle of new ones.



John Norris Maguire
Chairman of the Board



Stuart J. Miller
President and Chief Executive Officer



PROGRAMMING BUSINESS SUCCESS

For fifteen years, Software AG has been providing users with advanced information management tools. During that time, the number of information system users has grown geometrically: by 1985, according to *Fortune* magazine, more computers were being sold annually in the United States than automobiles.

With this exploding user population have come changes in the ways people deal with information systems. System software tools that were once the exclusive province of data processing professionals are now being used by people at all organizational levels, often with minimal training. As a result, the tools themselves have changed — and will continue to change, as new needs become apparent.

Software AG has played a leading role in this transformation of system software. Our mainstream products, ADABAS, NATURAL, PREDICT and COM-LETE, have grown in their functionality in ways that are directly related to their users' business needs. And our more recent products include many that have addressed highly specific requirements of non-technical end users, including top managers, administrators, and professionals in numerous disciplines.

Our performance in fiscal 1986 reflects our success at identifying and responding to these evolving needs. Our advances in software technology

have been driven by the desire to provide tangible business benefits to our customers; as our products have extended their reach into more and more end-user areas, those benefits have been felt across an increasingly broad spectrum of corporate activity.

We have been helped in this task by the integration and portability of our product line. By sharing syntax and procedures, our products not only work together more efficiently, but make it easier for people to move from one product to another without retraining. And by making ADABAS and NATURAL available in versions for both the IBM and DEC environments, we have helped users to link previously incompatible multi-vendor systems into truly comprehensive corporate assets.

But while we have worked to maintain and extend our technological edge, we have also strengthened other aspects of our organization that are equally important to users' long-term needs. Specific areas include:

- our professional service capabilities, including on-site consulting and custom application development;
- our international network of affiliated Software AG companies;
- our internal information systems organization; and
- strategic relationships with other companies involved in information systems and services, including management consulting firms, computer services organizations, and software vendors.

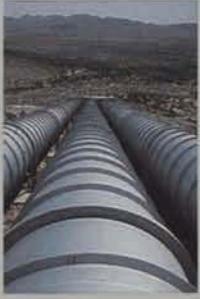


For BWIA International, the national air carrier for Trinidad and Tobago, Software AG's integrated product line has made possible a smooth transition from manual recordkeeping to state-of-the-art online systems.

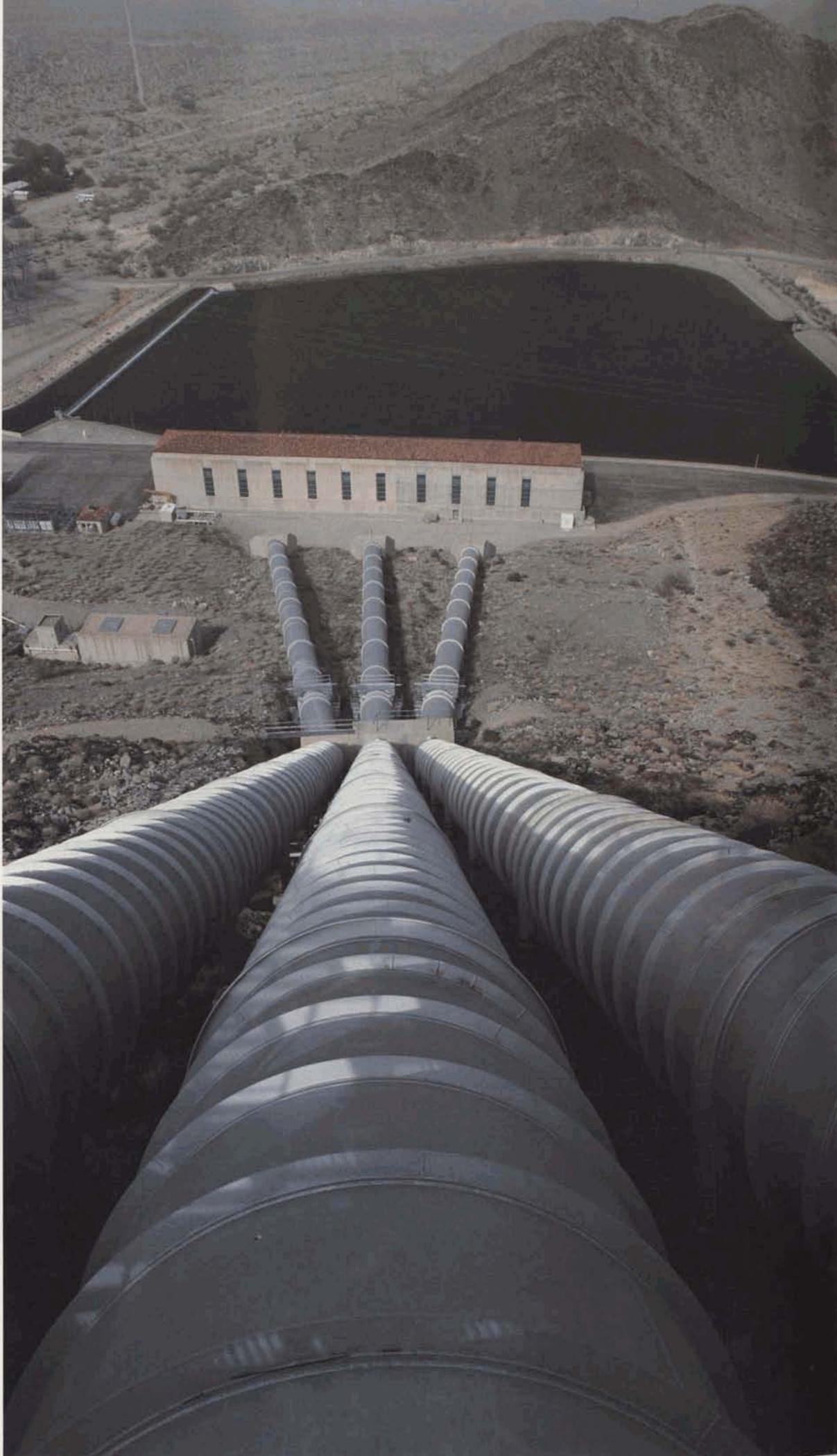


Because all applications share a common syntax, BWIA personnel can move quickly among many different information processing tasks — including critical operations such as parts inventory control for aircraft maintenance operations.





Metropolitan Water District provides nearly half a trillion gallons of water annually to 13 million people in southern California. Pumping this water calls for electricity on a scale that must be planned five years in advance. A hydraulic simulation model of the entire distribution system, created by means of Software AG products, is used by engineers, planners, and system administrators involved in the design and operation of this massive water network.



A FLEXIBLE, RESPONSIVE ORGANIZATION

Our continuing ability to provide superior products and services rests on the caliber of our people and the flexibility of our organization.

Throughout fiscal 1986 we continued to attract superior talent in both technical and administrative areas, while further refining our internal structure to meet the needs of the late 1980s and beyond.

Among the new people who joined us are several outstanding individuals from other organizations in the information processing industry:

- E. Linwood Pearce, our Executive Vice President for Sales and Marketing, has brought the perspective of a veteran of several senior management positions within our own system software industry;
- Carlton B. Crenshaw, our Vice President of Finance and Administration and Chief Financial Officer, has brought us over fifteen years of computer industry and senior financial experience, most recently as Vice President for Strategic Planning at Sperry Information Systems;
- Bruce R. Mancinelli, our Vice President for Market Development, has helped to reinforce our industry-wide technological presence and serves as a focal point for the development of new user constituencies; and

- Hilary Reilly, our Executive Director of Information Services, will use her strong background in information system operations to upgrade the caliber of our own information systems while coordinating the in-house use of Software AG products.

Our organization also grew in its ability to provide customized services to our users, many of whom have software needs they cannot meet either internally or through off-the-shelf application packages.

Software AG custom application services range from hourly consulting to contract development of complete online systems, either at our own facilities or at the installation site. The specialized senior programming talent available from Software AG can often yield highly economical solutions within a short time; and for new customers facing a "learning curve," this time difference can be vital. We also provide telephone support on a continuing basis through a toll-free hotline twenty-four hours a day, 365 days a year.

Even in our more conventional product development activities, we have improved our organization's responsiveness and flexibility. NATURAL/ELITE, our new computer-aided instruction system, typifies this change: the product was initially developed at Software AG Canada,

underwent minor modifications to encompass market variables in the United States and elsewhere, and now fits seamlessly into our integrated worldwide product offering. Similarly, the research and development activities for the entire ADABAS and NATURAL product lines benefit from the extensive R&D performed by Software AG of Darmstadt, West Germany.

Our handling of our internal information systems has also benefited from a flexible rethinking in response to changing needs. We have now created an Information Systems organization which will closely parallel that of many of our customers, who are increasingly steering their own MIS groups into strategic business roles in their organizations. By matching that trend within Software AG, we create a suitable proving ground for our own products.

Many of us were previously using some of our products in the course of our work; now, virtually everyone in the company has online access to everyone else by means of Software AG's electronic mail system, CON-NECT. The results are apparent: not only are we benefiting, as individuals and as an organization, from the productivity tools we sell to others, but we are also better able to anticipate detailed technical needs that may arise in the marketplace.



WORKING TO CREATE TOTAL BUSINESS SOLUTIONS

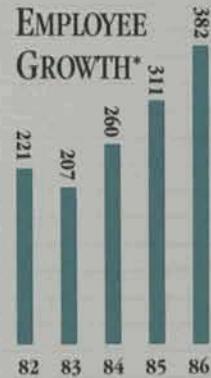
We have come a long way from the one-product company of the early 1970s: we are now a total software solutions company. We recognized from the beginning that the service and support we provide with our products are as important to our customers as the products themselves. Our current efforts in consulting, systems design, project management, and operations are all vital in enabling organizations to maximize the value of their information resources.

Out of this comprehensive approach has come a commitment to establish strategic relationships between Software AG and the providers of other parts of the total business solutions our users need. We already have a strong head start in the area of application software: we currently maintain relationships with over 25 application vendors who use our products as a "Software Engine," increasing the power and flexibility of their standardized packages. With the Software Engine, these vendors have developed systems of a complexity and sophistication that

would take years for an individual user organization to match on its own.

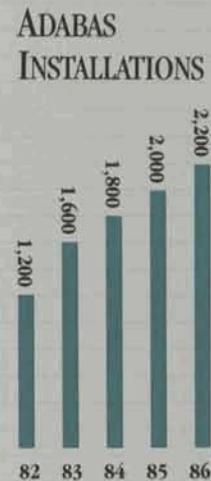
We are now investigating the possibility of additional relationships with suppliers of collateral management systems and services. The larger international accounting firms offer a broad range of information management and business planning services; these firms and their clients are major potential beneficiaries of the productivity enhancement and decision support tools we can provide. Management consulting firms represent a comparable market. And computer services organizations can significantly extend the business value of their offerings with the help of our products.

All these relationships, present and potential, are in keeping with our established business objectives and with the needs and expectations of our existing user base. We have a long and distinguished record of working together with our customers to create practical, reliable business systems: as we expand our links to others in related fields, we also enhance our own ability to deliver total software solutions.

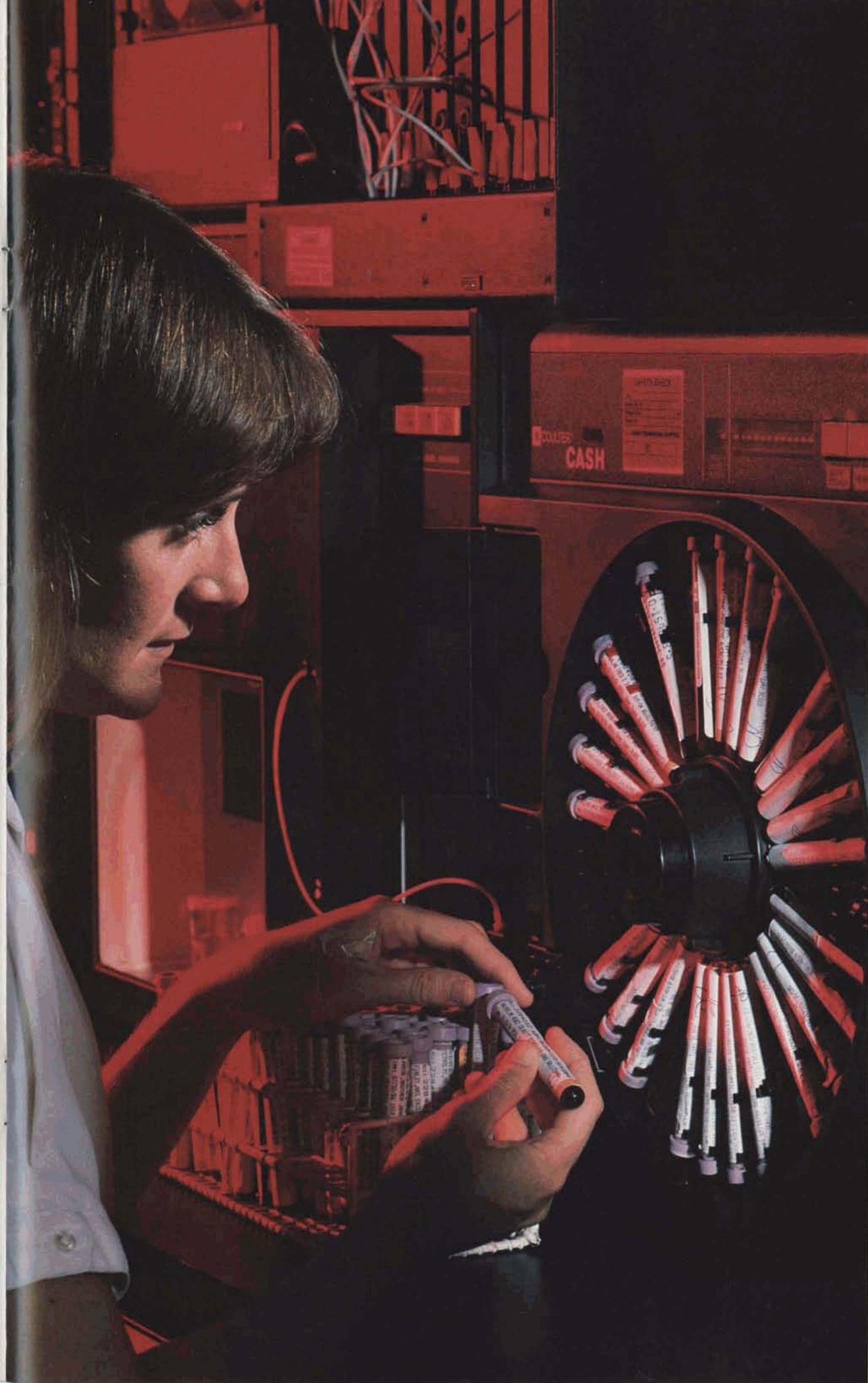


The number of Software AG employees has dramatically increased in the last five years. In fact, the employee growth rate during that time period is nearly 75%.

*Does not include employees of affiliated or related companies.



ADABAS, first released in 1971, is now installed in over 2200 sites worldwide. NATURAL has won nearly the same level of acceptance in less than half that time. More recent products including PREDICT, NATURAL/CONNECTION, and SUPER NATURAL are being installed at an even faster rate.



Louisiana's Ochsner Medical Institutions have achieved national recognition for outstanding clinical care and research. They are also innovative users of Software AG products throughout their business and patient management systems, which include billing, payroll, and accounts receivable; medical records tracking; patient admissions and discharges; hospital food services; and physician appointment scheduling.





Inside a new \$200 million Inland Steel continuous casting facility in East Chicago, Indiana, Digital Equipment Corporation VAX computers control complex production processes. The portability of Software AG solutions has been a key factor in enabling data from these DEC systems to be incorporated into IBM-based business information systems at Inland's Chicago headquarters.



TECHNOLOGY: A STRONG SUIT, A SOUND INVESTMENT

Software AG has never been a "technology for technology's sake" company. Yet from the start, we have built our success on leadership in the application of advanced technology to meet business needs. At the time ADABAS was released, the design philosophy behind it was close to heresy within the industry. Yet it quickly proved itself through its extraordinary suitability to the ways people actually conduct business — and in particular, through its ability to accommodate the changes that are part and parcel of organizational life.

ADABAS's reputation for ease of use has been confirmed repeatedly in industry-wide surveys, and even today is the attribute most often cited by new users as a basis for competitive preference.

ADABAS, NATURAL, and COM-LETE established Software AG's reputation not only for easy-to-use products, but for technological excellence in general. By 1986 over 40,000 programmers at more than 2000 sites had made NATURAL their language of choice — making it the most widely used fourth-generation language in the world. By basing all our subsequent products on

ADABAS structures and NATURAL syntax, we have ensured an integrated information processing environment that simplifies life both for our product engineers and for our users.

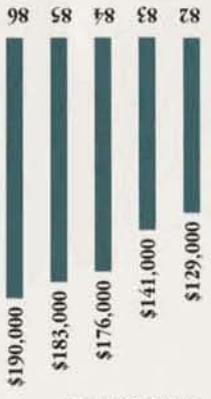
In recent years, our product development has focused on meeting two sets of needs: those of non-technical end users who constitute the fastest-growing segment of today's information universe; and those of MIS personnel who must coordinate and control the proliferation of information resources.

Software AG products now include facilities that make it easy for novice users to obtain information without programming. Among these facilities are menu-driven query systems such as SUPER NATURAL; PC-to-mainframe communications links such as NATURAL/CONNECTION; CONNECT, our office scheduling, electronic mail, text retrieval and document management system; and NATURAL/ELITE, our "self-paced" learning system.

At the same time, our PREDICT data dictionary is continuing to evolve, providing data processing professionals with multiple levels of system control and an unprecedented degree of automation to help in the management of today's increasingly complex processing environments.



REVENUES PER EMPLOYEE



The productivity of Software Ag employees, always among the highest in the software industry, has risen dramatically in the 1980s. Revenues per employee have climbed from slightly below \$129,000 in fiscal 1982 to over \$190,000 in 1986.



As a specialized institution serving a select constituency in the Los Angeles area, City National Bank has to meet exceptional service standards. Software AG products, including ADABAS, NATURAL, PREDICT, COM-LETE, and NATURAL/CONNECTION, have been instrumental in the development of online systems to manage automatic teller machine (ATM) card processing and customer information systems, speed loan approvals, and analyze account float patterns.

LOOKING AHEAD

Our future product development plans are ambitious. We are actively pursuing several advanced technologies that are not yet practical for most users, but show every promise of becoming so. Artificial intelligence systems, application generation systems, and distributed data base systems are just some of the areas where major theoretical problems have already been solved, and our focus is now shifting towards practical applications. We are also continuing to look at core concepts such as data base structures — again, with practical applications uppermost in mind.

In fifteen years of work, Software AG has done a great deal to advance the state of software technology. In return, technology has been good to us. We look forward eagerly to the results of our current and future research and development programs. For a company like ours, with a strong customer orientation and superior service capabilities, there can be no better investment in the future.



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

LIQUIDITY AND CAPITAL RESOURCES

The Company believes that it has substantial cash and cash equivalents at fiscal year-end which are adequate to meet its needs for the current year. The current ratio is 3.2 to 1. Cash flow is enhanced by regular collection of accounts receivable and lease contracts receivable. Long-term lease contracts receivable of \$4,043,000 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 and the balance for financing acquisitions. 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 has no material commitments for capital expenditures as of the end of fiscal 1986.

RESULTS OF OPERATIONS FISCAL 1986 COMPARED TO FISCAL 1985

Revenues increased 26% to \$65,760,000. In general, the increase in revenue is principally attributable to a greater volume of licenses. Maintenance revenues increased by 46% due to the greater volume of licenses and a general increase in the annual maintenance rate for most products from 10% to 12%. Interest income on short-term investments contributed \$2,222,000 (3%) to revenues.

Salaries, Wages and Commissions increased 34% to \$17,020,000. The increase is the result of an increase in net new hires of 71 employees, an increase of 23% over the previous year, salary increases and commissions on higher sales.

Royalty Fees increased 23% to \$11,750,000. The increase is primarily due to increased product revenues.

Other Operating Expenses increased 22% to \$21,065,000. The increase is principally attributable to the expenses associated with the increase in personnel. In addition, the Company accrued a \$560,000 contribution to its employees' Retirement Benefit plan.

Income Before Income Taxes increased to \$15,925,000 compared to \$12,693,000 in fiscal 1985 primarily due to an increase in revenue.

The effective income tax rate in fiscal 1986 decreased to 46.4% from a 47.0% rate for fiscal 1985. The decrease is principally due to the investment of funds in municipal securities where the interest is exempt from both federal and state income taxes.

FISCAL 1985 COMPARED TO FISCAL 1984

Revenues increased 27% to \$52,264,000. In general, the increase in revenue is principally attributable to a greater volume of licenses. Effective for fiscal 1985, the Company changed its accounting for contract revenue. The new policy is to recognize revenue at the time the product is installed as opposed to its former policy which had been to recognize 90% of the revenue at contract execution and the remaining 10% at installation. As a

result of this change in accounting, revenues were \$932,000, less than they would have been if the change had not been made. International revenues increased 39% to \$11,839,000 resulting from a greater volume. Interest income on short-term investments contributed \$2,133,000 (4%) to revenues. Revenues from new products were 5% of total revenue.

Salaries, Wages and Commissions increased 32% to \$12,745,000. The increase is the result of the hiring of 51 employees, an increase of 20% over the previous year, salary increases and commissions on higher sales.

Royalty Fees increased 35% to \$9,569,000. The increase is primarily due to a higher growth rate of international sales revenue, whose royalty rate is higher than other royalty-related revenues.

Other Operating Expenses increased 28% to \$17,257,000. The increase is attributable, in part, to the expenses associated with the increase in personnel and the opening of four sales offices during the year. In addition, the Company accrued a \$330,000 contribution to its employees' Retirement Benefit plan. The Company made no contribution in 1984.

Income Before Income Taxes increased to \$12,693,000 compared to \$10,936,000 in fiscal 1984 primarily due to an increase in revenue.

The effective income tax rate in fiscal 1985 increased to 47.0% compared to a 46.5% rate for fiscal 1984. The increase is principally due to an increase in Income Before Income Taxes while the amount of foreign and investment tax credits available were approximately the same as in 1984.

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 were 11% of total revenues.

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.

**CONSOLIDATED
STATEMENTS OF
INCOME**

**Software AG Systems, Inc.
and Subsidiaries**

**For the Three Years Ended
May 31, 1986**

	1986	1985	1984
Revenues			
Product and License Fees (Note 14)	\$41,799,347	\$33,293,249	\$26,885,498
Customer Services Fees	18,298,122	13,573,868	9,770,688
Interest Earned (Notes 2 and 3)	3,596,425	3,518,828	2,866,928
Other	2,065,778	1,878,481	1,603,491
Total Revenues	65,759,672	52,264,426	41,126,605
Costs and Expenses			
Salaries, Wages and Commissions	17,020,292	12,745,200	9,633,979
Royalty Fees (Note 5)	11,750,119	9,569,329	7,080,086
Other Operating Expenses (Note 11)	21,064,672	17,257,082	13,476,843
Total Costs and Expenses	49,835,083	39,571,611	30,190,908
Income Before Income Taxes and Cumulative Effect of Change in Accounting	15,924,589	12,692,815	10,935,697
Income Taxes (Note 6)	7,380,000	5,960,000	5,080,000
Income before Cumulative Effect of Change in Accounting	8,544,589	6,732,815	5,855,697
Cumulative Effect of Change in Accounting for Recognizing Contract Revenue, net of Deferred Income Taxes of \$1,380,000 (Note 14)	—	(1,592,662)	—
Net Income	\$ 8,544,589	\$ 5,140,153	\$ 5,855,697
Income per Common Share Before Cumulative Effect of Change in Accounting	\$1.45	\$1.12	\$.95
Cumulative Effect of Change in Accounting for Recognizing Contract Revenue, net of Tax (Note 14)	—	(.26)	—
Net Income per Common Share	\$1.45	\$.86	\$.95
Number of Shares Used to Compute Income Per Common Share	5,893,091	6,010,913	6,145,465
Pro Forma Amounts Assuming the Change in Accounting is Applied Retroactively (Note 14):			
Revenues	\$65,759,672	\$52,264,426	\$39,566,480
Net Income	\$ 8,544,589	\$ 6,732,815	\$ 5,115,089
Net Income per Common Share	\$1.45	\$1.12	\$.83

**See accompanying notes
to consolidated financial
statements.**

**CONSOLIDATED
BALANCE
SHEETS**

**Software AG Systems, Inc.
and Subsidiaries**

May 31, 1986 and 1985

	1986	1985
Assets		
Current Assets:		
Cash and Short Term Investments (Note 2)	\$24,752,255	\$17,651,511
Accounts Receivable (Note 3)	17,841,358	13,387,993
Current Portion of Lease Contracts Receivable (Note 3)	3,753,338	3,900,691
Other Current Assets	1,542,641	1,012,962
Total Current Assets	47,889,592	35,953,157
Lease Contracts Receivable (Note 3)	4,042,707	4,421,335
Property, Equipment and Leasehold Improvements, less Accumulated Depreciation and Amortization (Note 4)	4,256,365	3,824,390
Computer Software Marketing License, net of Amortization (Note 5)	2,365,206	3,689,185
Other Assets	983,196	878,484
Total Assets	\$59,537,066	\$48,766,551
Liabilities and Stockholders' Equity		
Current Liabilities:		
Current Portion of Royalties Payable (Note 5)	\$3,716,622	\$2,807,394
Accounts Payable	723,436	1,253,164
Deferred Income Taxes (Note 6)	7,560,000	5,200,000
Capitalized Lease Obligations (Note 9)	205,445	188,453
Other Current Liabilities (Note 8)	2,764,292	2,175,306
Total Current Liabilities	14,969,795	11,624,317
Royalties Payable (Note 5)	675,000	855,000
Capitalized Lease Obligations (Note 9)	309,573	475,270
Deferred Income Taxes (Note 6)	1,740,000	2,720,000
Total Liabilities	17,694,368	15,674,587
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 5,800,305 and 5,777,596 shares respectively (Notes 12 and 13)	58,003	57,776
Junior Common Stock, \$.01 Par Value; Authorized 1,000,000 Shares, None Issued	—	—
Additional Paid-In Capital (Notes 12 and 13)	15,719,461	15,513,543
Retained Earnings	26,065,234	17,520,645
Stockholders' Equity	41,842,698	33,091,964
Total Liabilities and Stockholders' Equity	\$59,537,066	\$48,766,551

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, 1986**

	1986	1985	1984
Sources of Working Capital:			
Income Before Cumulative Effect of Change in Accounting	\$ 8,544,589	\$ 6,732,815	\$ 5,855,697
Items Which Do Not Use Working Capital:			
Depreciation and Amortization	1,258,109	936,868	783,520
Amortization of Marketing License	1,323,979	972,116	816,735
Provision for Deferred Income Taxes	(980,000)	420,000	490,000
Working Capital Provided by Operations Before Cumulative Effect of Change in Accounting	10,146,677	9,061,799	7,945,952
Cumulative Effect of Change in Accounting for Recognizing Contract Revenue	—	(1,592,662)	—
Increase in Royalties Payable	—	140,000	100,000
Increase in Capitalized Lease Obligations	—	320,523	—
Decrease in Lease Contract Receivable	378,628	137,921	1,162,160
Other, Net	206,145	155,351	68,982
Increase in Working Capital	\$ 11,739,450	\$ 8,027,932	\$ 9,277,094
Uses of Working Capital:			
Acquisition of Common Stock	—	4,995,993	—
Additions to Property, Equipment and Leasehold Improvements, Net of Disposals	1,564,295	2,152,314	301,485
Increase in Other Assets	230,501	79,870	623,080
Decrease in Royalties Payable	180,000	—	—
Decrease in Capitalized Lease Obligations	165,697	—	97,515
Decrease in Other Liabilities	—	46,860	61,118
Increase in Working Capital	\$ 2,116,493	\$ 2,275,037	\$ 1,083,198
Summary of Changes in Working Capital:			
Increase (Decrease) in Current Assets:			
Cash and Short Term Investments	\$ 7,100,744	\$ (3,543,982)	\$ 12,511,621
Accounts Receivable	4,453,365	1,527,963	3,668,823
Current Portion of Lease Contracts Receivable	(147,353)	(626,559)	444,218
Other Current Assets	529,679	68,957	485,344
Increase (Decrease) in Current Assets	\$ 11,936,435	\$ (2,573,621)	\$ 17,110,006
Increase (Decrease) in Current Liabilities:			
Current Portion of Royalties Payable	909,228	(2,017,456)	3,761,186
Accounts Payable	(529,728)	748,595	(13,512)
Deferred Income Taxes	2,360,000	779,779	1,672,669
Capitalized Lease Obligations	16,992	109,415	(46,512)
Other Current Liabilities	588,986	(3,141,849)	3,542,279
Increase (Decrease) in Current Liabilities	\$ 3,345,478	\$ (3,521,516)	\$ 8,916,110
Increase in Working Capital	\$ 8,590,957	\$ 947,895	\$ 8,193,896

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, 1986**

	Common Stock \$.01 Par Value		Additional Paid-In Capital	Retained Earnings
	Shares	Amount		
Balance May 31, 1983	6,116,783	\$61,168	\$20,281,811	\$ 6,524,795
Shares Acquired and 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
Shares Acquired and Retired (Note 12)	(349,108)	(3,491)	(4,992,502)	—
Exercise of Stock Options (Note 13)	17,506	175	155,176	—
Net Income	—	—	—	5,140,153
Balance May 31, 1985	5,777,596	\$57,776	\$15,513,543	\$17,520,645
Exercise of Stock Options (Note 13)	22,709	227	205,918	—
Net Income	—	—	—	8,544,589
Balance May 31, 1986	5,800,305	\$58,003	\$15,719,461	\$26,065,234

See accompanying 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., a dormant subsidiary.

(b) Revenue Recognition

The Company sells, or leases under arrangements equivalent to a sale, a license to use its systems software products. The Company's policy is to recognize revenue at the time the product is installed (Note 14).

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.

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

(c) 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 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.

(d) 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).

(e) Income Per Common Share

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.

(f) Reclassifications

Certain reclassifications have been made to 1985 financial statement amounts to conform to 1986 financial statement presentation.

2. CASH AND SHORT TERM INVESTMENTS

At May 31, 1986 and 1985, cash and short term investments included U.S. Treasury Notes, at a cost of \$14,803,000 and \$14,817,410, respectively. U.S. Treasury Notes had an estimated market value of \$14,948,000 and \$15,228,000 at May 31, 1986 and 1985, respectively.

Also included in cash and short term investments at May 31, 1986 were short term municipal notes at a cost of \$11,000,000, which approximated market value.

Interest and dividend income from investments for the years ended May 31, 1986, 1985 and 1984 was \$2,221,804, \$2,133,286 and \$1,379,000, 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 installation of sales-type leases for the license of its products for periods of up to five years.

At May 31, 1986 and 1985, Accounts Receivable and Lease Contracts Receivable were net of \$1,750,594 and \$1,373,695, respectively, for allowance for specific doubtful accounts.

The receivables from sales-type leases at May 31, 1986 and 1985 included the following components:

	1986	1985
Minimum Lease Payments Receivable	\$10,848,394	\$11,579,584
Less: Unearned Interest Income	3,052,349	3,257,558
Lease Contracts Receivable	7,796,045	8,322,026
Less: Current Portion	3,753,338	3,900,691
Lease Contracts Receivable — Long Term	\$ 4,042,707	\$ 4,421,335

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

1987	\$ 4,951,026
1988	3,095,545
1989	1,638,180
1990	799,816
1991	363,827
	<u>\$10,848,394</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, 1986, 1985, and 1984 was \$1,374,619, \$1,385,545, and \$1,488,100 respectively.

4. PROPERTY, EQUIPMENT AND LEASEHOLD IMPROVEMENTS

A summary of property, equipment and leasehold improvements at May 31, 1986 and 1985 follows:

	1986	1985	Estimated Life (Years)
Office Furniture, Fixtures and Equipment	\$5,540,756	\$4,002,554	3-7
Leasehold Improvements	1,287,373	1,063,562	2-5
Transportation Equipment	61,882	61,882	3-5
Capitalized Equipment Leases	899,899	937,838	2-5
	7,589,910	6,065,836	
Less: Accumulated Depreciation and Amortization	3,333,545	2,241,446	
Net Property, Equipment and Leasehold Improvements	\$4,256,365	\$3,824,390	

Depreciation and amortization expense relative to these assets is included in Other Operating Expenses.

5. COMPUTER SOFTWARE MARKETING LICENSE AND ROYALTIES

The Company has a perpetual marketing license with Software AG of Darmstadt, West Germany (SAG), for its principal products and all related improvements developed by the Company, SAG or any licensee, in North, Central and South America, Africa, Israel, Southeast Asia, the Far East, and Australia. The agreement provides that the Company 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 from 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. The consideration for the marketing license of \$7,035,343 is being amortized on a basis related to revenues which management estimates will amortize the cost over approximately seven years. The unamortized amount at May 31, 1986 and 1985 was \$2,365,206 and \$3,689,185, respectively.

Amortization expense for the years ended May 31, 1986, 1985, and 1984 was \$1,323,979, \$1,045,724, and \$816,735 respectively.

6. INCOME TAXES

The provisions for taxes on income consisted of the following:

Year Ended May 31,	1986	1985	1984
Federal:			
Current	\$5,210,000	\$2,900,000	\$2,390,000
Deferred	1,180,000	2,260,000	2,020,000
	\$6,390,000	\$5,160,000	\$4,410,000
State:			
Current	790,000	480,000	520,000
Deferred	200,000	320,000	150,000
	\$990,000	\$800,000	\$670,000
	\$7,380,000	\$5,960,000	\$5,080,000

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,	1986	1985	1984
Statutory Federal Tax Rate	46.0%	46.0%	46.0%
Surtax Exemption	—	—	(.2)
State Income Taxes (net of federal tax benefit)	3.4	3.3	3.3
Investment Tax Credit	(.7)	(.7)	(.1)
Foreign Tax Credit	(2.0)	(1.7)	(2.1)
Dividend Income Exclusion	—	—	(.5)
Municipal Interest Income Exclusion	(.5)	—	—
Other	.2	.1	.1
	46.4%	47.0%	46.5%

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

Year Ended May 31,	1986	1985	1984
Revenue Recognition (Cash to Accrual)	\$1,585,000	\$2,572,000	\$ (674,000)
Depreciation and Amortization	(165,000)	(11,000)	9,000
Foreign Tax Credit	—	16,000	671,000
Investment Tax Credit	—	3,000	384,000
Research and Development Tax Credit	—	—	95,000
Jobs Tax Credit	—	—	48,000
Effect of Net Operating Loss Carryforwards for Tax Purposes	—	—	1,637,000
	\$1,380,000	\$2,580,000	\$2,170,000

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. On September 14, 1984, the plan was amended to meet the requirements of Section 401(k) of the Internal Revenue Code. On June 10, 1985, the Company received a favorable determination from the Internal Revenue Service. Per the amended plan, at the discretion of the Board of Directors, the Company both matches employee contributions and makes an additional employer contribution. For the years ended May 31, 1986 and 1985, the Company contribution was \$677,000 and \$389,000, respectively. There were no contributions made in the year ended May 31, 1984.

8. OTHER CURRENT LIABILITIES AND LINE OF CREDIT

Other Current Liabilities at May 31, 1986 and 1985 were as follows:

	1986	1985
Salaries, Wages, Commissions and Related Expenses	\$2,241,888	\$1,615,491
Deferred Revenue	495,224	384,419
Notes Payable	8,390	35,087
Other	18,790	140,309
	\$2,764,292	\$2,175,306

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 available for acquisitions. The Revolving Promissory Note will bear interest at the bank's prime rate. Certain restrictive covenants need to be maintained in order to make funds available. As of May 31, 1986, no amounts had been drawn against this line of credit.

9. LEASES

The minimum future lease payments for obligations under capital leases at May 31, 1986 are as follows:

Year	Amount
1987	\$277,165
1988	233,700
1989	220,719
1990	
Total Minimum Lease Payments	731,584
Less: Amount Representing Interest	216,546
Present Value of Minimum Lease Payments	\$515,018

The minimum future rental payments required under operating leases at May 31, 1986 are as follows:

Year	Equipment	Facilities	Total
1987	\$55,409	\$2,868,608	\$3,404,017
1988	11,875	2,371,700	2,383,575
1989	10,123	1,900,075	1,910,198
1990 and thereafter	750	1,982,879	1,983,629
	\$58,157	\$9,123,262	\$9,681,419

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. International sales are made through independent distributors. Sales to international customers are priced primarily in U.S. dollars and are comparable to those paid by U.S. customers. Sales to international customers were as follows:

Year Ended May 31, Geographical Region	1986	1985	1984
Far East, Southeast Asia, and Australia	\$ 5,704,293	\$ 5,594,277	\$3,733,780
Central and South America	1,971,816	1,755,946	403,400
Israel and Africa	2,486,261	2,335,126	3,021,567
Canada and Europe	2,297,898	2,153,270	1,400,004
	\$12,460,268	\$11,838,619	\$8,558,751

Included in Accounts Receivable and Lease Contracts Receivable were amounts due from international customers at May 31, 1986 and 1985 as follows:

	1986	1985
Far East, Southeast Asia, and Australia	\$2,941,355	\$4,010,393
Central and South America	592,411	280,044
Israel and Africa	1,925,078	2,379,161
Canada and Europe	965,717	807,571
	\$6,424,561	\$7,477,169

11. SUPPLEMENTARY INFORMATION

Amounts charged to Other Operating Expenses included the following:

Year Ended May 31,	1986	1985	1984
Rents for Operating Leases	3,451,436	2,761,926	2,210,591
Advertising and Promotion	2,596,371	2,224,919	1,065,524
Travel	3,232,299	2,628,970	1,905,656
Employee Benefits	2,678,592	2,151,890	1,208,920
Other	7,847,865	6,552,509	6,302,632
			\$18,447,472

Direct costs for product development during fiscal years 1986, 1985, and 1984 were approximately \$2,000,000, \$1,800,000 and \$720,000, respectively. These amounts were included in Salaries, Wages, and Commissions and in Other Operating Expenses in the accompanying consolidated statements of income. These product development costs do not include significant amounts expended by Software AG of Darmstadt, West Germany, for product research and development.

12. ACQUISITION OF COMMON STOCK

During fiscal 1985, the Company purchased 342,088 shares of its Common Stock at a cost of \$4,971,065 under a stock repurchase program. In addition, 7,020 shares were acquired from a former employee. All acquired shares were subsequently retired.

13. STOCK OPTIONS — KEY EMPLOYEE INCENTIVE PLAN

The Company has granted common stock options 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 that a participant may, at the discretion of the Compensation and Organizational Committee, 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 Company has also issued stock options not part of the Key Employee Incentive Plan to directors and certain officers. Included as outstanding options in the schedule below are 159,410, 89,500, and 87,000 such options at May 31, 1986, 1985 and 1984, respectively.

The following schedule summarizes the changes in stock options outstanding for the three fiscal years ended May 31, 1986.

	1986	1985	1984
Outstanding, end of year			
Granted (at an exercise price of \$14.06 to \$18.44 in 1986, \$13.13 in 1985, and \$9.68 to \$12.19 in 1984)	214,500	97,900	192,400
Exercised (at prices of \$7.50, \$8.44, \$9.68, \$12.19 and \$13.13 in 1986 and at \$7.50, \$8.44, \$10.81 and \$9.31 in 1985 and at \$7.50, \$8.44 and \$9.31 in 1984)	(22,709)	(17,506)	(9,155)
Expired or cancelled	(25,854)	(35,973)	(32,969)
Outstanding, end of year	159,410	89,500	87,000
Exercisable, end of year			
Available for grant, end of year			

14. CHANGE IN ACCOUNTING FOR RECOGNIZING CONTRACT REVENUE

Effective for fiscal 1985, the Company changed its accounting for contract revenue to recognize such revenue when the product is installed as described in Note 1(b). Previously, 90% of the revenue was recognized when the contract was executed, and 10% of the revenue was deferred and reflected in revenues when the product was installed. The Company believes that its adopted accounting is preferable in the circumstances, because it is more conservative and conforms to emerging accounting recommendations.

Pro forma results presented include the change in revenue recognition as well as the related marketing expenses and income tax effect.

**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, 1986 and 1985 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, 1986. 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, 1986 and 1985 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, 1986 in conformity with generally accepted accounting principles consistently applied during the period except for the change, with which we concur, in the accounting for recognizing contract revenues as described in Note 14 to the consolidated financial statements.

PEAT, MARWICK, MITCHELL & CO.

Washington, D.C.
July 23, 1986

**SUMMARY OF
QUARTERLY
FINANCIAL DATA
(UNAUDITED)**

The following is a summary of selected quarterly financial data for the years ended May 31, 1986 and 1985:

	Quarter Ended			
	Aug 31, 1985	Nov 30, 1985	Feb 28, 1986	May 31, 1986
Total Revenues	\$16,086,498	\$16,252,494	\$14,627,397	\$18,727,283
Net Income	2,879,576	2,133,950	1,597,806	1,933,257
Net Income per Share	.49	.36	.27	.33

	Quarter Ended			
	Aug 31, 1984	Nov 30, 1984	Feb 28, 1985	May 31, 1985
Total Revenues	\$12,132,432	\$12,132,419	\$11,491,159	\$14,110,217
Income Before Cumulative Effect of Change in Accounting	2,724,983	1,686,747	1,331,014	990,071
Net Income	1,132,321	1,686,747	1,331,014	990,071
Income per Share Before Cumulative Effect of Change in Accounting	.44	.28	.23	.17
Net Income per Share	.18	.28	.23	.17

FORM 10-K

A copy of the Company's Annual Report on Form 10-K for the year ended May 31, 1986, together with financial statements and financial statement schedule as filed with the Securities and Exchange Commission, contains additional information about the Company. A copy of the Company's Annual Report and Form 10-K may be obtained without charge by sending a written request to Gilbert Markbein, Vice President 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

**STOCK
PRICE RANGE
AND
DIVIDENDS**

On June 19, 1984 the Company began reporting on the National Market System. Stock quotations on the National Market System are on a trade basis. Prior to that date, stock prices were quoted on a bid basis.

The high and low closing prices for the Common Stock for the periods indicated, as reported by NASDAQ, were as follows:

Period	Stock Prices	
	High	Low Bid
Year ended May 31, 1985:		
First Quarter	14 ³ / ₄	9 ¹ / ₄
Second Quarter	15 ⁵ / ₈	12 ¹ / ₄
Third Quarter	21 ⁷ / ₈	13 ³ / ₈
Fourth Quarter	19 ⁵ / ₈	12 ¹ / ₈
Year ended May 31, 1986:		Low Trade
First Quarter	16 ³ / ₄	11 ⁵ / ₈
Second Quarter	16 ³ / ₄	12 ⁷ / ₈
Third Quarter	20	15 ³ / ₄
Fourth Quarter	21 ³ / ₄	14 ¹ / ₂

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. So long as any amount is outstanding under the Company's revolving credit agreement with a commercial bank permitting the borrowing of \$4,000,000, the Company is prohibited from declaring or paying any dividend in cash or assets (other than Common Stock of the Company) which exceeds \$1.25 per share of Common Stock outstanding at the time of such declaration or payment, respectively. The revolving credit agreement will terminate on September 30, 1986 at which time the agreement will be extended to September 30, 1987. No amounts are currently outstanding under the revolving credit agreement.

**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 1986 Annual Meeting of Stockholders will be held at 10:30 a.m., local time, on October 23, 1986 at the Madison Hotel, 15th and M Streets, Washington, D.C. 20005.

OFFICERS AND DIRECTORS

DIRECTORS

John Norris Maguire

Chairman of the Board
Software AG Systems, Inc.

Stuart J. Miller

President and Chief Executive Officer
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

■ **Peter M. Schnell**

President
Software AG
Darmstadt, West Germany

■ Audit Committee

■ Compensation and Organizational Committee

OFFICERS

John Norris Maguire

Chairman of the Board

Stuart J. Miller

President and Chief Executive Officer

E. Linwood Pearce

Executive Vice President,
Sales and Marketing

Carlton B. Crenshaw

Vice President and
Chief Financial Officer

Edward J. Forman

Senior Vice President, Technology
and Advanced Markets

Michael E. Jakes

Senior Vice President, International

Gilbert Markbein

Vice President and Controller

Charles R. Collins

Secretary
Partner
Gibson, Dunn, & Crutcher, Attorneys

OFFICES

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

U.S. SALES

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

Boston
100 Grandview Road
Braintree, MA 02184
phone: (617) 848-5057

Charlotte
9101 Southern Pines Boulevard
Suite 200
Charlotte, NC 28210
phone: (704) 527-7955

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

Cleveland
25000 Great Northern
Corporate Center
Cleveland, OH 44070
phone: (216) 734-1000

Dallas
5005 L.B.J. Freeway
Dallas, TX 75244
phone: (214) 437-2022

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

Detroit
26677 West 12 Mile Road
Suite 108
Southfield, MI 48034
phone: (313) 354-2466

Fort Lee
400 Kelby Street
Fort Lee, NJ 07024
phone: (201) 461-6611

Houston
515 West Greens Road
Houston, TX 77067
phone: (713) 444-2651

Kansas City
8900 Indian Creek Parkway
Overland Park, KS 66212
phone: (913) 451-1651

Los Angeles
18300 Von Karman Avenue
Irvine, CA 92715
phone: (714) 851-9905

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

New York
400 Kelby Street
Fort Lee, NJ 07024
phone: (201) 461-6611

Orlando
405 Douglas Avenue
Altamonte Springs, FL 32714
phone: (305) 774-2566

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

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

St. Louis
231 South Bemiston
Clayton, MO 63105
phone: (314) 725-0419

San Francisco
444 Castro Street
Mountain View, CA 94041
phone: (415) 965-7970

Seattle
10900 N.E. 8th Street
Bellevue, WA 98004
phone: (206) 451-8055

Washington, D.C.
11490 Commerce Park Drive
Reston, VA 22091
phone: (703) 620-0100

North America
Software AG of North America, Inc.,
11800 Sunrise Valley Drive,
Reston, VA 22091, U.S.A.,
phone: (703) 860-5050, telex: 275301.

Europe
Software AG,
Postfach 130123, Dehmelstrasse 3, D-6100,
Darmstadt-Eberstadt, West Germany,
phone: 06151-5040, telex: 4197104.

INTERNATIONAL SALES

Argentina
Teleinformatica S.A., Avenida Corrientes
345, Buenos Aires, Argentina 1043,
phone: 01-313-1747, telex: 24816.

Australia
SPL (Australasia) Pty. Limited, Level 7,
The Gordon Centre, 802 Pacific Highway,
Gordon, NSW 2072, Australia,
phone: 02-498-8555, telex: 26151.
Branch offices: Canberra, Melbourne,
Perth, Brisbane.

Brazil
Consist Edificio Consist, Alameda Jau -
1177, CEP-01420, Sao Paulo SP, Brazil,
phone: 011-2835111, telex: 1132546.
Branch offices: Rio de Janeiro, Brasilia.

Canada
Software AG of Canada, 151 Savage Drive,
Cambridge, Ontario N1R 5Y2, Canada,
phone: 519-622-0889, telex: 6959451.
Branch offices: Calgary, Edmonton,
Montreal, Ottawa, Regina, Toronto.

Hong Kong
SPL Systems (Far East) Ltd.,
1108 New World Tower,
18 Queens Road, Central,
Hong Kong,
phone: 5-8100911, telex: 80191.

Israel
SPL Systems Programming (Israel) Ltd.,
53 Petach Tikva Road, 67138 Tel Aviv,
Israel,
phone: 03-268241, telex: 342459.
Branch offices: Ramat Eshkol, Jerusalem.

Japan
Software AG of Far East, 7-2 Yaesu
2-Chrome, Chuo-ku, Tokyo 104, Japan,
phone: 03-278-0258, telex: 29349.
Branch offices: Osaka, Nagoya.

Mexico
Teleinformatica de Mexico S.A.,
Arenal No. 40 Col. Chimalistac, Mexico
01070 df, Mexico,
phone: 05-550-8033, telex: 1761405.

New Zealand
System Programming (NZ) Ltd., 7th
Floor, Dalmuir House, 114 The Terrace,
Wellington, New Zealand,
phone: 04-720967.
Branch office: Auckland.

Panama
Software Technology, Inc., P.O. Box
6-8168, El Dorado, Republic of Panama,
phone: 27-4930, telex: 3059.

Singapore
SPL Systems S.E.A. Pte. Ltd., No. 28/11
International Plaza Building, 10 Anson
Road, Singapore 0207,
phone: 225-0607 or 0608, telex: 42135.

South Africa
Systems Programming (PTY) Ltd., 364
Kent Avenue, Ferndale, Randburg 2194,
Republic of South Africa,
phone: 011-789-2740, telex: 430682.
Branch offices: Cape Town, Durban,
Pretoria.

Venezuela
A.P.S. C.A., Centro Comercial Bello
Campo, Local 39, Mezzanina, Apartado
Postal 61260, Chacao, Caracas,
Venezuela,
phone: 02-329205, telex: 27433.

Software AG
Dehmelstrasse 3, D-6100,
Darmstadt-Eberstadt,
West Germany,
phone: 06151-5040
telex: 4197104

EUROPEAN SALES

Austria
EDV Software Aktiengesellschaft,
Mariahilferstrasse 41-43, A-1060
Vienna, Austria,
phone: 0222-5875628-0, telex: 112930.

Belgium
Software AG Belgium S.A., Avenue
Louise 350, B-1050, Brussels, Belgium,
phone: 02-647-6480, telex: 23339.

Denmark
A/S Nordisk Software AG, Naverland 3,
DK-2600 Glostrup, Denmark,
phone: 02-968644, telex: 33842.

Finland
OY Software AG Finland, Lakkiseparankuja
2, SF-02600 Espoo, Finland,
phone: 0-513733, telex: 123951.

France
Software AG France S.A.R.L., 7, Rue de
Chartres, F-92200 Neuilly Sur
Seine, France,
phone: 01-47476061, telex: 612447.
Branch office: Lyons.

Germany
Software AG, Postfach 130123,
Dehmelstrasse 3, D-6100,
Darmstadt-Eberstadt, West Germany,
phone: 06151-5040, telex: 4197104.
Branch offices: Dusseldorf, Hamburg,
Munich, Stuttgart.

Italy
Selesta Sistema S.P.A., Via Volta, 16,
I-20093 Cologno Monzese, Milan, Italy,
phone: 02-253-8912, telex: 311354.
Branch office: Rome.

Middle East
Software Middle East GmbH, P.O. Box
59826, Riyadh, Saudi Arabia 11535,
phone: 01-478-6967, telex: 206483.

Netherlands
Software AG Nederland B.V., California
Building, Hogehilweg 15, NL-1101 CB,
Amsterdam Zuidooost,
phone: 020-978611.

Norway
Software AG Norge A/S, Chr.
Michelsensgate 65, N-0474
Oslo 4, Norway,
phone: 02-383660, telex: 72916.

Spain
Software AG España S.A., Manuel
Cortina, 2, E-28010 Madrid, Spain,
phone: 01-442-3599, telex: 48338.
Branch office: Barcelona.

Sweden
Software AG Sverige AB, Rissneleden 136,
S-17248 Sundbyberg, Sweden,
phone: 08-733-0030, telex: 10299.

Switzerland
SAG Software Systems AG, Stauffacherquai
40, CH-8004, Zurich, Switzerland,
phone: 01-2415292.

United Kingdom
Software AG U.K. Limited, Laurie House,
22 Colyear Street, Derby DE1 1HA,
United Kingdom,
phone: 0332-372535, telex: 377995.
Branch office: London.

Local Subsidiaries Shortly In:
Bahrain, Kuwait, Portugal.

MSF 039-0986

© 1986 Software AG Systems, Inc. ADABAS, NATURAL, PREDICT, COM-LETE, CON-NECT, NATURAL/ELITE, NATURAL/CONNECTION, and SUPER NATURAL are trademarks of Software AG Systems, Inc.

IBM is a registered trademark of International Business Machines Corporation. DEC and VAX are registered trademarks of the Digital Equipment Corporation.



11800 Sunrise Valley Drive · Reston, Virginia 22091 · (703) 860-5050