

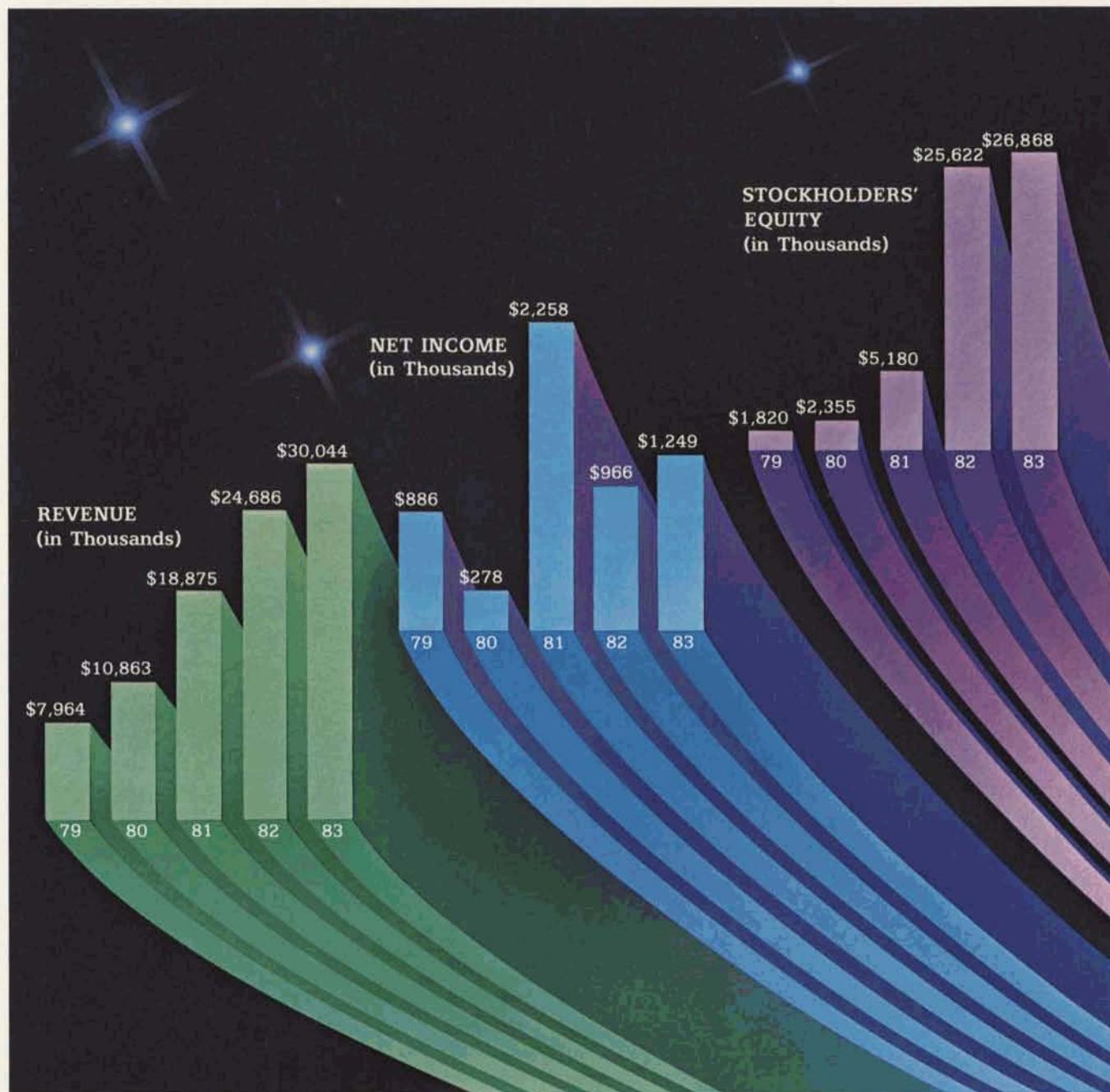


Software AG Systems Group, Inc., and its subsidiary, Software AG of North America, Inc., develop, market, and support an integrated line of "off the shelf" computer systems software packages designed for corporate information management and distributed data processing. The Company's products include NATURAL, an application development system, ADABAS, a data base management system (DBMS), COM-LETE, a teleprocessing system to control and manage online environments, and many other related products. The Company markets its products in the U.S. through a direct sales force, and internationally (outside of Europe) through independent distributors. In Europe, Software AG of Darmstadt, West Germany, (SAG) and its affiliated companies market for their own accounts ADABAS, NATURAL, and other products developed by the Company.

Customers include large and small organizations in a wide range of industries. Among these are banks, insurance companies, manufacturers, merchandising companies, energy corporations, and educational and governmental institutions in the U.S., Europe, the Far East, Central and South America, Canada, South Africa, Australia, the Middle East, and Mexico.

The illustrations on the cover and on the inside pages are an artist's exploration into the issues of information access and control in an age of continually expanding hardware and software technology.

SELECTED CONSOLIDATED FINANCIAL DATA



Years ended May 31,	1983	1982	1981	1980	1979
Revenues	\$30,043,891	\$24,685,852	\$18,875,070	\$10,863,319	\$7,963,862
Net Income	\$ 1,248,903	\$ 965,755	\$ 2,258,160	\$ 278,369	\$ 885,651
Net Income Per Common Share	\$.20	\$.16	\$.49	\$.06	\$.20
Number of Shares Used to Compute Net Income Per Common Share	6,131,741	6,088,910	4,610,550	4,501,162	4,500,003
Working Capital	\$15,187,049	\$13,326,504	\$ 1,667,559	\$ 470,934	\$1,258,459
Total Assets	\$35,882,737	\$33,781,243	\$21,582,135	\$ 8,099,894	\$6,384,016
Total Stockholders' Equity	\$26,867,774	\$25,622,022	\$ 5,179,610	\$ 2,355,262	\$1,819,608



I am pleased to offer you the third Annual Report on our operations as a publicly owned Company.

FINANCIAL INFORMATION

For the fiscal year ended May 31, 1983, revenues were \$30,043,891, an increase of 22% over the previous year. Earnings were \$1,248,903, or \$.20 per share.

By themselves, these year-end figures suggest two conclusions. First, the appeal of our products continues to grow. Secondly, the improved cost controls implemented during the year are beginning to yield positive results in terms of net income.

A closer look at the profitability trend from quarter to quarter confirms this judgment. While revenues rose steadily throughout the year, the cost of the Company's operations remained virtually at 1982 levels. The one exception to this trend was the third quarter, in which the Company incurred a one-time after tax cost of \$810,000 (or \$.13 per share) in connection with the settlement of litigation reported in last year's Annual Report. This settlement cost aside, profits from Company operations rose from \$.02 per share in the first quarter to \$.06 in the second quarter, \$.09 in the third, and \$.16 in the fourth.

Our accounting and cost controls are part of a comprehensive planning and budgeting system. With the expected continued growth in demand for our products, the system's beneficial effects should be increasingly apparent in coming quarters.

ORGANIZATION

In March the Company announced the resignations of Bruce Smith as Executive Vice President and Chief Operating Officer and Lloyd R. Brubaker as Senior Vice President, Chief Financial Officer, Treasurer, and Secretary. I have assumed the additional duties of Chief Operating Officer. Gilbert Markbein, who continues as Controller, has assumed the additional duties of Acting Treasurer. Charles R. Collins of Hughes Hubbard & Reed, counsel for the Company, was elected Acting Secretary.

Our senior management team which includes Edward J. Forman, Senior Vice President, Technology and Advanced Markets; Donald M. France, Senior Vice President, Sales and Marketing; and Michael E. Jakes, Senior Vice President, International—represents a total of 63 years of experience at all levels in the software industry. I am confident that this team will successfully carry forward the positive momentum at Software AG.

NEW PRODUCTS

Our product line, widely regarded as the strongest of its type in the industry, continues to receive enthusiastic support from users throughout all our markets. This past year we placed first among all data base software vendors in a user-preference survey conducted by Data Decisions for *Datamation* magazine.

This strength was reinforced by a series of new product introductions in 1983. Among these new products are:

- NET-WORK, a series of software tools for users of distributed processing systems;
- PREDICT, an online data dictionary designed for fourth-generation application development environments;
- NATURAL/GRAPHICS, a system that gives NATURAL users access to a wide range of business graphics capabilities;
- NATURAL Security System, a system providing a new measure of control over centralized and distributed environments;
- NATURAL/VSAM, our first version of NATURAL to be offered to non-ADABAS users; and
- ADABAS/VAX, a full-function implementation of ADABAS for Digital Equipment Corporation's VAX computers.

Additional releases this year included major new versions of NATURAL, our application development system, and COM-LETE, our teleprocessing system, as well as two signifi-

cant ADABAS enhancements: a distributed data base feature and Reflective Data Bases, a facility for use in non-stop processing environments. Finally, we also announced our Office Information System, which includes text processing, electronic mail, and resource scheduling functions.

These new and enhanced products represent the continuation of a design approach begun in the 1970s and now acknowledged as a *de facto* industry standard. In the brief period since their introduction, they have already demonstrated their appeal both to our existing customers and to several types of new users. This experience further reinforces the optimism we feel about our position in the marketplace, now and in the future.

The implications of our product philosophy are described in greater detail in the following pages of this Annual Report.

OTHER OPPORTUNITIES

While strengthening our marketing and sales efforts to traditional prospects, we are increasingly finding ways to reach new markets at minimal risk and cost. The most successful example to date is our

Software Engine approach to applications software companies, described elsewhere in this Report.

An essential ingredient in our search for new markets and new opportunities, and one which distinguishes us from many of our competitors, is the extraordinary resourcefulness, good will, and loyalty of our employees. As an eleven-year-old Company, we take pride in the rapidly swelling ranks of ten-year service veterans among our employees.

Finally, it is also appropriate to pay tribute at this time to the mutually supportive, mutually prodding relationship we enjoy with our worldwide user community—which continues to invigorate all our marketing, sales, and software development activities. As the number of our users grows, the number and quality of user suggestions also increases—a situation from which we all benefit. We look forward to the new fiscal year with high hopes for continued growth in revenues, profits, and service to all those who depend on us.



John Norris Maguire
Chairman of the Board
and President

Towards a freer flow of information: software directions for the 1980s.

As a leading supplier of application development systems, data base management systems, and other related products, Software AG Systems Group plays a prominent role in one of America's fastest-growing industries—the systems software industry. The use of Software AG products has enabled hundreds of large and small organizations to keep pace with the "information explosion" of recent years by turning the increase in available data into specific strategic advantages.

Since the Company's founding in 1972, we have been committed to providing software products that are unparalleled in their versatility, flexibility, and ease of use. Because people's information needs change, the design of our products has always placed greater emphasis on helping people to keep up with change than on conformance with specific hardware or organizational environments.

When we began, this approach set us apart from most of the systems software industry. Yet with the passage of time, its wisdom has become increasingly apparent as growing numbers of people have turned to our products for solutions to problems other

vendors either could not solve at all, or could not solve without significant increases in data processing personnel.

Today our products occupy a favorable position in the worldwide software marketplace—a position reinforced by several emerging trends in computer usage, which present even greater opportunities for the future. Among these trends are:

- the spread of computing power throughout entire organizations, with increasing access to computers by non-technical management and administrative personnel;
- the increasing use of micro-computers and executive work-stations in all types of businesses;
- the rise of information centers to provide managers with fast access to information stored in online data bases.

These developments have combined to create an increased need for software that is easy for non-data processing professionals to use, yet powerful enough to enable senior programmers to operate at peak efficiency—two key attributes of our products.

The result is a marketing opportunity unprecedented in our Company's history. While the marketplace we compete in is changing faster than ever, it also offers a better "fit" for our products than ever before. With our current and future offerings we expect not only to meet the present needs of this marketplace, but to anticipate those further developments that will shape our entire industry in the years to come.









Changing views of software productivity

Until the past few years, the software industry was inevitably dependent on the state of computer hardware. The extremely high costs of mainframe computers in the 1960s and early 1970s meant that to be cost-effective, software first had to be efficient in its use of hardware resources, and only secondarily efficient in its use of human resources.

As hardware costs began to plummet in the 1970s—while labor costs rose more sharply than ever—this balance changed. For the first time, software became the dominant cost element in data processing installations. And increasingly, software cost-effectiveness began to be measured in terms of human productivity: speed of start-up, ease of use by minimally trained personnel, and flexibility to meet rapidly changing user needs without extensive reprogramming.

This trend has continued and even accelerated to the present day. With software and data processing personnel already accounting for 80% of all DP costs, and with a present nationwide shortage of programmers that promises to grow even more acute by the end of this decade, the importance of software productivity tools can scarcely be overestimated.

At Software AG, we are fortunate to have a product line

second to none in its ability to make managers and programmers productive. Because our product philosophy has always placed a premium on ease of use, we have not had to redesign anything to make our products people-efficient—they already are.

The result is that all of our traditional products, including ADABAS (our relational data base management system), NATURAL (our online application development system), and COM-LETE (our teleprocessing system), continue to gain widening recognition as industry standards for productivity. Meanwhile, we have been developing new products and enhancements that extend these benefits still further, while also making them available to new classes of users.

Today, in a marketplace crowded with software vendors promising dramatic productivity benefits, we are proud of our proven ability to supply products that actually deliver these benefits to people all over the world.

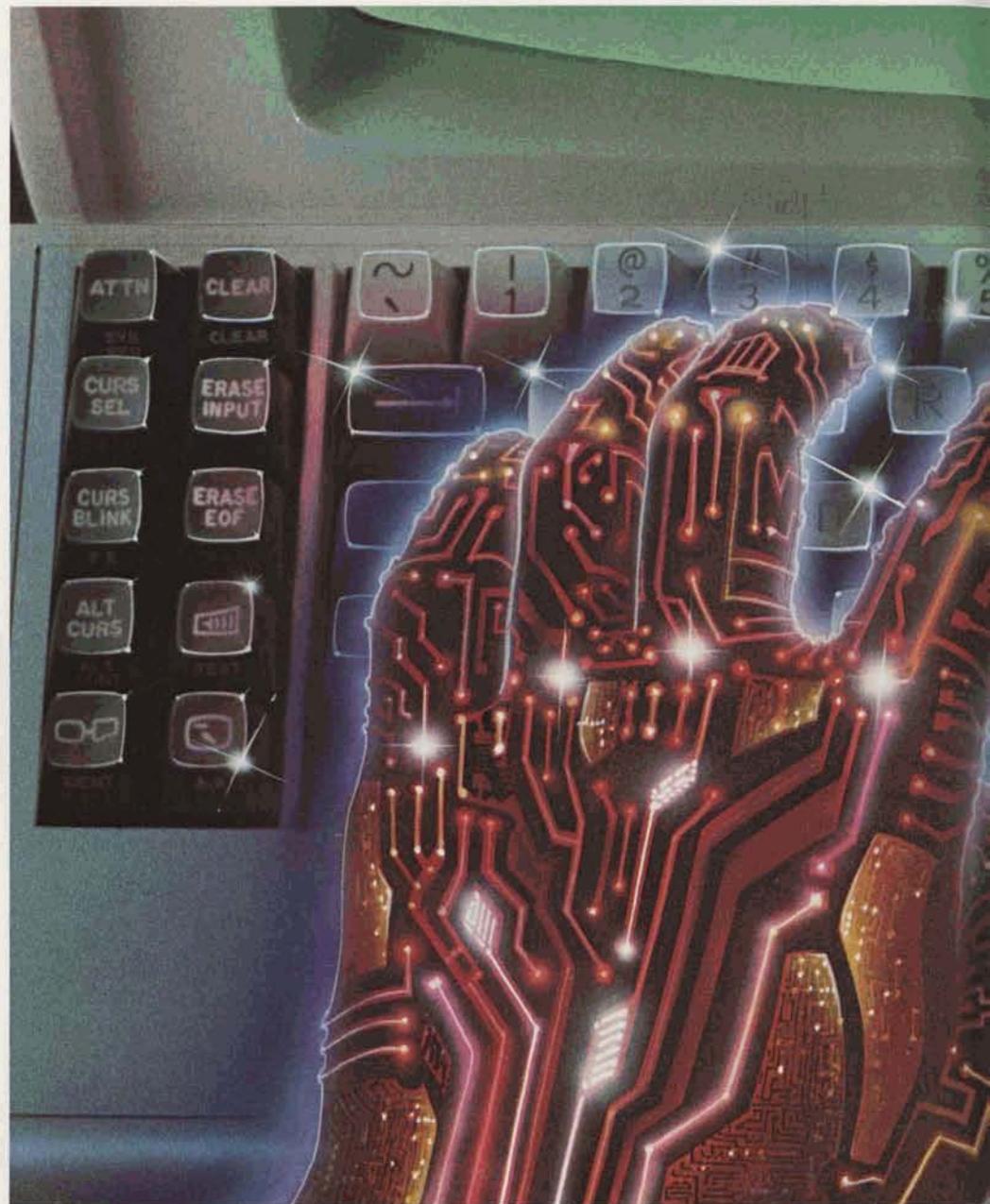
Changing user constituencies: from data processing professionals to corporate decision-makers.

So much has been written about the spread of computing power into the hands of new users that it may be worthwhile to take a fresh look at who our users are and what kinds of software tools they need.

Ten years ago, data base software was almost exclusively the province of data processing professionals—specialists who analyzed their organizations' needs, then devised systems to meet them. In the days when computers were expensive and exotic (and computer rooms were off-limits to most employees), this approach made sense, and to a certain extent it still does, given the complexity of large organizations' data-handling requirements.

But with the lowering of hardware costs and the resulting spread of computerization through all organizational levels, the number of non-DP professionals with access to computers has risen sharply—as has their interest in using the full range of data base facilities in support of management decisions:

- Today, rather than piece together information from many separate sources, managers consult *decision support systems* in which data base information is automatically fed into specialized application programs that spell out (often with sophisticated charts and



graphs) potential decision consequences in time to take corrective action.

- Instead of making formal requests to DP departments, then waiting weeks for COBOL programmers to write appropriate software, users now work together with programmers to create equivalent routines in minutes with the help of powerful *application*

development systems such as NATURAL.

- Rather than verbally convey their information requests to staff, managers increasingly use their own *executive workstations* (usually microcomputers or intelligent terminals) to key punch in their own queries to corporate or private data bases.
- And instead of waiting to



react to information requests, DP departments are making their resources available up front in the form of *information centers*, where users can scan appropriate data base information in seconds with minimal programmer involvement.

The overall effect of these developments has been to close much of the gap between data processing professionals and corporate decision-makers

or other end users. At Software AG, with our long-standing emphasis on ease of use, we have not only encouraged this trend but anticipated it—both by giving data processing professionals the productivity tools they need to meet tight management deadlines for complex information, and by enabling non-technical personnel (such as corporate department or financial managers) to

obtain a variety of simpler *ad hoc* reports on their own.

Each of our products has made its own contribution to this trend. And just this past year, we have made major additions to our product lines that reinforce our end user "friendliness" still more, without sacrificing our unmatched ability to help data processing departments leverage their senior talent.

Products that continue to reaffirm our traditional design philosophy.

At Software AG Systems Group, all the products we create serve a common purpose: to help decision-makers utilize large quantities of information economically and effectively. The products are sophisticated software tools that work together in an integrated way to give users the information they need—when they need it, and in the form in which they need it.

These products include the following:

- **ADABAS, our data base management system:** a convenient, flexible DBMS framework for organizing large volumes of corporate data to permit easy access to it by appropriate personnel—regardless of the ways in which the data is stored or used;
- **NATURAL, our online application development system:** a system encompassing a powerful fourth-generation programming language plus other facilities whose combined effect is to radically speed the process of writing or modifying application programs—including *ad hoc* management reports;
- **COM-LETE, our teleprocessing system:** a monitor for online transactions in multi-user environments, which also provides important program development facilities;
- **NET-WORK, our distributed data processing system:** a modular series of tools that facilitate the use and distribution of information in decentralized organizations; and

▪ **PREDICT, our online data dictionary:** a control mechanism for data base systems, specifically designed to support NATURAL's fourth-generation productivity tools in either centralized or distributed environments.

Beyond our long-established commitment to flexibility and ease of use, these products also reflect a series of specific design decisions whose appropriateness to real-world needs has been demonstrated by thousands of users around the globe.

Among these design decisions are the choice of a relational "inverted-list" architecture for ADABAS (which makes it far more suitable for today's dynamic processing environments than other vendors' hierarchical or network-model data base systems); the incorporation into NATURAL of high-level programming statements that commonly reduce coding requirements to less than 10% of the amount required for COBOL; and the development of pragmatic tools such as ADABAS/VTAM and Channel-to-Channel Communications (both part of NETWORK) to facilitate organizations' gradual entry into the world of distributed processing.

The widespread acceptance of these products reinforces our confidence in the design process that stands behind them. In less than four years of use, NATURAL, our fourth-generation application development system, has acquired the largest installed base of any such system in the world. And after over a decade, ADABAS continues to convert new DBMS users to the merits of relational architecture.

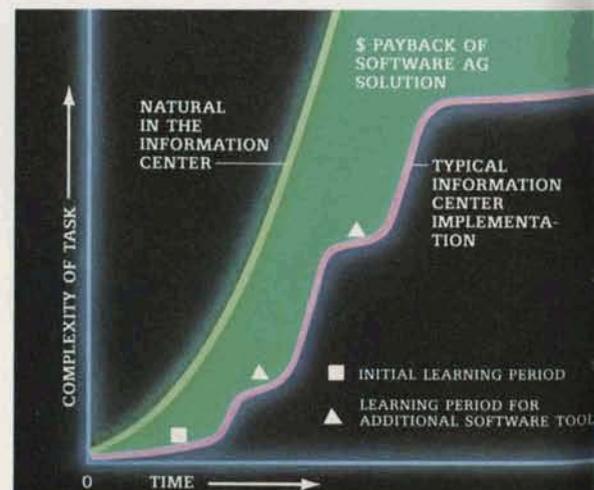
This year's new products and enhancements reflect the

continuation of this same flexible design approach, both in support of additional capabilities for NATURAL and in the launching of a major new product, PREDICT.

NATURAL: a pivotal product, now entering its prime.

NATURAL's ability to enable trainee programmers to outstrip the pace of COBOL personnel by as much as 10:1 continues to make it the most talked-about advanced application development system available today. Because the need for programmer productivity increasingly transcends other factors governing the selection of data base management systems, NATURAL has also become one of our most effective selling tools for ADABAS.

Yet many of NATURAL's benefits apply equally well to



Information Center Productivity

As Information Centers face increasingly complex demands, the benefits of using NATURAL increase as well. Because NATURAL already encompasses a full range of functionality, it eliminates the lost time spent in supplementing more limited systems software.

non-ADABAS users, including those either already committed to other data base systems or using non-data-base file access methods. The release of NATURAL/VSAM acknowledges this situation by making the power of NATURAL available to users of IBM's VSAM file access method. NATURAL/VSAM is the first NATURAL product to be offered to non-ADABAS customers. Additional releases in the near future will further extend NATURAL's reach into even wider market segments.

Of course, it is still ADABAS users who obtain the fullest measure of NATURAL's benefits, both because of the steadily increasing integration of the two products and because of ADABAS's own data management facilities. Because these users include growing numbers of non-technical management, we have added two other NATURAL extensions which improve the quality of management information the system provides while also protecting

the security of both system and data.

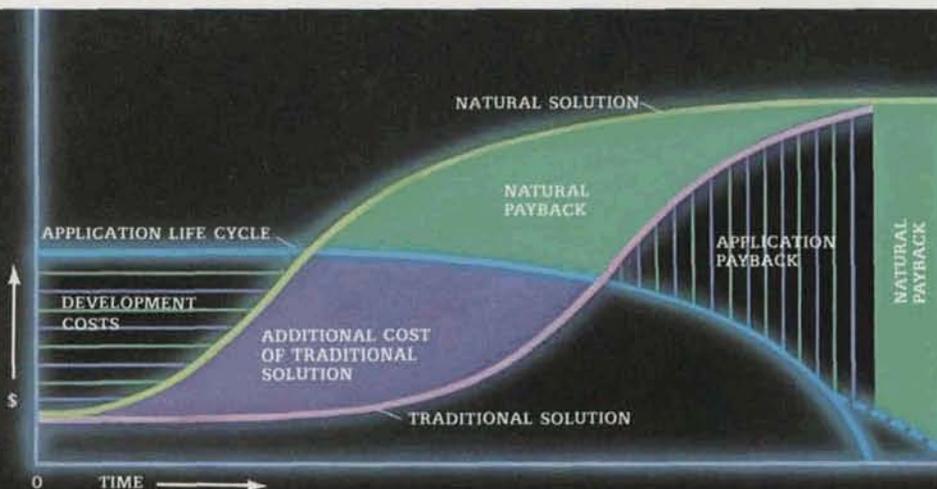
- *NATURAL/GRAPHICS* makes available sophisticated graphic-display capabilities to provide crisp color representations of complex data. With NATURAL/GRAPHICS, even minimally trained top management personnel can use a data base system to display selected information for analytical or presentation purposes.
- *NATURAL Security System* protects the systems and data from the increased risks posed by the growing use of DBMS products by non-data processing personnel, while also providing a range of special features to support security functions in distributed processing environments. The system's design inevitably emphasizes operator convenience: security provisions for an entire system can be implemented and monitored from any authorized terminal.

PREDICT: the first data dictionary specifically designed for the fourth-generation application development environment.

For a long time there has been controversy within the data base software field over the role of data dictionaries. Vendors of other, less flexible data base systems than ADABAS have maintained that integrated dictionary control is essential to data base system use. Other observers have suggested the use of stand-alone dictionaries to monitor data handling, but not take a central role in driving the system.

At Software AG, we have successfully steered clear of this controversy by eliminating the need for most data dictionary functions through the design of ADABAS itself. Now, however, the very success of NATURAL in opening up the application development environment has created a need for a new kind of support—a dictionary that works directly through NATURAL to provide necessary controls in either centralized or distributed systems, without inhibiting the flow of necessary information.

PREDICT is such a dictionary. PREDICT facilitates control over data while freeing end users and programmers alike from concerns about data structures or locations. The result is a significant improvement in the overall ease of use of the entire NATURAL application development environment. Future releases of PREDICT will extend its functionality while ensuring continued compatibility with other Software AG products.



Development Center Productivity

The use of NATURAL improves Development Center cost effectiveness at both ends of the typical application life cycle, first by speeding application development, then later on, by reducing the efforts required for maintenance and modification.

**In the near future:
new applications,
new products,
new marketing
approaches.**

In parallel with the explosive growth of the systems software marketplace has come a profusion of new applications software opportunities. For many systems software companies, the temptation to underwrite the development of their own applications packages has proved irresistible, though the results have been mixed—both financially and in terms of the resulting quality of applications products.

Our approach has been somewhat different. Working from our strengths in the development of superior data management and programmer productivity tools, we have joined forces with experienced independent applications software vendors to supplement their products with our own, in versions bearing the collective label of the "Software Engine"—the power behind the application.

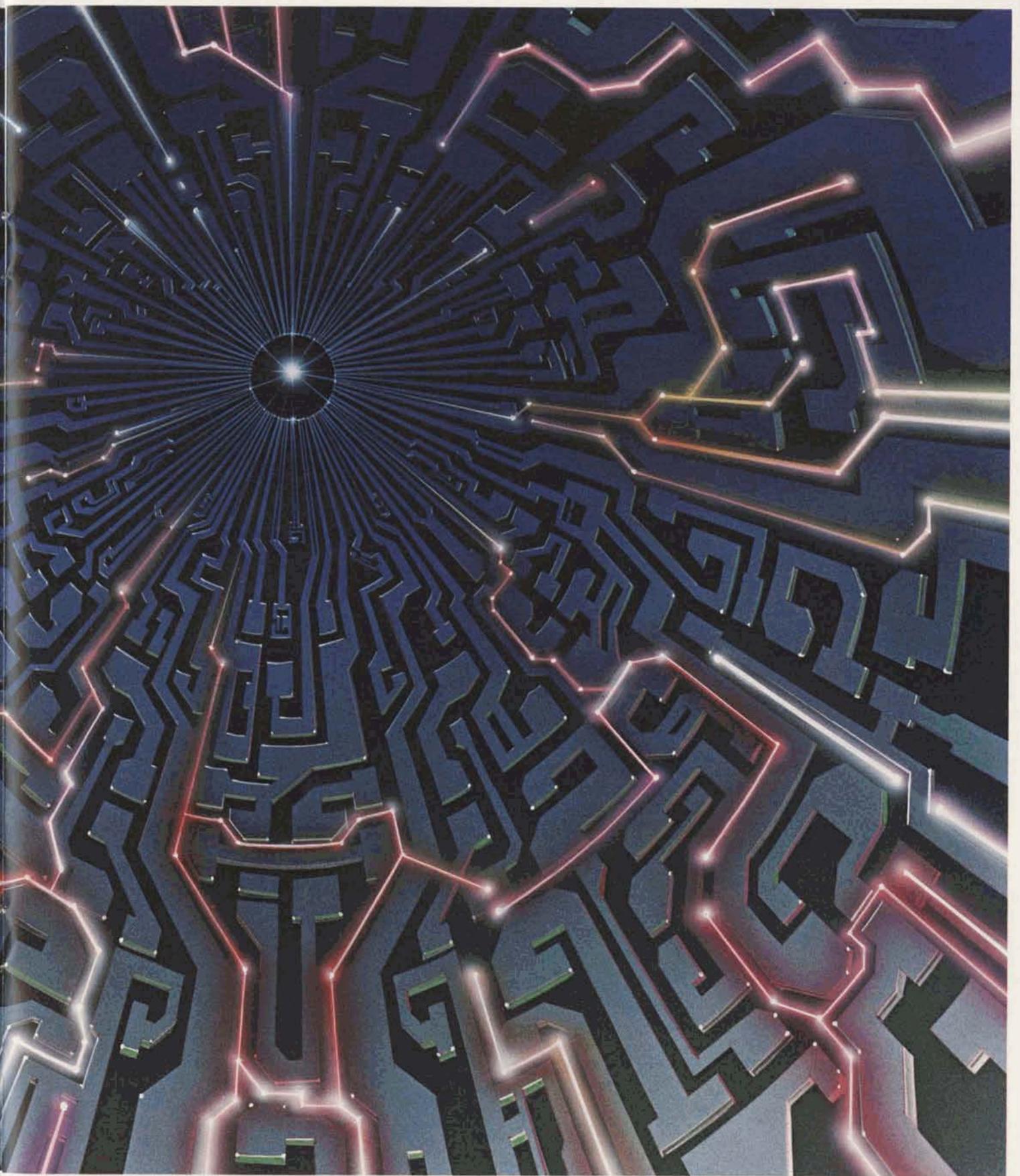
This approach has already enabled us to address several new markets at minimal cost and risk—establishing a presence for our own products in these markets without the expense of a direct sales effort. These successes have led us to increase our marketing to applications vendors, particularly in the area of decision support systems, where we expect considerable growth over the next several quarters.

In addition to the Software Engine, we are continuing to develop additional versions of our products for direct sales to selected broader markets. One example is our upcoming release of a new version of ADABAS designed to run on Digital Equipment Corporation's VAX series of computers. This product will not only allow us to tap into the large and growing worldwide VAX user base, but extend the potential for NET-WORK sales to companies operating in both IBM and DEC environments.

The office information marketplace offers us an even greater opportunity to bring the power of NATURAL to new users. With a system encompassing word processing, electronic mail, and resource scheduling, we expect to be a formidable contender in this marketplace.

Finally, the presence of personal computers (PC's) virtually everywhere in business has important implications for DBMS users, which Software AG is currently addressing





through new product development. While our users generally represent large organizations engaged in high-volume present-day applications, they are also (in growing numbers) users of PC's, and they are looking forward to the use of forthcoming versions of our products on the vastly more powerful microcomputers that will be available by the latter part of this decade.

It should be noted that these new developments do not constitute a change in product direction, but rather the extension of our existing product philosophy into new areas. The experience of the last few years continues to confirm the soundness of that philosophy—a conclusion our competitors also appear to have reached, to judge from the swelling ranks of imitators of our approach.

Product development at Software AG: in touch with users.

Working in close cooperation with Software AG of Darmstadt, West Germany, we at Software AG Systems Group remain committed to the development of systems software products that offer outstanding flexibility and

cost-effectiveness while providing the benefits of relational data base design.

In looking towards the future of Software AG products, we cannot overemphasize the role our users play in shaping our course. Because our products represent a considerable investment for them, our users are continually involved in the search for new ways to optimize product performance. Our annual Users' Conference is a landmark event in the data base software industry, and provides a forum for the discussion of everything from the quirks of individual installations to major industry-wide developments. It also provides an opportunity for our product development teams to test out new approaches before an audience of their peers—an audience whose response is inevitably reflected in the final contents of ensuing product releases.

Beyond the near term: outlook for the systems software industry.

As the French are fond of saying, "The more things change, the more they stay the same." One can hardly pick up a newspaper or magazine these days without seeing some reference to the accelerating pace of change in the business world. New technologies (or at least announcements of new technological breakthroughs) seem to crop up almost daily, and nowhere more so than in the industry that epitomizes change, the

computer industry.

For companies whose products are based on static visions of their marketplace or operating environment, these references to change must have a threatening character. The cost of overhauling outmoded system architectures can be so great as to force these companies either to permanently embrace the past or to risk their own long-term future on a new (and often equally chancy) vision of what lies immediately ahead.

But for companies such as ours, with products whose designs anticipated change itself as a permanent fact of life, the prospect of further change is always welcome. At Software AG Systems Group, we look forward eagerly to the new hardware environments of the late 1980s and 1990s—as we also look forward to the explosion of new ways in which our users will work with us to develop new software strategies to complement those environments.

After over a decade of pioneering, we feel that our design approach has proved itself able to accommodate whatever new changes and challenges the marketplace presents. And so we face the mid- and late 1980s, as well as the decade beyond, with confidence—not only in our Company, its people and products, but in the entire industry which has taken the lessons of those products to heart.

LIQUIDITY AND CAPITAL RESOURCES

The Company believes that it has substantial cash and cash equivalents at fiscal year-end to meet its needs. The current ratio is 3.5 to 1. Cash flow is enhanced by regular collection of accounts receivable and lease contracts receivable. Long-term lease contracts receivable of \$5,721,000 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. 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 SAG on behalf of the Company and are used by SAG to offset royalties due them.

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

RESULTS OF OPERATIONS

FISCAL 1983 COMPARED TO FISCAL 1982

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

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

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

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

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

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

FISCAL 1982 COMPARED TO FISCAL 1981

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

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

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

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

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

Income Before Income Taxes decreased to \$1,101,000 compared to \$4,315,000 in fiscal 1981

because of the comparatively smaller revenue increase compared to higher costs and expenses, particularly Other Operating Expenses.

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

FISCAL 1981 COMPARED TO FISCAL 1980

Revenues increased 74% to \$18,875,000 in fiscal 1981 compared to fiscal 1980. In general, the increases were primarily attributable to a greater volume of licenses for the Company's products, resulting from a higher level of marketing and support activities in 1981 compared with the previous fiscal year.

Salaries, Wages, and Commissions increased 53% to \$5,699,000 due primarily to increased staffing, secondarily to added commissions on higher sales volume and finally because of general salary increases. Royalty fee expense increased 25% to \$2,342,000, due to the increase in revenues from covered products. This increase was moderated by the reduction of royalty rates on licenses granted in North America covered by the royalty and license agreement with SAG.

Other Operating Expenses increased 52%, due primarily to greater marketing expenses, secondarily to higher occupancy costs and finally to an increase in other sales-related expenses. The relatively large increase in revenues compared to the lower increases in total costs and expenses resulted in higher income before income taxes.

CONSOLIDATED STATEMENTS OF INCOME

Software AG Systems Group, Inc. and Subsidiaries
For the Three Years Ended May 31, 1983

	1983	1982	1981
Revenues (Notes 2, 3, and 10)	\$30,043,891	\$24,685,852	\$18,875,070
Costs and Expenses			
Salaries, Wages and Commissions	9,545,173	8,750,633	5,699,309
Royalty Fees (Note 5)	3,810,546	3,033,010	2,341,997
Other Operating Expenses (Note 11)	14,454,269	11,801,454	6,518,604
Total Costs and Expenses	27,809,988	23,585,097	14,559,910
Income Before Income Taxes	2,233,903	1,100,755	4,315,160
Income Taxes (Note 6)	985,000	135,000	2,057,000
Net Income	\$ 1,248,903	\$ 965,755	\$ 2,258,160
Net Income Per Common Share	\$.20	\$.16	\$.49
Number of Shares Used to Compute			
Net Income Per Common Share	6,131,741	6,088,910	4,610,550

See accompanying notes to consolidated financial statements.

CONSOLIDATED BALANCE SHEETS

Software AG Systems Group, Inc. and Subsidiaries
May 31, 1983 and 1982

ASSETS	1983	1982
Current Assets:		
Cash and Short-Term Investments (Note 2)	\$ 8,683,872	\$ 7,476,010
Accounts Receivable (Note 3)	8,191,207	6,851,841
Current Portion of Lease Contracts Receivable (Note 3)	4,083,032	3,108,610
Income Taxes Receivable	11,033	655,246
Other Current Assets	447,628	476,869
Total Current Assets	21,416,772	18,568,576
Property, Equipment and Leasehold Improvements, less Accumulated Depreciation and Amortization (Note 4)	2,937,033	3,057,354
Computer Software Marketing License, Net of Amortization (Note 5)	5,478,036	6,090,519
Lease Contracts Receivable (Note 3)	5,721,416	5,445,455
Other Assets	329,480	619,339
Total Assets	\$35,882,737	\$33,781,243

LIABILITIES AND STOCKHOLDERS' EQUITY	1983	1982
Current Liabilities:		
Short-Term Debt	\$ 38,709	\$ 33,459
Current Portion of Royalties Payable	1,063,664	149,437
Accounts Payable	518,081	1,305,540
Deferred Income Taxes (Note 6)	2,747,552	2,155,168
Capitalized Lease Obligations (Note 9)	125,550	164,983
Other Current Liabilities (Note 8)	1,736,167	1,433,485
Total Current Liabilities	6,229,723	5,242,072
Computer System Software Marketing License Payable (Note 5)	—	249,235
Royalties Payable (Note 5)	615,000	675,000
Capitalized Lease Obligations (Note 9)	252,262	420,745
Deferred Income Taxes (Note 6)	1,810,000	1,425,000
Other Liabilities	107,978	147,169
Total Liabilities	9,014,963	8,159,221
Commitments and Contingencies (Notes 9 and 14)	—	—
Stockholders' Equity:		
Preferred Stock, \$10 Par Value; Authorized 2,500,000 Shares, None Issued	—	—
Common Stock, \$.01 Par Value; Authorized 10,000,000 Shares, Issued 6,116,783 and 6,135,863 shares respectively (Note 12)	61,168	61,359
Additional Paid-In Capital (Note 12)	20,281,811	20,284,771
Retained Earnings	6,524,795	5,275,892
Total Stockholders' Equity	26,867,774	25,622,022
Total Liabilities and Stockholders' Equity	\$35,882,737	\$33,781,243

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION

Software AG Systems Group, Inc. and Subsidiaries
For the Three Years Ended May 31, 1983

SOURCES OF WORKING CAPITAL:	1983	1982	1981
Net Income	\$1,248,903	\$ 965,755	\$ 2,258,160
Items Which Do Not Use			
Working Capital:			
Depreciation and Amortization of Property, Equipment and Leasehold Improvements	746,821	578,357	351,659
Amortization of Marketing License	612,483	480,491	464,333
Provision for Deferred Income Taxes	385,000	397,373	764,031
Working Capital Provided by Operations	2,993,207	2,421,976	3,838,183
Marketing License Obligation	—	—	7,555,085
Increase in Royalties Payable	—	394,094	—
Increase in Capitalized Lease Obligations	—	185,744	—
Proceeds from Public Offering of Stock	—	19,476,657	—
Proceeds from Shares Issued to Officers	—	—	189,699
Issuance of Common Stock for Marketing License	—	—	376,489
Decrease in Other Assets	289,859	310,489	—
	3,283,066	22,788,960	11,959,456
USES OF WORKING CAPITAL:			
Additions to Property, Equipment, and Leasehold Improvements, Net of Disposals	626,500	2,149,704	494,732
Increase in Lease Contracts Receivable	275,961	1,656,032	2,084,064
Increase in Other Assets	—	—	628,366
Marketing License Obligation	249,235	7,305,850	7,035,343
Decrease in Royalties Payable	60,000	—	404,801
Decrease in Capitalized Lease Obligations	168,483	—	91,113
Decrease in Other Liabilities	39,191	18,429	24,415
Other, Net	3,151	—	—
	1,422,521	11,130,015	10,762,834
Increase in Working Capital	\$1,860,545	\$11,658,945	\$ 1,196,622

SUMMARY OF CHANGES IN WORKING CAPITAL:	1983	1982	1981
Increase (Decrease) in Current Assets:			
Cash and Short-Term Investments	\$1,207,862	\$ 7,449,513	\$ 15,207
Accounts Receivable	1,339,366	1,613,279	2,298,596
Current Portion of Lease Contracts Receivable	974,422	836,209	1,200,473
Income Taxes Receivable	(644,213)	(173,152)	828,398
Other Current Assets	(29,241)	36,860	(286,946)
	2,848,196	9,762,709	4,055,728
Increase (Decrease) in Current Liabilities:			
Short-Term Debt	5,250	(2,048,679)	1,995,850
Current Portion of Royalties Payable	914,227	(213,697)	(1,906,538)
Accounts Payable	(787,459)	295,542	814,227
Income Taxes Payable	—	—	(374,289)
Deferred Income Taxes	592,384	(92,626)	1,888,969
Capitalized Lease Obligations	(39,433)	12,996	(8,637)
Other Current Liabilities	302,682	150,228	449,524
	987,651	(1,896,236)	2,859,106
Increase in Working Capital	\$1,860,545	\$11,658,945	\$ 1,196,622

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

Software AG Systems Group, Inc. and Subsidiaries
For the Three Years Ended May 31, 1983

	Common Stock \$.01 Par Value		Additional Paid-In Capital	Retained Earnings
	Shares	Amount		
Balance June 1, 1980	4,459,503	\$44,595	\$ 258,690	\$2,051,977
Shares Issued to Purchase Marketing License (Note 5)	232,560	2,326	374,163	—
Sale of Shares to Officers	231,300	2,313	187,386	—
Net Income	—	—	—	2,258,160
Balance May 31, 1981	4,923,363	49,234	820,239	4,310,137
Shares Issued Pursuant to Public Offering (Note 12)	1,212,500	12,125	19,464,532	—
Net Income	—	—	—	965,755
Balance May 31, 1982	6,135,863	61,359	20,284,771	5,275,892
Shares Retired	(21,060)	(211)	(17,790)	—
Exercise of Stock Options (Note 13)	1,980	20	14,830	—
Net Income	—	—	—	1,248,903
Balance May 31, 1983	6,116,783	\$61,168	\$20,281,811	\$6,524,795

See accompanying notes to consolidated financial statements.

Software AG Systems Group, Inc. and Subsidiaries

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Principles of Consolidation

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

(b) Revenue Recognition

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

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

(c) Cash and Short-Term Investments

The Company invests its excess operating funds in time deposits and marketable securities which are stated at cost which approximates market. Substantially all of the investments mature within 120 days.

(d) Property, Equipment, and Leasehold Improvements

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

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

(e) Income Taxes

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

(f) Net Income Per Common Share

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Software AG Systems Group, Inc. and Subsidiaries

2 CASH AND SHORT-TERM INVESTMENTS

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

	1983	1982
Cash	\$1,020,872	\$ 101,010
Time Deposits	7,163,000	6,875,000
Marketable Securities	500,000	500,000
	<u>\$8,683,872</u>	<u>\$7,476,010</u>

Interest and dividends from short-term investments for the years ended May 31, 1983 and 1982 was \$801,000 and \$1,390,000, respectively. The fiscal 1981 amount was immaterial.

3 ACCOUNTS RECEIVABLE AND LEASE CONTRACTS RECEIVABLE

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

At May 31, 1983 and 1982 Accounts Receivable and Lease Contracts Receivables are net of \$660,000 and \$228,000, respectively, for allowance for specific accounts not considered to be collectible.

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

	1983	1982
Minimum Lease Payments Receivable	\$13,786,893	\$11,853,092
Less: Unearned Interest Income	3,982,445	3,299,027
Lease Contracts Receivable	9,804,448	8,554,065
Less: Current Portion	4,083,032	3,108,610
Lease Contracts Receivable—Long-Term	<u>\$ 5,721,416</u>	<u>\$ 5,445,455</u>

Receivables from sales-type leases include approximately \$1,680,000 due from governmental agencies which contemplate continuing governmental appropriations of the annual payments due to the Company. Future minimum amounts receivable from contracts under sales-type leases for each of the next five years and all later years are:

1984	\$ 5,441,797
1985	3,756,259
1986	2,435,603
1987	1,520,996
1988	586,050
Later Years	46,188
Total	<u>\$13,786,893</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, 1983, 1982, and 1981 was \$1,354,337, \$1,192,775, and \$721,352, respectively.

4 PROPERTY, EQUIPMENT, AND LEASEHOLD IMPROVEMENTS

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

	1983	1982	Estimated Life (Years)
Office Furniture, Fixtures and Equipment	\$2,892,856	\$2,528,555	5-10
Leasehold Improvements	900,059	591,958	2-5
Transportation Equipment	19,710	158,569	3-5
Capitalized Equipment Leases	833,478	1,001,929	2-5
	<u>4,646,103</u>	<u>4,281,011</u>	
Less: Accumulated Depreciation and Amortization	1,709,070	1,223,657	
Net Property, Equipment and Leasehold Improvements	<u>\$2,937,033</u>	<u>\$3,057,354</u>	

5 COMPUTER SYSTEMS SOFTWARE MARKETING LICENSE

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

Amortization expense for the years ended May 31, 1983, 1982, and 1981 was \$612,483, \$480,491, and \$464,333 respectively.

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

Cash consideration for this license of \$7,305,850 was paid on July 15, 1981 to SAG from the proceeds of the common stock offering.

6 INCOME TAXES

The provisions for taxes on income consist of the following:

Year Ended May 31,	1983	1982	1981
Federal:			
Current	\$ —	\$ —	\$ (546,000)
Deferred	835,000	50,000	2,333,000
	<u>835,000</u>	<u>50,000</u>	<u>1,787,000</u>
State:			
Current	—	—	(50,000)
Deferred	150,000	85,000	320,000
	<u>150,000</u>	<u>85,000</u>	<u>270,000</u>
	<u>\$ 985,000</u>	<u>\$ 135,000</u>	<u>\$ 2,057,000</u>

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

Year Ended May 31,	1983	1982	1981
Statutory Federal			
Income Tax Rate	46.0 %	46.0 %	46.0 %
Surtax Exemption	(.9)	(1.7)	(.4)
State Income Taxes (net of federal tax benefit)			
	3.7	4.2	3.2
Investment Credit	(2.1)	(19.3)	(1.3)
Research and Development Credit			
	—	(9.1)	—
Credit for Foreign Tax Withheld			
	(4.6)	(12.0)	(.3)
Officer's Life Insurance	.9	3.5	—
Other	1.1	.7	.5
	<u>44.1%</u>	<u>12.3%</u>	<u>47.7%</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Software AG Systems Group, Inc. and Subsidiaries

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

Year Ended May 31,	1983	1982	1981
Revenue Recognition (Cash to Accrual)	\$ 942,000	\$ 579,300	\$ 2,742,000
Excess Tax Over Financial Statement Depreciation and Amortization	127,000	114,400	54,100
Excess Financial Statement Over Tax From Foreign Taxes Withheld	(204,000)	(245,300)	(86,800)
Excess Financial Statement Over Tax From Investment Tax Credits	(46,000)	(213,200)	(56,300)
Excess Financial Statement Over Tax From Research and Development Tax Credits	—	(100,200)	—
Effect of Net Operating Loss Carryforwards for Tax Purposes	166,000	—	—
	<u>\$ 985,000</u>	<u>\$ 135,000</u>	<u>\$ 2,653,000</u>

At May 31, 1983, the Company has available net operating loss carryforwards for income tax purposes which expire \$677,000 in 1996 and \$2,844,000 in

1997. The Company also has investment, jobs, foreign, and research and development tax credit carryforwards for income tax purposes which expire in various years as follows:

Year	Amount	Year	Amount
1984	\$ 22,300	1992	\$ 100
1985	86,800	1993	29,200
1986	79,750	1994	53,500
1987	245,300	1995	42,900
1988	221,200	1996	36,800
1991	200	1997	282,900
		1998	81,500

7 RETIREMENT BENEFIT PLAN

The Company has maintained a defined contribution retirement plan for substantially all of its employees since May 31, 1978. Contributions to the Plan are at the discretion of the Board of Directors. During 1981, the Company's president made a personal contribution of 30,000 of his shares of the Company's common stock to the Plan. There were no contributions made in fiscal 1982 or fiscal 1983.

8 OTHER CURRENT LIABILITIES AND LINE OF CREDIT

Other Current Liabilities at May 31 are as follows:

	1983	1982
Salaries, Wages, Commissions and Related Expenses	\$1,152,871	\$1,064,323
Deferred Revenue (Note 1)	258,766	365,319
Other	324,530	3,843
	<u>\$1,736,167</u>	<u>\$1,433,485</u>

The Company has a Revolving Line of Credit of \$4,000,000 of which \$2,000,000 is available for general working capital and \$2,000,000 is only available for acquisitions. The Revolving Promissory Note will bear interest at the bank's prime rate. As of May 31, 1983, no amounts had been drawn against this line of credit.

9 LEASES

The future minimum lease payments under capital leases included in property, equipment and leasehold improvements at May 31, 1983 are as follows:

Year	Amount
1984	\$218,896
1985	187,543
1986	180,628
1987	39,390
1988	—
Total Minimum Lease Payments	626,457
Less: Amount Representing Interest	248,645
Present Value of Minimum Lease Payments	\$377,812

Depreciation of these assets is included in Other Operating Expenses.

The future minimum rental payments required under operating leases at May 31, 1983 are as follows:

Year	Equipment	Facility	Total
1984	\$153,093	\$1,311,572	\$1,464,665
1985	130,431	1,288,642	1,419,073
1986	87,418	1,287,783	1,375,201
1987	42,309	1,153,471	1,195,780
1988	302	721,177	721,479
Thereafter	—	653,175	653,175
	\$413,553	\$6,415,820	\$6,829,373

10 BUSINESS SEGMENT AND INTERNATIONAL REVENUES

The Company is engaged in one industry segment, the development and marketing of systems software, both domestically and worldwide. Sales to customers in foreign countries were as follows:

Year Ended May 31,	1983	1982	1981
Geographical Region:			
Far East			
and Australia	\$2,821,816	\$2,246,975	\$1,505,542
Mexico and South America	734,797	179,201	511,344
Mid-East and South Africa	1,045,858	854,743	662,467
Canada and Europe	1,059,273	1,306,166	1,389,501
	\$5,661,744	\$4,587,085	\$4,068,854

11 SUPPLEMENTARY INFORMATION

Amounts charged to Other Operating Expenses include the following:

Year Ended May 31,	1983	1982	1981
Depreciation and Amortization of Property, Equipment and Leasehold Improvements			
	\$746,821	\$ 578,357	\$351,659
Taxes other than Income Taxes:			
Payroll	509,288	295,451	244,920
Foreign	221,175	245,300	86,798
Other	66,748	11,805	27,723
Advertising	458,425	837,566	246,015
Rental Expense for Operating Leases			
	1,883,638	1,153,050	837,475

Direct costs for product development during fiscal years 1983, 1982, and 1981 were approximately \$600,000, \$1,300,000 and \$900,000, respectively. These amounts are included in Salaries, Wages, and Commissions and in Other Operating Expenses in the accompanying Consolidated Statements of Income.

12 SALE OF COMMON STOCK TO PUBLIC

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

13 STOCK OPTIONS—KEY EMPLOYEE INCENTIVE PLAN

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

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

The following schedule summarizes the changes in stock options outstanding for the three fiscal years ended May 31, 1983.

	1983	1982	1981
Outstanding, beginning of year	74,041	45,550	—
Granted (at an exercise price of \$7.69 to \$9.94 in 1983, \$9.31 to \$13.00 in 1982, and \$7.50 in 1981)	77,603	35,741	45,550
Exercised	(1,980)	—	—
Expired or cancelled	(36,355)	(7,250)	—
Outstanding, end of year	113,309	74,041	45,550
Exercisable, end of year	19,640	8,660	—
Available for grant, end of year	336,691	375,959	404,450

14 LITIGATION

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

SUMMARY OF QUARTERLY FINANCIAL DATA

(Unaudited)

The following is a summary of selected quarterly financial data for 1983 and 1982:

	Quarter Ended			
1983:	Aug. 31, 1982	Nov. 30, 1982	Feb. 28, 1983	May 31, 1983
Total Revenues	\$6,382,383	\$7,201,109	\$7,604,489	\$8,855,910
Net Income (loss) (a)	148,785	370,498	(253,151)	982,771
Net Income (loss) per share	.02	.06	(.04)	.16
	Quarter Ended			
1982:	Aug. 31, 1981	Nov. 30, 1981	Feb. 28, 1982	May 31, 1982
Total Revenues	\$4,497,954	\$6,584,089	\$6,450,803	\$7,153,006
Net Income (loss) (b)	258,670	713,773	387,864	(394,552)
Net Income (loss) per share	.04	.12	.06	(.06)

- (a) The net loss for the quarter ended February 28, 1983 includes a \$1,500,000 settlement of the litigation with Mini-Technology, Inc. (see Note 14 to Consolidated Financial Statements). The effect of the settlement on net loss and loss per share were \$810,000 and \$.13, respectively.
- (b) Included in the fourth quarter of 1982 are nonrecurring expenses of approximately \$250,000 for the relocation of the Seattle Research and Development Facility and approximately \$113,000 to adjust a common stock investment included in Other Assets to its net realizable value.

**REPORT OF INDEPENDENT CERTIFIED
PUBLIC ACCOUNTANTS**

The Board of Directors
Software AG Systems Group, Inc.

We have examined the consolidated balance sheets of Software AG Systems Group, Inc. and Subsidiaries as of May 31, 1983 and 1982 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, 1983. 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 Group, Inc. and Subsidiaries at May 31, 1983 and 1982 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, 1983 in conformity with generally accepted accounting principles applied on a consistent basis.

July 26, 1983
Washington, D.C.

PEAT, MARWICK, MITCHELL & CO.

STOCK INFORMATION

The common stock of Software AG Systems Group, Inc. has been traded in the over-the counter market (NASDAQ Symbol: SAGA) since June 9, 1981. Prior to that time, there was no public market for the Company's common stock.

The 1983 Annual Meeting of Stockholders will be held at 10:00 a.m., local time, on October 26, 1983, at the Dulles Marriott Hotel, 331 W. Service Road, Chantilly, VA 22041.

TRANSFER AGENT AND REGISTRAR

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

STOCK PRICE RANGE AND DIVIDENDS

	1983		1982	
	High	Low	High	Low
First Quarter	9	5	25	14¼
Second Quarter	15	6¾	17	10¾
Third Quarter	14	9¾	16	8
Fourth Quarter	12½	7¾	9¾	6¾

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.

DIRECTORS

John Norris Maguire

Chairman of the Board
and President
Software AG Systems Group, 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 Committee

OFFICERS

John Norris Maguire

Chairman of the Board and
President

Edward J. Forman

Senior Vice President, Technology
and Advanced Markets

Donald M. France

Senior Vice President, Sales and
Marketing

Michael E. Jakes

Senior Vice President,
International

Gilbert Markbein

Treasurer and Controller

Charles R. Collins

Secretary
Partner of Hughes Hubbard & Reed

FORM 10-K

A copy of the Company's Annual Report on Form 10-K for the year ended May 31, 1983, together with financial statements and financial statement schedules as filed with the Securities and Exchange Commission, contain additional information about the Company and is available without charge upon written request. Direct inquiries to Paula J. Brooks, Director of Marketing, Software AG of North America, Inc., 11800 Sunrise Valley Drive, Reston, Virginia, 22091. Phone (703) 860-5050

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