INGRES 2,000,000 Shares

Relational Technology, Inc.

Common Stock

Of the 2,000,000 shares of Common Stock offered hereby, 1,500,000 shares are being sold by the Company and 500,000 shares are being sold by the Selling Stockholders. See "Principal and Selling Stockholders." The Company will not receive any of the proceeds from the sale of the shares by the Selling Stockholders.

Prior to this offering, there has been no public market for the Common Stock of the Company. For the factors to be considered in determining the initial public offering price, see "Underwriting."

See "Risk Factors" for a discussion of certain factors which should be considered by prospective purchasers of the Common Stock offered hereby.

THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION NOR HAS THE COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

	Initial Public Offering Price	Underwriting Discount(1)	Proceeds to Company(2)	Proceeds to Selling Stockholders(2)
Per Share	$14.00	$0.98	$13.02	$13.02
Total(3)	$28,000,000	$1,960,000	$19,530,000	$6,510,000

(1) The Company and the Selling Stockholders have agreed to indemnify the Underwriters against certain liabilities, including liabilities under the Securities Act of 1933.

(2) Before deducting estimated expenses of $714,920 payable by the Company and $240,806 payable by the Selling Stockholders.

(3) The Company has granted the Underwriters an option for 30 days to purchase up to an additional 300,000 shares at the initial public offering price per share, less the underwriting discount, solely to cover over-allotments. If such option is exercised in full, the total initial public offering price, underwriting discount and proceeds to Company will be $32,200,000, $2,254,000, and $23,436,000, respectively. See "Underwriting."

The shares are offered severally by the Underwriters, as specified herein, subject to receipt and acceptance by them and subject to their right to reject any order in whole or in part. It is expected that certificates for the shares will be ready for delivery at the offices of Goldman, Sachs & Co., New York, New York on or about May 24, 1988.

Goldman, Sachs & Co. **Robertson, Colman & Stephens**

The date of this Prospectus is May 17, 1988.

The Company intends to furnish its stockholders annual reports containing audited financial statements reported on by an independent public accounting firm and quarterly reports containing unaudited financial information for the first three quarters of each fiscal year.

Except in the Consolidated Financial Statements and as otherwise noted herein, all information contained in this Prospectus relating to the Company's Common Stock is based on shares outstanding as of March 31, 1988, and is adjusted to reflect the conversion of each outstanding share of Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock and Series D Preferred Stock, as well as 57,507 shares of Series E Preferred Stock, into an aggregate of 3,599,507 shares of Common Stock upon the closing of the offering covered by this Prospectus. Upon the closing of the offering, 1,245,925 shares of Series E Preferred Stock and 800,000 shares of Series F Preferred Stock will remain outstanding. See "Description of Capital Stock — Preferred Stock."

INGRES and substantially all other Relational Technology, Inc. product names referred to herein are trademarks of the Company. The following terms referred to herein are trademarks of the following companies: IBM, XT, AT, RT PC, PS/2, DB2 and PC-DOS—International Business Machines Corporation; Lotus 1-2-3—Lotus Development Corporation; UNIX—AT&T Bell Laboratories; Oracle—Oracle Corporation; dBase II and III—Ashton-Tate Corporation; Informix—Informix Corporation; Unify—Unify Corporation; DataServer—Sybase Corporation; DEC, VAX, VMS, DECNET, RMS, ULTRIX—Digital Equipment Corporation; Multiplan and MS-DOS—Microsoft Corporation; Multimate—Multimate International Corporation; IDMS—Cullinet Software, Inc.; Wordstar—Micropro International Corporation; Ethernet—Xerox Corporation; and Fortune 1000—Time Corporation.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE COMMON STOCK OF THE COMPANY AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

PROSPECTUS SUMMARY

The following summary is qualified in its entirety by the more detailed information and consolidated financial statements appearing elsewhere in this Prospectus.

The Company

Relational Technology develops, markets and supports a family of software products used for database management and application development. The Company's principal product is the INGRES relational database management system. INGRES is offered with powerful application development tools that provide users with increased productivity and flexibility in application development.

The Company is a leading supplier of relational database management and application development software to users of DEC VAX computers and minicomputers running UNIX operating systems. INGRES has been ported to a broad range of computers, including mainframes, minicomputers, workstations and personal computers from such manufacturers as DEC, International Computers Limited, Sun Microsystems, Hewlett-Packard, Data General, IBM and Apollo Computer. INGRES adheres to IBM's SQL database language as well as other industry standard interfaces and communications protocols.

Relational Technology's strategy is to address the emerging need of large corporations, government agencies and major universities for an integrated and distributed data management solution. INGRES was designed with an open architecture which the Company believes is required to integrate information across the diverse hierarchy of computers found in large organizations. The Company's distributed database management product, INGRES/STAR, allows users to access and utilize data on different computers in a network as if the data were on a single computer. INGRES/STAR is currently available for networks of DEC VAX computers running the VMS operating system. The Company is developing extensions of INGRES/STAR to enable it to function on other operating systems. In addition, the Company has introduced "database gateway" technology which allows connectivity to DEC's RMS database and Ashton-Tate's dBase III database. The Company is currently developing database gateways for other widely used DBMS products, including those of IBM, DEC and others. The Company believes that its distributed database technology represents a significant advance in data management and is an important competitive factor in the emerging market for corporate-wide database management solutions.

The Offering

Common Stock offered by the Company	1,500,000 shares(1)
Common Stock offered by Selling Stockholders	500,000 shares
Common Stock to be outstanding after the offering	10,418,922 shares(1)(2)
NASDAQ symbol	RELY
Use of proceeds by the Company	Repayment of bank debt and working capital.

Selected Financial Data
(in thousands, except per share data)

	Fiscal Years Ended June 30,					Nine Months Ended March 31,	
	1983	1984	1985	1986	1987	1987	1988
Income Statement Data:							
Total revenues	$2,910	$7,585	$17,271	$28,138	$46,565	$29,247	$57,180
Operating income (loss)	84	218	771	2,503	3,102	(48)	5,098
Net income	140	198	555	1,664	2,477	339	3,917
Net income per share	$.03	$.03	$.08	$.23	$.29	$.04	$.41
Number of shares used in computation	5,543	6,083	6,825	7,393	8,456	8,370	9,486

	June 30, 1987	March 31, 1988 Actual	March 31, 1988 As Adjusted(1)(3)
Balance Sheet Data:			
Working capital	$11,036	$15,678	$31,643
Total assets	45,045	69,256	88,071
Long-term debt	2,955	4,078	2,845
Stockholders' equity	24,851	38,750	57,565

(1) Assumes the Underwriters' over-allotment option is not exercised. See "Underwriting."
(2) Includes 2,045,925 shares of Common Stock issuable upon conversion of Series E Preferred Stock and Series F Preferred Stock that will remain outstanding after the offering. Excludes 2,122,873 shares of Common Stock reserved for issuance upon exercise of outstanding stock options. See "Capitalization."
(3) Gives effect to the sale of the shares offered by the Company hereby and the anticipated use of a portion of the proceeds therefrom to repay certain bank indebtedness. See "Use of Proceeds" and "Capitalization."

THE COMPANY

Relational Technology develops, markets and supports a family of software products used for database management and application development. The Company's principal product is the INGRES relational database management system. INGRES is offered with powerful application development tools that provide users with increased productivity and flexibility in application development.

The Company is a leading supplier of relational database management and application development software to users of Digital Equipment Corporation ("DEC") VAX computers and minicomputers running UNIX operating systems. INGRES has been ported to a broad range of computers, including mainframes, minicomputers, workstations and personal computers from such manufacturers as DEC, International Computers Limited, Sun Microsystems, Inc., Hewlett-Packard Company, Data General Corporation, IBM and Apollo Computer Inc. INGRES adheres to IBM's SQL database language as well as other industry standard interfaces and communications protocols.

Relational Technology's strategy is to address the emerging need of large corporations, government agencies and major universities for an integrated and distributed data management solution. INGRES was designed with an open architecture which the Company believes is required to integrate information across the diverse hierarchy of mainframes, minicomputers, workstations and personal computers found in large organizations. The Company's distributed database management product, INGRES/STAR, allows users to access and utilize data on different computers in a network as if the data were on a single computer. INGRES/STAR is currently available for networks of DEC VAX computers running the VMS operating system. The Company is developing extensions of INGRES/STAR to enable it to function on other operating systems. In addition, the Company has introduced "database gateway" technology which allows connectivity to DEC's RMS database and Ashton-Tate's dBase III database. The Company is currently developing database gateways for other widely used DBMS products, including those of IBM, DEC and others. The Company believes that its distributed database technology represents a significant advance in data management and is an important competitive factor in the emerging market for corporate-wide database management solutions.

The Company markets its products primarily through its domestic and international sales organization, as well as through OEMs, VARs and joint marketing arrangements. The Company has OEM agreements with British Telecommunications PLC, Data General Corporation, ELXSI, Gould Inc., Honeywell Bull, Inc., International Computers Limited, Matra System, MIPS Computer Systems, Inc., Pyramid Technology Corporation, Sequent Computer Systems, Inc., Unisys Corporation and other computer manufacturers and software developers. In addition, the Company has entered into OEM agreements under which DEC markets INGRES for use on VAX/ULTRIX systems and IBM markets INGRES for use on its RT PC workstation and PS/2 personal computers running the AIX operating system.

The Company was incorporated in California in July 1980 and was reincorporated under the laws of Delaware in May 1988. Unless the context indicates otherwise, the "Company" and "Relational Technology" refer to the Delaware corporation, its predecessor company and its subsidiaries.

The Company's principal executive offices are located at 1080 Marina Village Parkway, Alameda, California 94501, and its telephone number at that location is (415) 769-1400.

RISK FACTORS

The following risk factors should be carefully considered in evaluating the Company and its business before purchasing the shares offered hereby.

Fluctuations in Quarterly Performance. The Company's revenues and, to a greater degree, net income vary substantially from quarter to quarter. The Company's revenues occur predominantly in the third month of each fiscal quarter and tend to be concentrated in the latter half of that third month. Accordingly, the Company's quarterly results of operations are difficult to predict, and delays in product delivery or in closings of sales near the end of the quarter could cause quarterly revenues and, to a greater degree, net income to fall substantially short of anticipated levels. The Company is expanding its sales and marketing organization and product development efforts in fiscal 1988 and expects to continue this expansion in fiscal 1989. As a result, and because most of the Company's operating expenses are fixed in the short term, any shortfall in revenues will have a significant negative effect on net income. From time to time, the Company has earned substantial revenues from large software license agreements. In addition, the announcement of price increases by the Company may have the effect of accelerating revenues into earlier quarterly periods. The impact of these large license agreements or announced price increases can cause significant quarter-to-quarter fluctuations in the results of operations. No assurance can be given that quarterly fluctuations or losses will not occur in the future. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Quarterly Results of Operations."

Competition. The market for database management system products is intensely competitive and rapidly changing. Numerous companies are engaged in the research, development and commercialization of relational database management system products and related application development tools. Many of the Company's competitors and potential competitors have significantly greater financial, technical and marketing resources than the Company. There can be no assurance that other companies have not developed or will not develop competitive products that are superior to the Company's products. In addition, a substantial portion of the Company's revenues to date have resulted from sales of INGRES for use on DEC computers. DEC also markets its own competitive database management product for use on its computers. There can be no assurance that DEC will not devote its significantly greater financial, technical and marketing resources to more aggressively market its own database management product or develop an enhanced product for use on its computers, thereby reducing the Company's sales to the DEC market. Competitive pressures from DEC and others could also result in reductions in the prices of the Company's products, which would have an adverse effect on the Company's operating results. See "Business—Competition."

Recent Product Upgrade. Since its inception in 1980, the Company has developed six major versions of INGRES, each with increased capabilities and performance. In March 1988, the Company commenced initial shipments of a new version of INGRES for users of DEC VAX/VMS systems. The Company expects this new version to be generally available to users of DEC VAX/VMS and a limited number of other computer systems during the second half of calendar 1988. This new version changed the architecture and significant parts of INGRES. As a result, the development effort has been greater in scope and in technical difficulty than that undertaken for previous versions. Although 40 customers have used test versions of the system, it is common for programs as complex as those distributed by the Company to contain undetected errors or "bugs" when first released, which are discovered only after the product has been used with many different computer systems and in varying applications. Identifying and correcting the errors typically is an expensive and time-consuming process. In addition, a significant effort is still required to adapt or "port" this new version to multiple computers and operating systems. The Company's future business is dependent in large part on the timely and successful debugging and porting of this new version. Any significant delay in shipping, correcting, or porting the new version of INGRES would have a material adverse effect on the Company's results of operations. Although the Company is not aware of any significant unresolved technical problems with the new version of INGRES, there can be no assurance that errors will not be discovered or porting will not be delayed, either of which will cause delays in securing market acceptance and could adversely affect the Company's operating results. See "Business—Product Development."

Dependence on Single Product Line and DEC Market. Substantially all of the Company's revenues are based on the Company's INGRES product line. This dependence on a single product line makes the Company more vulnerable than companies with broader product lines. Although INGRES has been ported to run on computers from numerous manufacturers, a substantial portion of the Company's revenues to date have resulted from sales of INGRES for use on DEC computers. Accordingly, the Company's future operating results will depend in part on the continued growth of the installed base of DEC computers. In addition, the Company's product pricing is typically based on the size and capabilities of the computer system on which the product runs. As a result, if technological changes or other conditions cause customers to purchase fewer large computer systems in favor of smaller systems, the Company's operating results could be adversely affected.

Future Products. The market for DBMS products is characterized by rapid changes in technology and user needs. The Company's ability to compete successfully depends on its ability to enhance its existing products and to develop or acquire new products on a timely basis that meet the changing needs of users and that incorporate or respond to advances in computer software and hardware technology. In addition, the Company believes that the ability to offer a distributed DBMS will become a significant competitive factor. The Company has introduced a distributed database management product, INGRES/STAR, which is currently available for networks of DEC VAX computers running the VMS operating system. The Company is developing extensions of INGRES/STAR to enable it to function on other operating systems, as well as database gateways to allow connectivity to other widely used DBMS products. There can be no assurance, however, that these or other development efforts will be successful, or that any resulting products will achieve market acceptance. See "Business—Product Development."

Foreign Currency Exchange Risks. A substantial portion of the Company's revenues is derived from international sales priced in foreign currencies, thereby making operating results subject to changes in currency exchange rates. If the dollar strengthens in relation to certain international currencies, the Company's revenues from international sales may be adversely affected. See "Management's Discussion and Analysis of Financial Condition and Results of Operations."

Key Employees. Competition for qualified employees in the software industry is intense. The Company's future success is highly dependent on its continued ability to recruit and retain highly skilled management, sales, marketing and technical employees. None of these individuals is subject to an employment agreement for a specified term or a post-employment noncompetition agreement. The Company's operating plans for fiscal 1988 and 1989 contemplate the addition of a significant number of sales and marketing personnel, who the Company believes are essential to achieve continued growth in revenues, and a corresponding increase in financial and administrative staff. The Company's operating results would be adversely affected if the Company is unable to attract, assimilate and retain successfully these personnel, or if revenues fail to increase at a rate sufficient to absorb the resulting increased expenses. See "Business—Employees."

Product Protection. The Company seeks to protect its software through copyrights, trade secret laws, restrictions on disclosure and use and technical measures. Despite these precautions, it may be possible for third parties to copy aspects of the Company's products or to obtain and use information that the Company regards as proprietary without authorization. Computer software generally cannot be patented, and existing copyright laws afford only limited practical protection. The Company also relies on "shrink wrap" licenses that are not signed by licensees and therefore may be unenforceable under the laws of certain jurisdictions. In addition, the laws of certain foreign countries do not protect the Company's proprietary rights in its products to the same extent as do the laws of the United States. See "Business—Product Protection."

Outstanding Preferred Stock. Following this offering, 1,245,925 shares of Series E Preferred Stock and 800,000 shares of Series F Preferred Stock will remain outstanding. Holders of Series E Preferred Stock and Series F Preferred Stock are entitled to certain significant preferences over holders of Common Stock. In any proposed acquisition or liquidation of the Company, the holders of

Series E Preferred Stock and Series F Preferred Stock have a separate class vote and certain significant preferential rights on distribution of the resulting proceeds. In addition, the Series E Preferred Stock and Series F Preferred Stock each have certain antidilution protections in the event that the Company issues additional securities at a price less than $10.50 and $12.50 per share, respectively. See "Description of Capital Stock—Preferred Stock."

No Prior Market, Possible Volatility of Stock Price and Dilution. There has been no public market for the Common Stock prior to this offering. The initial public offering price of the Common Stock will be determined by negotiations among the Company, the Selling Stockholders and the representatives of the Underwriters. The market price of the Company's Common Stock may be extremely volatile. Factors such as the announcement of technological innovation or the introduction of new products by the Company or its competitors, quarterly fluctuations in the Company's operating results and general conditions in the computer software or hardware industries may have a significant impact on the market price of the Common Stock offered hereby. In addition, the stock market has recently experienced extreme price and volume fluctuations, which have particularly affected the market prices for many high technology companies and which have often been unrelated to the operating performance of the specific companies. In addition, this offering involves immediate substantial dilution to new investors. See "Dilution" and "Underwriting."

Shares Eligible for Future Sale. Sales of substantial amounts of Common Stock of the Company in the public market following the offering made hereby could adversely affect prevailing market prices. On the date of this Prospectus, in addition to the 2,000,000 shares offered hereby (assuming no exercise of the Underwriters' over-allotment option), approximately 722,275 shares of Common Stock held by current stockholders will be eligible for immediate sale in the public market without restriction. Beginning 90 days after the date of this Prospectus, approximately 26,270 additional shares will become eligible for sale subject to the restrictions of Rule 144 under the Securities Act of 1933. Beginning 120 days after the date of this Prospectus, approximately 1,406,980 additional shares of Common Stock (including shares of Preferred Stock convertible into Common Stock) will become eligible for sale in the public market upon the expiration of lock-up agreements with the Company. Beginning 150 days after the date of this Prospectus, approximately 4,843,250 additional shares of Common Stock (including shares of Preferred Stock convertible into Common Stock) will become eligible for sale in the public market upon the expiration of lock-up agreements with the Underwriters. In addition, the Company intends to register approximately 2,048,500 shares reserved for issuance under the Company's employee stock option and stock purchase plans approximately 110 days after the date of this Prospectus. See "Description of Capital Stock—Shares Eligible for Future Sale."

USE OF PROCEEDS

The net proceeds to be received by the Company from the sale of the 1,500,000 shares of Common Stock being offered by the Company are estimated to be $18,815,080 ($22,721,080 if the over-allotment option granted to the Underwriters is exercised in full). The Company will not receive any proceeds from the sale of shares by the Selling Stockholders.

The Company intends to use the net proceeds of the offering to repay borrowings under international lines of credit ($839,000 at March 31, 1988) and a term loan and for working capital. The term loan ($2,011,000 at March 31, 1988), which was incurred to purchase equipment, bears interest at the rate of prime plus .5% per annum and has a final maturity of October 1990. See Note 4 of Notes to Consolidated Financial Statements. A portion of the net proceeds may also be used by the Company to acquire complementary businesses and software products. No such acquisitions are being planned or negotiated as of the date of this Prospectus. Pending their use, the Company intends to invest the net proceeds in short-term, interest-bearing securities.

The Company believes that the level of financial resources is a significant competitive factor in its industry. Therefore, the Company believes that it is advantageous to raise capital at this time, even though it has not identified specific uses for the proceeds. Management of the Company will have broad discretion in determining the specific purposes to which such proceeds will be applied.

DILUTION

The net tangible book value of the Company at March 31, 1988, was $3.77 per share of Common Stock after giving pro forma effect to the conversion of all outstanding shares of Series A, B, C and D Preferred Stock and the assumed conversion of Series E and F Preferred Stock. Net tangible book value per share is determined by dividing the number of outstanding shares of Common Stock into the tangible book value of the Company (tangible assets less total liabilities). Without taking into account any other changes in such net tangible book value after March 31, 1988, other than to give effect to the sale by the Company of the 1,500,000 shares offered hereby at a price of $14.00 per share (before deduction of underwriting discounts and offering expenses), the pro forma net tangible book value of the Company at March 31, 1988 would have been $5.24 per share, representing an immediate increase of $1.47 per share to existing stockholders and an immediate dilution of $8.76 per share to new investors. The following table illustrates this per share dilution:

Public offering price		$14.00
Net tangible book value before offering	$3.77	
Increase attributable to new investors	1.47	
Pro forma net tangible book value after offering		5.24
Dilution to new investors(1)		$ 8.76

The following table summarizes on a pro forma basis as of March 31, 1988 the difference between the number of shares purchased from the Company, the total consideration paid, and the average price per share paid by the existing stockholders and by the investors purchasing shares of Common Stock in this offering:

	Shares Purchased		Total Consideration		Average Price Per Share
	Number	Percent	Amount	Percent	
Existing stockholders(2)	8,917,722	85.6%	$30,779,000	59.4%	$ 3.45
New investors	1,500,000	14.4	21,000,000	40.6	14.00
Total	10,417,722	100.0%	$51,779,000	100.0%	

(1) Dilution is determined by subtracting net tangible book value per share after this offering from the amount of cash paid by a new investor for a share of Common Stock.

(2) Assumes conversion of all outstanding shares of Preferred Stock. Sales by Selling Stockholders in the offering will reduce the number of shares held by existing stockholders to 8,417,722 or 81% of the total shares of Common Stock outstanding, and will increase the number of shares held by new investors to 2,000,000 or 19% of the total shares of Common Stock outstanding after the offering.

The foregoing tables assume no exercise of the Underwriters' over-allotment option or of any of the outstanding stock options. At March 31, 1988, there were outstanding stock options to purchase an aggregate of 1,911,893 shares of Common Stock at a weighted average exercise price of $2.91 per share. Subsequent to March 31, 1988, the Company granted additional options to purchase 236,280 shares of Common Stock having a weighted average exercise price of $6.20 per share. To the extent that these options are exercised, there will be further dilution to new investors. See "Management—Stock Option Plans."

DIVIDEND POLICY

The Company has never paid cash dividends on its Common Stock. The Company presently intends to retain earnings for use in its business and therefore does not anticipate paying any cash dividends in the foreseeable future. In addition, no dividend may be paid or declared and set apart for payment on the Common Stock unless a dividend equal to the amount to be paid or set apart per share of Common Stock has first been paid on each outstanding share of Series E Preferred Stock and Series F Preferred Stock. See "Description of Capital Stock—Preferred Stock."

CAPITALIZATION

The following table sets forth the capitalization of the Company at March 31, 1988 and as adjusted to give effect to the sale by the Company of the 1,500,000 shares offered hereby and the anticipated use of a portion of the proceeds therefrom to repay certain indebtedness.

	March 31, 1988	
	Pro Forma	Pro Forma—As Adjusted
	(in thousands)	
Short-term debt(1)	$ 2,597	$ 980
Long-term debt(1)	4,078	2,845
Stockholders' equity:		
Preferred Stock, $.001 par value; authorized 5,000,000 shares; outstanding 2,045,925 shares(2)	21,875	21,875
Common Stock, $.001 par value; authorized 25,000,000 shares; outstanding 6,871,797 shares; as adjusted 8,371,797 shares(3)	7,648	26,463
Note receivable from stockholder	(100)	(100)
Retained earnings	8,751	8,751
Foreign currency translation adjustment	576	576
Total stockholders' equity	38,750	57,565
Total capitalization	$42,828	$60,410

(1) See Notes 4 and 5 of Notes to Consolidated Financial Statements for information concerning the Company's indebtedness and lease obligations. A portion of the proceeds of the offering will be used to repay all outstanding debt excluding capitalized lease obligations.

(2) Reflects the conversion of the Company's outstanding Series A, B, C and D Preferred Stock and 57,507 shares of the Series E Preferred Stock into an aggregate of 3,599,507 shares of Common Stock. See "Description of Capital Stock—Preferred Stock" and Note 6 of Notes to Consolidated Financial Statements.

(3) Reflects the conversion of the Company's outstanding Preferred Stock described in footnote 2 above. Excludes 2,045,925 shares of Common Stock reserved for issuance upon conversion of outstanding Series E Preferred Stock and Series F Preferred Stock; if all such shares are converted, the total Common Stock outstanding as adjusted would be 10,417,722 shares. As of March 31, 1988, options to purchase an aggregate of 1,911,893 shares were outstanding, with a weighted average exercise price of $2.91 per share. Subsequent to March 31, 1988, the Company granted additional options to purchase 236,280 shares of Common Stock having a weighted average exercise price of $6.20 per share. See "Management—Stock Option Plans" and Notes 6 and 7 of Notes to Consolidated Financial Statements.

SELECTED CONSOLIDATED FINANCIAL DATA

The selected consolidated financial data presented below for, and as of the end of, each of the years in the five-year period ended June 30, 1987 and for the nine months ended March 31, 1988, have been derived from the consolidated financial statements of the Company, which statements have been examined by Price Waterhouse, independent accountants, for the year ended June 30, 1987 and for the nine months ended March 31, 1988, and by Coopers & Lybrand, independent accountants, for the prior years. See "Experts." This data should be read in conjunction with the consolidated financial statements, related notes and other financial information included elsewhere in this Prospectus. The data for the nine months ended March 31, 1987 has been derived from unaudited financial statements appearing herein and which, in the opinion of the Company, include all adjustments, consisting only of normal recurring adjustments, necessary for a fair statement of the results for the unaudited interim period. The Statement of Income data for the nine months ended March 31, 1988 is not necessarily indicative of the results that may be expected for the entire fiscal year ending June 30, 1988.

	Fiscal Years Ended June 30,					Nine Months Ended March 31,	
	1983	1984	1985	1986	1987	1987	1988
	(in thousands, except per share data)						
Consolidated Statement of Income:							
Revenues:							
Licenses	$2,720	$7,169	$15,767	$25,318	$40,916	$25,482	$47,294
Maintenance	190	416	1,504	2,820	5,649	3,765	9,886
Total revenues	2,910	7,585	17,271	28,138	46,565	29,247	57,180
Operating expenses:							
Sales and marketing	941	3,548	8,827	13,450	28,313	18,617	37,219
Research and development(1)	1,175	2,545	5,921	9,198	10,423	7,387	10,088
General and administrative	710	1,274	1,752	2,987	4,727	3,291	4,775
Total operating expenses	2,826	7,367	16,500	25,635	43,463	29,295	52,082
Operating income (loss)	84	218	771	2,503	3,102	(48)	5,098
Interest income	101	58	86	135	768	568	764
Interest expense	(30)	(55)	(230)	(395)	(553)	(389)	(454)
Foreign exchange gain (loss)	—	—	(21)	(37)	635	409	1,120
Income before income taxes	155	221	606	2,206	3,952	540	6,528
Provision for income taxes	15	23	51	542	1,475	201	2,611
Net income	$ 140	$ 198	$ 555	$ 1,664	$ 2,477	$ 339	$ 3,917
Net income per share	$ .03	$ .03	$ .08	$ .23	$ .29	$ .04	$ .41
Number of shares used in computation of net income per share(2)	5,543	6,083	6,825	7,393	8,456	8,370	9,486

	June 30,					March 31,
	1983	1984	1985	1986	1987	1988
	(in thousands)					
Consolidated Balance Sheet Data:						
Working capital	$ 591	$1,470	$ 1,307	$ 6,979	$11,036	$15,678
Total assets	1,940	6,935	11,634	24,021	45,045	69,256
Long-term debt	74	52	2,145	2,604	2,955	4,078
Stockholders' equity	1,399	4,188	4,746	13,898	24,851	38,750

(1) Research and development expenses for fiscal 1987 and the nine months ended March 31, 1987 and 1988 were reduced by the Company's application of Statement of Financial Accounting Standards No. 86, which resulted in the capitalization of software development costs of approximately $2.8 million, $2.2 million and $2.5 million, respectively, during such periods. See Note 1 of Notes to Consolidated Financial Statements.

(2) See Note 1 of Notes to the Consolidated Financial Statements for an explanation of the determination of shares used in computing net income per share.

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

The Company was founded in July 1980 and shipped its first product in June 1981. For the fiscal year ended June 30, 1987, the Company achieved revenues of $46.6 million and net income of $2.5 million. For the nine months ended March 31, 1988, the Company achieved revenues of $57.2 million and net income of $3.9 million. The Company's growth reflects continued market acceptance of the Company's products both in the United States and internationally, expansion of the Company's sales and marketing organization and the rapid expansion of the market for relational database systems.

Results of Operations

The following table sets forth for the fiscal periods indicated the percentage of revenues represented by certain items in the Company's consolidated statements of income.

	Fiscal Years Ended June 30,			Nine Months Ended March 31,	
	1985	1986	1987	1987	1988
Revenues:					
Licenses	91.3%	90.0%	87.9%	87.1%	82.7%
Maintenance	8.7	10.0	12.1	12.9	17.3
Total revenues	100.0	100.0	100.0	100.0	100.0
Operating expenses:					
Sales and marketing	51.1	47.8	60.8	63.7	65.1
Research and development(1)	34.3	32.7	22.4	25.2	17.6
General and administrative	10.2	10.6	10.2	11.3	8.4
Total operating expenses	95.6	91.1	93.4	100.2	91.1
Operating income (loss)	4.4	8.9	6.6	(0.2)	8.9
Interest income	.5	.4	1.7	1.9	1.3
Interest expense	(1.3)	(1.4)	(1.2)	(1.3)	(.8)
Foreign exchange gain (loss)	(.1)	(.1)	1.4	1.4	2.0
Income before income taxes	3.5	7.8	8.5	1.8	11.4
Provision for income taxes	.3	1.9	3.2	0.7	4.5
Net income	3.2%	5.9%	5.3%	1.1%	6.9%

(1) Pursuant to SFAS No. 86, the Company capitalized software development costs equal to 6.1%, 7.4% and 4.4% of revenues during fiscal 1987 and the nine month periods ended March 31, 1987 and 1988, respectively. See Note 1 of Notes to Consolidated Financial Statements.

Revenues

The Company's revenues increased 63% from fiscal 1985 to fiscal 1986 and 65% from fiscal 1986 to fiscal 1987 reflecting continued increases in the number of customers and installations of the Company's products. Prior to fiscal 1987, the Company typically priced its relational DBMS and application development tools as a single package. A portion of the revenue increase in fiscal 1987 resulted from price increases associated with the unbundling of these products.

The Company's product and customer base has broadened significantly during the past three fiscal years as the Company has increased the types of computers and operating systems on which INGRES operates. However, licenses for use on DEC VAX computers have continued to represent a substantial portion of the license revenues in each of the past three fiscal years.

Revenues from international customers were approximately 15%, 31% and 35% of the Company's revenues in fiscal 1985, 1986 and 1987, respectively. The Company expects its international operations to continue to represent a significant portion of total revenues.

The Company provides ongoing maintenance services, which include technical support and product updates, for an annual fee. Maintenance revenues have increased steadily from 9% of revenues in fiscal 1985 to 10% of revenues in fiscal 1986 and 12% of revenues in fiscal 1987. Maintenance revenues have provided a source of recurring revenues and reflect the cumulative growth of the Company's customer base. Substantially all of the Company's customers enter into and renew annual maintenance contracts. Revenues from maintenance are recognized ratably over the annual maintenance period.

Operating Expenses

Sales and Marketing Expenses. Beginning in the second half of fiscal 1986, the Company significantly increased its emphasis, both domestically and internationally, on direct sales through its own sales force. The opening and staffing of new sales offices, and the rapid increase in staffing at existing offices, involve substantial initial costs that are not immediately offset by revenue growth. While the expansion of the domestic and international sales and marketing organizations led to increased expenses, these expenses as a percentage of revenues decreased from 51% to 48% from fiscal 1985 to fiscal 1986. This decrease is attributable to the effect of several large software license agreements completed during the latter half of fiscal 1986. Sales and marketing expenses increased substantially from 48% of revenues in fiscal 1986 to 61% of revenues in fiscal 1987 as the Company invested heavily in sales and marketing and customer support. The Company believes that substantial sales and marketing expenditures are essential to revenue growth and to maintaining and enhancing the Company's competitive position. Accordingly, the Company expects these expenses will continue to constitute its most significant operating expense.

Research and Development Expenses. The Company's expenditures for research and development increased 55% from fiscal 1985 to fiscal 1986 and 43% from fiscal 1986 to fiscal 1987 (excluding the impact of amounts capitalized in 1987). These increases resulted largely from similar percentage increases in the number of research and development personnel. The Company believes that the enhancement of existing products and the development of new products is essential to maintaining its competitive position. Accordingly, the Company is committed to a high level of research and development expenditures. During fiscal 1985, 1986 and 1987, research and development expenses were approximately \$5.9 million, \$9.2 million and \$10.4 million, respectively, representing 34%, 33% and 22% of the Company's revenues in such years.

Prior to fiscal 1987, the Company followed the prevailing practice of charging to expense all research and development expenditures as incurred. The Financial Accounting Standards Board, in its Statement of Financial Accounting Standards No. 86 ("SFAS No. 86"), now provides that, once technological feasibility has been established, all subsequent software development costs incurred up to the time the product is available for general release to customers be capitalized and reported at the lower of unamortized cost or net realizable value of the product. Accordingly, in fiscal 1987, the Company capitalized approximately \$2.8 million of software development costs, representing approximately 21% of total research and development expenditures. Including this capitalized amount, total research and development expenditures in fiscal 1987 were approximately \$13.2 million, or 28% of revenues. The amount of product development expenditures required to be capitalized under SFAS No. 86 in future periods is dependent upon both the level of expenditures incurred on projects that meet the feasibility tests specified in SFAS No. 86 and the timing of release of the completed products to the Company's customers. Accordingly, amounts required to be capitalized may vary significantly from period to period and could increase or decrease as a percentage of total research and development expenditures. See Note 1 of Notes to Consolidated Financial Statements.

General and Administrative Expenses. General and administrative expenses have increased at approximately the same rate as revenues, as significant additions to administrative resources have been required to support growth. Such expenses were 10%, 11% and 10% of revenues in fiscal 1985, 1986 and 1987, respectively.

Income

Operating income in fiscal 1985 was \$771,000 (4% of revenues), compared with approximately \$2.5 million in fiscal 1986 (9% of revenues) and approximately \$3.1 million in fiscal 1987 (7% of revenues). Profit margins in fiscal 1986 were favorably affected by the impact of certain large license agreements completed in the latter half of the fiscal year. The decrease in income as a percentage of revenues from fiscal 1986 to fiscal 1987 was primarily attributable to substantially higher sales and marketing expenses associated with the expansion of the Company's domestic and international sales and marketing organizations. The Company's adoption of SFAS No. 86 at the beginning of fiscal 1987 resulted in capitalization of approximately $2.8 million of software development costs, with a corresponding increase in operating income. The Company believes that its investment in key personnel as well as its continuing investment in the sales and marketing organization are necessary to achieve its objective of improved long-term profitability. However, there can be no assurance that higher levels of profitability will occur because of the difficulty of predicting revenues and the number of factors which can adversely affect operating results.

In addition to the factors discussed above, the Company's net income for fiscal 1987 was favorably impacted by foreign exchange gains of $635,000 compared to nominal amounts in prior years. The Company's net income has also been affected by changes in the effective income tax rate, which has increased from 8% and 25% in fiscal 1985 and 1986, respectively, to 37% in fiscal 1987. The Company does not believe that the Tax Reform Act of 1986 will have any material effect on the Company's effective tax rate in the future; potential benefits from the lower maximum tax rates are expected to be offset by the reduction in research and development credits and the elimination of investment tax credits. The effective tax rate in fiscal 1988 is expected to be approximately 40%. See Note 8 of Notes to Consolidated Financial Statements.

In December 1987, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 96, Accounting for Income Taxes. SFAS 96 mandates the liability method for computing deferred income taxes. The Company does not intend to adopt SFAS 96 in 1988. Adoption of the new Statement is not expected to have a significant effect on the Company's financial position or results of operations.

Interim Results

Revenues for the first nine months of fiscal 1988 were $57.2 million, representing a 96% increase over the comparable period of fiscal 1987. The increase is attributable to the rapid expansion of the market for relational database management systems, which is reflected in significant sales to new customers, particularly international customers, as well as continued sales into the existing customer base. In addition, as the existing customer base has expanded, maintenance revenues have increased significantly. Sales to international customers increased significantly, primarily as a result of the increased acceptance of the Company's products internationally.

Sales and marketing expenses increased at approximately the same rate as revenues, as the Company focused resources on marketing programs and on the expansion of its domestic and international direct sales organization. Research and development expenses increased 31% prior to the capitalization of $2.2 million and $2.5 million of software development costs in the first nine months of fiscal 1987 and 1988, respectively. Increased research and development expenses relate directly to increases in the number of personnel assigned to research and development projects. General and administrative expenses increased at a substantially lower rate than revenues, reflecting economies of scale at this stage of the Company's growth.

As a result of the above factors, the Company had operating income of $5.1 million in the first nine months of fiscal 1988 compared to a loss of $48,000 in the comparable period in fiscal 1987. In addition to the increase in operating income described above, pre-tax income in the first nine months of fiscal 1988 includes $1.1 million of foreign exchange gains. This foreign exchange gain principally relates to domestic accounts receivable which were denominated in foreign currencies. As of March 31, 1988 no domestic receivables were denominated in foreign currencies. The Company's estimated effective tax rate for fiscal 1988 is approximately 40%. Accordingly, pre-tax income of $6.5 million for the first nine months of fiscal 1988 resulted in $3.9 million in net income compared to $339,000 in the first nine months of fiscal 1987.

Quarterly Results of Operations

The following table sets forth selected unaudited quarterly financial information for the Company's last 11 fiscal quarters. The Company has not previously prepared interim financial information for public use and the quarterly data provided herein is based on a retrospective review by the

Company of its quarterly results. The Company believes that all necessary adjustments have been included in the amounts stated below to present fairly the selected quarterly information when read in conjunction with the financial statements included elsewhere herein.

	Fiscal 1986				Fiscal 1987				Fiscal 1988		
	Sept. 30, 1985	Dec. 31, 1985	Mar. 31, 1986	June 30, 1986	Sept. 30, 1986	Dec. 31, 1986	Mar. 31, 1987	June 30, 1987	Sept. 30, 1987	Dec. 31, 1987	Mar. 31, 1988
	(in thousands, except per share data)										
Revenues	$4,721	$5,165	$7,772	$10,480	$8,498	$8,701	$12,048	$17,318	$16,203	$18,737	$22,240
Operating expenses:											
Sales and marketing	2,456	2,907	3,461	4,626	5,057	6,012	7,547	9,696	10,451	12,476	14,292
Research and development(1)	1,998	2,210	2,355	2,635	2,118	2,512	2,757	3,036	3,084	3,257	3,747
General and administrative	543	659	754	1,031	843	1,018	1,430	1,436	1,405	1,604	1,766
Total operating expenses	4,997	5,776	6,570	8,292	8,018	9,542	11,734	14,168	14,940	17,337	19,805
Operating income (loss)	(276)	(611)	1,202	2,188	480	(841)	314	3,150	1,263	1,400	2,435
Net income (loss)	$ (248)	$ (461)	$ 785	$ 1,588	$ 159	$ (377)	$ 557	$ 2,138	$ 816	$ 1,697	$ 1,404
Net income (loss) per share	$ (.04)	$ (.06)	$ .11	$ .21	$ .02	$ (.04)	$ .07	$ .25	$ .09	$ .18	$ .15
Number of shares used in computation	7,029	7,449	7,384	7,724	8,227	8,457	8,405	8,691	9,300	9,271	9,665

(1) Beginning with fiscal 1987, the Company has applied SFAS 86, under which the Company capitalized software development costs of approximately $653,000, $747,000, $761,000, $667,000, $735,000, $834,000, and $995,000 in the first, second, third and fourth quarters of fiscal 1987 and the first, second and third quarters of fiscal 1988, respectively.

Historically the Company's revenues have increased in each sequential quarter during a fiscal year, although they have declined in the first fiscal quarter of each year from the final quarter of the preceding year. The Company believes that continued investment in personnel and facilities is essential to achieve revenue growth. Because a significant training period is required before sales and marketing personnel reach full productivity, expenses related to hiring and training precede revenue generated by such personnel. During each fiscal year prior to fiscal 1988, revenues increased substantially in the third and fourth quarters as investments made during previous quarters in operating costs, particularly those related to the hiring and training of sales and marketing personnel, generated increased revenue. Additionally, the Company's sales commission plan, which rewards the sales force with higher commission rates as they progress toward achieving annual sales quotas, tended to concentrate revenue during the second half of the fiscal year. Consequently, the Company has historically achieved greater profitability in the third and fourth quarters. More recently the Company has implemented incentives which are designed to increase the proportion of annual revenues recognized in the first half of the fiscal year. Although the Company has recently achieved profitability in its first and second quarter results, the Company anticipates that the first and second quarters of each fiscal year will continue to show relatively weaker operating results than each of the other quarters, and may again show losses.

Quarterly net income during fiscal 1988 has also been impacted by foreign exchange gains and losses. See "Interim Results." Pretax foreign exchange gains (losses) for the first three quarters of fiscal 1988 were $45,000, $1,298,000 and ($223,000), respectively.

From time to time, the Company has earned substantial revenues from large software license agreements. The impact of these large license agreements can cause significant quarter-to-quarter fluctuations in results of operations. Similar fluctuations may continue to occur in the future.

The Company's revenues occur predominantly in the third month of each fiscal quarter, and tend to be concentrated in the latter half of that third month. Accordingly, the Company's quarterly results of operations are difficult to predict and delays in product delivery or in closings of sales near the end of the quarter could cause quarterly revenues and, to a greater degree, net income to fall substantially short of anticipated levels. As operating expenses continue to increase, any significant shortfall in quarterly revenues may lead to an operating loss for the quarter.

Inflation

Inflation has not had a significant impact on the Company's results of operations.

Liquidity and Capital Resources

Historically, the Company has funded its growth through the sale of Preferred Stock, internally generated funds and bank borrowings. Working capital has increased from approximately $1.3 million at the end of fiscal 1985 to $15.7 million at March 31, 1988. At March 31, 1988, the Company had an $8 million revolving line of credit, and a $3 million capital equipment line of credit. No amounts were outstanding under either of these agreements at March 31, 1988. The Company also has domestic equipment lease lines of credit aggregating $6.0 million, under which $2.2 million was outstanding at March 31, 1988. These domestic lines of credit expire in October 1988. In addition, the Company also has foreign overdraft facilities and secured lines of credit that aggregate $2.0 million, under which $839,000 was outstanding at March 31, 1988. The Company is in compliance with the applicable financial covenants under each of its lines of credit. As of March 31, 1988, cash and cash equivalents aggregated $7.0 million. The principal foreign line of credit expires in April 1989. See Notes 4 and 6 of Notes to Consolidated Financial Statements.

The Company believes that the net proceeds from this offering, together with existing cash resources, available borrowings under its lines of credit and internally generated funds, will be sufficient to meet its anticipated working capital and capital expenditure requirements through at least the end of fiscal 1989. The Company had no material commitments for capital expenditures as of June 30, 1987 or March 31, 1988.

RELATIONAL TECHNOLOGY, INC.

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

	Preferred Stock		Common Stock		Note Receivable from Issuance of Common Stock	Retained Earnings	Foreign Currency Translation Adjustment	Total
	Shares	Amount	Shares	Amount				
Series A	305,000	$ 305,000						
Series B	192,000	936,000						
Series C	625,000	2,500,000						
Balances, June 30, 1984	1,122,000	3,741,000	3,177,679	$309,000		$ 138,000		$ 4,188,000
Issue of common stock under employee stock purchase plan			266	—				—
Issue of common stock			300	—				—
Repurchase of common stock			(64,220)	(9,000)				(9,000)
Net income						555,000		555,000
Foreign currency translation adjustment							$ 12,000	12,000
Balances, June 30, 1985	1,122,000	3,741,000	3,114,025	300,000		693,000	12,000	4,746,000
Issue of Series D Preferred stock	432,000	2,700,000						2,700,000
Issue of Series E Preferred stock	478,540	4,688,000						4,688,000
Issue of common stock under employee incentive stock option plan			15,548	12,000				12,000
Issue of common stock			107,334	161,000	$(100,000)			61,000
Repurchase of common stock			(68,918)	(10,000)				(10,000)
Net income						1,664,000		1,664,000
Foreign currency translation adjustment							37,000	37,000
Balances, June 30, 1986	2,032,540	11,129,000	3,167,989	463,000	(100,000)	2,357,000	49,000	13,898,000
Issue of Series E Preferred stock	824,892	8,425,000						8,425,000
Issue of common stock under employee stock option plans			87,319	100,000				100,000
Issue of common stock			2,181	5,000				5,000
Repurchase of common stock			(38,706)	(5,000)				(5,000)
Net income						2,477,000		2,477,000
Foreign currency translation adjustment							(49,000)	(49,000)
Balances, June 30, 1987	2,857,432	19,554,000	3,218,783	563,000	(100,000)	4,834,000	—	24,851,000
Issue of Series F Preferred stock	800,000	9,341,000						9,341,000
Issue of common stock under employee stock option plans			54,112	66,000				66,000
Repurchase of common stock			(605)	(1,000)				(1,000)
Net income						3,917,000		3,917,000
Foreign currency translation adjustment							576,000	576,000
Balances, March 31, 1988	3,657,432	$28,895,000	3,272,290	$628,000	$(100,000)	$8,751,000	$576,000	$38,750,000

See accompanying notes to consolidated financial statements.