

RELATIONAL TECHNOLOGY, INC.

---

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

Coopers  
& Lybrand

Certified Public Accountants

To the Stockholders of  
Relational Technology, Inc.:

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

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

*Coopers & Lybrand*

San Francisco, California  
August 17, 1984



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

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

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

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

---

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

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



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

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

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

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

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

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



RELATIONAL TECHNOLOGY, INC.  
NOTES TO FINANCIAL STATEMENTS

---

1. Summary of Significant Accounting Policies:

Revenue Recognition:

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

Software Development Costs:

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

Equipment:

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

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

Organization Costs:

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

Continued

RELATIONAL TECHNOLOGY, INC.  
NOTES TO FINANCIAL STATEMENTS, Continued

---

1. Summary of Significant Accounting Policies, continued:

Tax Credits:

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

Overhead Costs:

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

Reclassifications:

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

2. Transactions with Related Parties:

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

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

3. Long-Term Receivables:

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

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

Continued



RELATIONAL TECHNOLOGY, INC.  
NOTES TO FINANCIAL STATEMENTS, Continued

---

4. Long-Term Debt:

The company purchased certain equipment under installment notes at effective interest rates that range from 14% to 21%. Principal payments on these notes are as follows:

|      |                 |
|------|-----------------|
| 1985 | \$12,878        |
| 1986 | 14,980          |
| 1987 | 14,352          |
| 1988 | 15,871          |
| 1989 | <u>7,295</u>    |
|      | <u>\$65,376</u> |

5. Notes Payable to Bank:

Notes payable to bank consist of borrowings against a \$750,000 line of credit with Bank of America dated February 1984. Interest is payable monthly at 1% over the bank's prime lending rate. The line expires on October 1, 1984. The company also has an unused line of credit with Bank of America of \$1,000,000 dated February 1984. Interest is payable monthly at 2% over the bank's prime lending rate. The line expires on December 20, 1984. Both lines of credit are collateralized by the company's accounts receivable, inventory and equipment. The line of credit requires the company, among other things, to maintain current assets equal to at least 1.4 times current liabilities, working capital not less than \$750,000, and net worth (as defined) of at least \$1,800,000.

6. Income Taxes:

The provision for income taxes for the years ended June 30, 1984 and 1983 consists of the following:

|                                    | <u>1984</u>     | <u>1983</u>     |
|------------------------------------|-----------------|-----------------|
| Charge equivalent to federal taxes | -               | \$69,394        |
| State:                             |                 |                 |
| Current                            | \$65,336        | 11,434          |
| Deferred                           | <u>8,298</u>    | <u>14,750</u>   |
|                                    | <u>\$73,634</u> | <u>\$95,578</u> |

Continued

RELATIONAL TECHNOLOGY, INC.  
NOTES TO FINANCIAL STATEMENTS, Continued

6. Income Taxes, continued:

A reconciliation of the effective tax rate to the statutory rate of 46% is as follows:

|   | 1984             |                                   | 1983             |                                   |
|---|------------------|-----------------------------------|------------------|-----------------------------------|
|   | <u>Amount</u>    | <u>% of<br/>Pretax<br/>Income</u> | <u>Amount</u>    | <u>% of<br/>Pretax<br/>Income</u> |
| Tax provision at statutory rate                       | \$ 333,507       | 46.0%                             | \$124,505        | 46.0%                             |
| State income taxes, net of federal income tax benefit | 39,780           | 5.5                               | 14,231           | 5.3                               |
| Surtax exemption                                      | (20,250)         | (2.8)                             | (19,750)         | (7.3)                             |
| Investment tax credit                                 | (289,983)        | (40.0)                            | (23,408)         | (8.7)                             |
| Other   | 10,580           | 1.5                               |                  |                                   |
|   | <u>\$ 73,634</u> | <u>10.2%</u>                      | <u>\$ 95,578</u> | <u>35.3%</u>                      |

The company had carryforward amounts available to offset future federal taxable income and tax liabilities at June 30, 1984 as follows:

|   | <u>For Financial<br/>Reporting<br/>Purposes</u> | <u>For<br/>Income Tax<br/>Purposes</u> |
|---|---|--|
| Investment tax credit carryover                     |   | \$ 92,394                              |
| Credit for increasing research activities carryover | \$315,518                                       | 416,435                                |

The principal items that result in a difference in carryovers for financial reporting and income tax purposes are accelerated depreciation, state income taxes, and installment sales. The carryovers expire over a four-year period ending June 30, 1999.

7. Stockholders' Equity:

On October 20, 1982, the Board of Directors declared a five-for-one split of the company's common stock. The number of authorized shares of common stock was increased from 5,000,000 to 25,000,000 and the conversion rate of the outstanding shares of Series A and Series B preferred stock was increased from one for one to five for one. All common stock issued during the year ended June 30, 1983 was after the stock split.

Continued



RELATIONAL TECHNOLOGY, INC.  
NOTES TO FINANCIAL STATEMENTS, Continued

---

7. Stockholders' Equity, continued:

Convertible preferred stockholders are entitled to the equivalent number of votes per share of common stock issuable upon conversion. Common stockholders are entitled to one vote per share.

At the option of the Board of Directors, the company has the right to redeem the Series A and Series B preferred stock in whole or part, by paying in cash the price of \$1.00 per share for Series A stock and \$5.00 per share for Series B stock. At the option of the Board of Directors, the company can redeem Series C preferred stock in whole or in part at any time after June 30, 1985 at a price between \$4.80 and \$4.00 per share set based on the redemption date. The company is required to issue a redemption notice to all preferred stockholders 60 days prior to the redemption date. Each share of Series A and B preferred stock is convertible into five shares of common stock and each share of Series C preferred stock is convertible into one share of common stock at the option of the stockholder at any time on or prior to the fifth day prior to the redemption date fixed by the redemption notice. In the event of any redemption it must occur pro rata among the holders of Series A, Series B, and Series C preferred stock then outstanding such that the proportion of shares redeemed shall be the same for each series. The company has reserved 3,110,000 shares of common stock for issuance on conversion of preferred stock.

Dividends may not be paid to common stockholders unless a dividend per share equivalent to five times the common dividend has first been paid on Series A and Series B preferred stock and a dividend equal to the amount of the common stock dividend has been paid on Series C preferred stock in that year. Dividends are paid at the approval of the Board of Directors. To the extent that a dividend is declared on the preferred stock, each share of Series A stock and Series B stock shall be paid an amount equal to five times the amount paid for Series C stock. In the event of liquidation, holders of Series A, Series B, and Series C preferred stock are entitled to \$1.00, \$5.00, and \$4.00, respectively, per share in preference to any distribution of any of the assets or surplus funds of the corporation to the holders of the common stock.

The company has reserved 600,000 shares of common stock for an Employee Incentive Stock Option Plan, and 1,300,000 shares of common stock for an Employee Stock Purchase Plan. The option or

Continued



RELATIONAL TECHNOLOGY, INC.  
NOTES TO FINANCIAL STATEMENTS, Continued

---

7. Stockholders' Equity, continued:

purchase price is determined by the Board of Directors but may not be less than the fair market value of the stock at the date the option is granted or purchase offered. During the years ended June 30, 1984 and 1983, 567,000 and 332,710 shares, respectively, of common stock were sold under the Purchase Plan at the fair market value in effect on the dates of the sales.

8. Commitments:

The company leases office space in nine locations, under rental agreements expiring at varying dates between 1984 and 1987. The company has entered into an agreement for additional space, effective January 1985 and expiring February 1990. The minimum annual commitments for rent, exclusive of insurance and property taxes (which are paid by the company) under the lease agreements, for future periods are as follows:

| <u>Year Ending June 30</u> | <u>Amount</u> |
|----------------------------|---------------|
| 1985                       | \$415,158     |
| 1986                       | 240,991       |
| 1987                       | 221,377       |
| 1988                       | 137,592       |
| 1989                       | 137,592       |
| 1990                       | 91,728        |

The rental expense on office space leases for the years ended June 30, 1984 and 1983 aggregated \$337,472 and \$160,755, respectively.



