FORM S-1 · REGISTRATION STATEMENT

# Rogue Wave Software Inc /Or/

IPO priced 1996-11-22 · $12.00 a share · RWAV



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AS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION ON OCTOBER 4, 1996 REGISTRATION NO. 333- SECURITIES AND EXCHANGE COMMISSION WASHINGTON, D.C. 20549 FORM SB-2 REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933 ROGUE WAVE SOFTWARE, INC. (NAME OF SMALL BUSINESS ISSUER IN ITS CHARTER)

| DELAWARE | 7372 | 93-1064214 |
|---|---|---|
| (State or other jurisdiction of incorporation or organization) | (Primary Standard Industrial Classification Code Number) | (I.R.S. Employer Identification No.) |

850 SW 35TH STREET CORVALLIS, OREGON 97333 (541) 754-3010 (ADDRESS AND TELEPHONE NUMBER OF PRINCIPAL EXECUTIVE OFFICES AND PRINCIPAL PLACE OF BUSINESS) THOMAS KEFFER, PH.D. PRESIDENT AND CHIEF EXECUTIVE OFFICER ROGUE WAVE SOFTWARE, INC. 850 SW 35TH STREET CORVALLIS, OREGON 97333 (541) 754-3010 (NAME, ADDRESS AND TELEPHONE NUMBER OF AGENT FOR SERVICE)

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APPROXIMATE DATE OF PROPOSED SALE TO THE PUBLIC: AS SOON AS PRACTICABLE AFTER THE REGISTRATION STATEMENT BECOMES EFFECTIVE. IF THIS FORM IS FILED TO REGISTER ADDITIONAL SECURITIES FOR AN OFFERING PURSUANT TO RULE 462(B) UNDER THE SECURITIES ACT, PLEASE CHECK THE FOLLOWING BOX AND LIST THE SECURITIES ACT REGISTRATION STATEMENT NUMBER OF THE EARLIER EFFECTIVE REGISTRATION STATEMENT FOR THE SAME OFFERING. / / _____ IF THIS FORM IS A POST-EFFECTIVE AMENDMENT FILED PURSUANT TO RULE 462(C) UNDER THE SECURITIES ACT, CHECK THE FOLLOWING BOX AND LIST THE SECURITIES ACT REGISTRATION STATEMENT NUMBER OF THE EARLIER EFFECTIVE REGISTRATION STATEMENT FOR THE SAME OFFERING. / / _____ IF DELIVERY OF THE PROSPECTUS IS EXPECTED TO BE MADE PURSUANT TO RULE 434, PLEASE CHECK THE FOLLOWING BOX. / /

CALCULATION OF REGISTRATION FEE

| TITLE OF SECURITIES TO BE REGISTERED | AMOUNT TO BE REGISTERED (1) | PROPOSED MAXIMUM OFFERING PRICE PER SHARE (2) | PROPOSED MAXIMUM AGGREGATE OFFERING PRICE (2) | AMOUNT OF REGISTRATION FEE |
|---|---|---|---|---|
| COMMON STOCK, $.0015 PAR VALUE..... | 2,328,750 SHARES | $11.00 | $25,616,250 | $7,763 |

(1) INCLUDES 303,750 SHARES OF COMMON STOCK ISSUABLE UPON EXERCISE OF THE UNDERWRITERS' OVER-ALLOTMENT OPTION. (2) ESTIMATED SOLELY FOR THE PURPOSE OF CALCULATING THE AMOUNT OF THE REGISTRATION FEE IN ACCORDANCE WITH RULE 457(A) UNDER THE SECURITIES ACT OF 1933. THE REGISTRANT HEREBY AMENDS THIS REGISTRATION STATEMENT ON SUCH DATE OR DATES AS MAY BE NECESSARY TO DELAY ITS EFFECTIVE DATE UNTIL THE REGISTRANT SHALL FILE A FURTHER AMENDMENT WHICH SPECIFICALLY STATES THAT THIS REGISTRATION STATEMENT SHALL THEREAFTER BECOME EFFECTIVE IN ACCORDANCE WITH SECTION 8(A) OF THE SECURITIES ACT OF 1933 OR UNTIL THE REGISTRATION STATEMENT SHALL BECOME EFFECTIVE ON SUCH DATE AS THE COMMISSION, ACTING PURSUANT TO SAID SECTION 8(A), MAY DETERMINE.

INFORMATION CONTAINED HEREIN IS SUBJECT TO COMPLETION OR AMENDMENT. A REGISTRATION STATEMENT RELATING TO THESE SECURITIES HAS BEEN FILED WITH THE SECURITIES AND EXCHANGE COMMISSION. THESE SECURITIES MAY NOT BE SOLD NOR MAY OFFERS TO BUY BE ACCEPTED PRIOR TO THE TIME THE REGISTRATION STATEMENT BECOMES EFFECTIVE. THIS PROSPECTUS SHALL NOT CONSTITUTE AN OFFER TO SELL OR THE SOLICITATION OF AN OFFER TO BUY NOR SHALL THERE BE

ANY SALE OF THESE SECURITIES IN ANY STATE IN WHICH SUCH OFFER, SOLICITATION OR SALE WOULD BE UNLAWFUL PRIOR TO THE REGISTRATION OR QUALIFICATION UNDER THE SECURITIES LAWS OF ANY SUCH STATE.

SUBJECT TO COMPLETION, DATED OCTOBER 4, 1996 PROSPECTUS 2,025,000 SHARES

[LOGO]

COMMON STOCK

OF THE 2,025,000 SHARES OF COMMON STOCK OFFERED HEREBY, 2,000,000 SHARES ARE BEING SOLD BY THE COMPANY AND 25,000 SHARES ARE BEING SOLD BY THE SELLING STOCKHOLDERS. THE COMPANY WILL NOT RECEIVE ANY OF THE PROCEEDS FROM THE SALE OF SHARES BY THE SELLING STOCKHOLDERS. SEE "PRINCIPAL AND SELLING STOCKHOLDERS."

PRIOR TO THIS OFFERING, THERE HAS BEEN NO PUBLIC MARKET FOR THE COMMON STOCK OF THE COMPANY. IT IS CURRENTLY ESTIMATED THAT THE INITIAL PUBLIC OFFERING PRICE WILL BE BETWEEN $ AND $ PER SHARE. SEE "UNDERWRITING" FOR A DISCUSSION OF THE FACTORS TO BE CONSIDERED IN DETERMINING THE INITIAL PUBLIC OFFERING PRICE. THE COMPANY HAS MADE APPLICATION TO HAVE ITS COMMON STOCK LISTED ON THE NASDAQ NATIONAL MARKET UNDER THE SYMBOL RWAV.

THE SHARES OFFERED HEREBY INVOLVE A HIGH DEGREE OF RISK. SEE "RISK FACTORS" COMMENCING ON PAGE 5.

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

| | PRICE TO PUBLIC | UNDERWRITING DISCOUNT (1) | PROCEEDS TO COMPANY (2) | PROCEEDS TO SELLING STOCKHOLDERS |
|---|---|---|---|---|
| Per Share..... | $ | $ | $ | $ |
| Total (3)..... | $ | $ | $ | $ |

(1) SEE "UNDERWRITING" FOR INDEMNIFICATION ARRANGEMENTS WITH THE SEVERAL UNDERWRITERS.

(2) BEFORE DEDUCTING EXPENSES PAYABLE BY THE COMPANY ESTIMATED AT $1,000,000 (3) THE COMPANY AND CERTAIN STOCKHOLDERS OF THE COMPANY HAVE GRANTED TO THE UNDERWRITERS A 30-DAY OPTION TO PURCHASE UP TO 303,750 ADDITIONAL SHARES OF COMMON STOCK SOLELY TO COVER OVER-ALLOTMENTS, IF ANY. IF ALL SUCH SHARES ARE PURCHASED, THE TOTAL PRICE TO PUBLIC, UNDERWRITING DISCOUNT, PROCEEDS TO COMPANY AND PROCEEDS TO SELLING STOCKHOLDERS WILL BE $ , $ , $ AND $ , RESPECTIVELY. SEE "UNDERWRITING."

THE SHARES OF COMMON STOCK ARE OFFERED BY THE SEVERAL UNDERWRITERS SUBJECT TO PRIOR SALE, RECEIPT AND ACCEPTANCE BY THEM AND SUBJECT TO THE RIGHT OF THE UNDERWRITERS TO REJECT ANY ORDER IN WHOLE OR IN PART AND CERTAIN OTHER CONDITIONS. IT IS EXPECTED THAT CERTIFICATES FOR SUCH SHARES WILL BE AVAILABLE FOR DELIVERY ON OR ABOUT , 1996 AT THE OFFICE OF THE AGENT OF HAMBRECHT & QUIST LLC IN NEW YORK, NEW YORK.

HAMBRECHT & QUIST WESSELS, ARNOLD & HENDERSON

, 1996

[GRAPHIC]

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 TRANSACTIONS MAY BE EFFECTED ON THE NASDAQ NATIONAL MARKET, IN THE OVER-THE-COUNTER MARKET OR OTHERWISE. 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, INCLUDING "RISK FACTORS" AND THE CONSOLIDATED FINANCIAL STATEMENTS AND NOTES THERETO, APPEARING ELSEWHERE IN THIS PROSPECTUS. THE DISCUSSION IN THIS PROSPECTUS CONTAINS FORWARD-LOOKING STATEMENTS THAT INVOLVE RISKS AND UNCERTAINTIES. THE COMPANY'S ACTUAL RESULTS COULD DIFFER MATERIALLY FROM THOSE DISCUSSED HEREIN. FACTORS THAT COULD CAUSE OR CONTRIBUTE TO SUCH DIFFERENCES INCLUDE, BUT ARE NOT LIMITED TO, THOSE DISCUSSED IN "RISK FACTORS," "MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS" AND "BUSINESS" AS WELL AS THOSE DISCUSSED ELSEWHERE IN THIS PROSPECTUS.

# *The Company*

Rogue Wave is a leading provider of object-oriented software parts and related tools. The Company's C++ and Java-based products are used to develop robust, scalable software applications for a wide variety of environments, including client-server, intranet and Internet environments. These products enable customers to construct software applications more quickly, with higher quality and across multiple platforms, and reduce the complexity associated with the software development process. The Company's software parts provide the functionality to perform fundamental operations such as network and database connectivity, thereby allowing programmers to focus on the core functionality of the software under development. Rogue Wave offers a broad suite of software parts and related tools for C++, and has recently introduced and continues to develop software parts and related tools for Java. The Company believes it was the first to deliver a commercially available Java interface builder.

Software is increasingly the most critical component of today's information systems. Businesses typically rely on such information systems as a strategic resource and as a way of differentiating themselves from their competitors. However, software development technologies and methods have not kept pace with the increasing reliance on software systems. In fact, the intricacies of modern software systems have tended to make the software development process longer, more complicated and increasingly error prone. To address these difficulties in developing and maintaining complex software systems, organizations are increasingly adopting object-oriented technologies and development methodologies. For object-oriented software development, C++ has emerged as the industry standard programming language. Java, another object-oriented programming language that is similar to C++, has been recently popularized through the growth of the Internet and intranet environments. Java offers additional benefits in the areas of platform independence and distributed computing.

While objects are easy to use once built, developing robust, well-designed objects can be extremely difficult and time consuming. Organizations are seeking to improve quality and time-to-market by purchasing pre-written objects or "parts" from independent vendors to handle fundamental operations ranging from simple functions such as date handling to more complex functions such as network

communications. The Company believes that the use of third-party software parts will enable organizations to develop robust software applications more rapidly, at lower cost and with more functionality than applications using only internally developed objects.

The Company's objective is to be the leading provider of high quality, reusable software parts and related tools for the development of object-oriented software applications. The Company's products have the features and functionality necessary to provide customers with the benefits of increased software flexibility and quality, accelerated development times and reduced maintenance costs. The Company follows a cross-platform strategy allowing most objects to be used on the most popular operating systems, such as Windows and UNIX. The Company's strategy is to leverage its installed base of Tools.h++ customers by offering additional object-oriented software parts and related tools. The Company also intends to extend its technological leadership, promote the enterprise-wide adoption of Rogue Wave products and expand its worldwide distribution.

To date, Rogue Wave has sold over 50,000 end-user licenses. Rogue Wave markets its software primarily through its direct sales organization, and to a lesser extent through outside sales representatives and indirect channel partners. The Company bundles its Tools.h++ and/or Standard C++ Library products with popular compilers offered by leading vendors, including Fujitsu, Hewlett-Packard, Microware, Siemens-Nixdorf, Silicon Graphics and Sun Microsystems. The Company's products are used by programmers to develop software applications for organizations in a wide variety of industries. The Company's customers include FedEx, Ford, Hewlett-Packard, IBM, MCI, Motorola, Netscape, Sony and Sun Microsystems.

## *The Offering*

Common Stock offered by the Company..... 2,000,000 shares Common Stock offered by the Selling Stockholders..... 25,000 shares Common Stock to be outstanding after the offering..... 7,196,259 shares (1) Use of proceeds..... For general corporate purposes, including working capital. See "Use of Proceeds." Proposed Nasdaq National Market symbol..... RWAV

## *Summary Consolidated Financial Information (In Thousands, Except Per Share Data)*

| | YEAR ENDED SEPTEMBER 30, | | | NINE MONTHS ENDED JUNE 30, | |
|---|---|---|---|---|---|
| | 1993 | 1994 | 1995 | 1995 | 1996 |
| CONSOLIDATED STATEMENTS OF OPERATIONS: | | | | | |
| Total revenue | $ 3,212 | $ 7,209 | $ 11,937 | $ 8,529 | $ 13,192 |
| Income (loss) from operations | 180 | 644 | 195 | 345 | (255) |
| Net income (loss) | 175 | 568 | 79 | | |

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140       (114)
  Net income (loss) per common share (2)..................... $    0.05 $    0.14 $    0.02 $
0.03 $   (0.03)
  Shares used in per share calculation (2)....................     3,878     4,118     4,973
4,784     4,052
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## *June 30, 1996 Actual Pro Forma (3) as Adjusted (3)*

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CONSOLIDATED BALANCE SHEET:
  Cash and cash equivalents.................................... $   2,611   $   2,611
  Total assets.................................................     9,537       9,537
  Long term obligations, less current portion...................       377         377
377
  Mandatorily redeemable preferred stock.......................     4,664          --
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  Total stockholders' equity...................................       527       5,191
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(1) Excludes 1,456,827 shares of the Company's Common Stock issuable upon exercise of stock options outstanding as of September 30, 1996 at a weighted average exercise price of $2.37 per share. See "Management--Equity Incentive Plans."

(2) See Note 1 of Notes to Consolidated Financial Statements for a description of the calculation of the number of shares used in the calculation of net income per common share.

(3) Pro forma to reflect the conversion of the mandatorily redeemable preferred stock and as adjusted to reflect the sale of 2,000,000 shares of Common Stock offered by the Company hereby at an assumed initial public offering price of $ per share. See "Capitalization."

EXCEPT AS OTHERWISE INDICATED, THE INFORMATION CONTAINED IN THIS PROSPECTUS ASSUMES (i) NO EXERCISE OF THE UNDERWRITERS' OVER-ALLOTMENT OPTION, (ii) A TWO-FOR-THREE REVERSE STOCK SPLIT EXPECTED TO OCCUR PRIOR TO THE COMPLETION OF THE OFFERING, (iii) THE CONVERSION OF ALL OUTSTANDING SHARES OF PREFERRED STOCK INTO SHARES OF COMMON STOCK, WHICH WILL OCCUR AUTOMATICALLY UPON THE CLOSING OF THE OFFERING, AND (iv) THE COMPANY'S REINCORPORATION INTO DELAWARE EXPECTED TO OCCUR PRIOR TO THE COMPLETION OF THE OFFERING. SEE "DESCRIPTION OF CAPITAL STOCK" AND "UNDERWRITING."

# *Risk Factors*

IN ADDITION TO THE OTHER INFORMATION IN THIS PROSPECTUS, THE FOLLOWING RISK FACTORS SHOULD BE CONSIDERED CAREFULLY IN EVALUATING THE COMPANY AND ITS BUSINESS BEFORE PURCHASING SHARES OF THE COMMON STOCK OFFERED HEREBY. THIS PROSPECTUS CONTAINS FORWARD-LOOKING STATEMENTS THAT INVOLVE RISKS AND UNCERTAINTIES. THE COMPANY'S ACTUAL RESULTS MAY DIFFER MATERIALLY FROM THE RESULTS DISCUSSED IN THE FORWARD-LOOKING STATEMENTS. FACTORS THAT MIGHT CAUSE SUCH A DIFFERENCE INCLUDE, BUT ARE NOT LIMITED TO, THOSE

DISCUSSED IN "RISK FACTORS," "MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS" AND ELSEWHERE IN THIS PROSPECTUS.

LIMITED OPERATING HISTORY. The Company was founded in September 1989 and first shipped products in November 1989. Although the Company's revenue has increased in each of the last six quarters and the Company had net income in several of those quarters, the Company incurred net losses in the quarters ended June 30, 1995, September 30, 1995 and June 30, 1996. The Company's limited profitability is due in part to the combination of its financial results with those of Inmark Development Corporation ("Inmark"), with which the Company merged in October 1995 (the "Inmark Merger"), as well as the significant commitment of resources to the Company's product development, sales and marketing and technical support organizations. The Company expects to continue to devote substantial resources in these areas and as a result will need to recognize significant quarterly revenue to achieve and maintain profitability. The Company's limited operating history makes the prediction of future operating results difficult or impossible. Although the Company has experienced significant revenue growth in recent years, there can be no assurance that the Company will sustain such growth, if any, or that the Company will remain profitable on a quarterly basis or at all. See "Selected Consolidated Financial Data" and "Management's Discussion and Analysis of Financial Condition and Results of Operations."

UNCERTAINTY OF FUTURE OPERATING RESULTS; FLUCTUATIONS IN QUARTERLY OPERATING RESULTS. Prior growth rates in the Company's revenue and net income should not be considered indicative of future operating results. Future operating results will depend upon many factors, including the demand for the Company's products, the level of product and price competition, the length of the Company's sales cycle, the size and timing of individual license transactions, the delay or deferral of customer implementations, the budget cycles of the Company's customers, the Company's success in expanding its direct sales force and indirect distribution channels, the timing of new product introductions and product enhancements, the mix of products and services sold, levels of international sales, activities of and acquisitions by competitors, the timing of new hires, changes in foreign currency exchange rates, and the ability of the Company to develop and market new products and control costs. A significant portion of the Company's revenue has been, and the Company believes will continue to be, derived from relatively large orders, and the timing of such orders has caused and may continue to cause material fluctuations in the Company's operating results, particularly on a quarterly basis. The Company generally ships orders as received and as a result typically has little or no backlog. Quarterly revenue and operating results therefore depend on the volume and timing of orders received during the quarter, which are difficult to forecast. In addition, the Company has historically earned a substantial portion of its revenue in the last days of each quarter. To the extent this trend continues, the failure to achieve such revenue during the last days of any given quarter will have a material adverse effect on the Company's business, financial condition and results of operations.

Service and maintenance revenue tend to fluctuate as consulting contracts, which may extend over several months, are undertaken, renewed, completed or terminated. License fee revenue is difficult to forecast due to the fact that the Company's sales cycle, from initial evaluation to purchase, varies

substantially from customer to customer. As a result of these and other factors, revenue for any quarter is subject to significant variation, and the Company believes that period-to-period comparisons of its results of operations are not necessarily meaningful and should not be relied upon as indications of future performance. Because the Company's operating expenses are based on anticipated revenue trends and because a high percentage of the Company's expenses are relatively fixed, a delay in the recognition of revenue from a limited number of transactions could cause significant variations in operating results from quarter to quarter and could result in significant losses. To the extent such expenses precede, or are not subsequently followed by, increased revenue, the Company's operating results would be materially and adversely affected. Due to all of the foregoing factors, it is likely that in some future quarter the Company's operating results will be below the expectations of public market analysts and investors.

In such event, the price of the Company's Common Stock would likely be materially and adversely affected. Fluctuations in operating results may also result in volatility in the price of the Company's Common Stock. See "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Business-- Sales, Marketing and Customer Support."

COMPETITION. The market for the Company's products is intensely competitive, subject to rapid change and significantly affected by new product introductions and other market activities of industry participants. The Company's products are targeted at the emerging market for C++ software parts and programming tools, and the Company's competitors offer a variety of products and services to address this market. The Company believes that the principal competitive factors in this market are product quality, flexibility, performance, functionality and features, use of standards based technology, quality of support and service, company reputation and price. While price is less significant than other factors for corporate customers, price can be a significant factor for individual programmers. Direct competitors include Microsoft (with its Microsoft Foundation Classes, "MFC"), IBM and several privately held companies. Microsoft is a particularly strong competitor due to its large installed base and the fact that it bundles its MFC library with its own and other C++ compilers. Microsoft may decide in the future to devote more resources to or may broaden the functions of MFC in order to address and more effectively compete with the functionality of the Company's products. Software applications can also be developed using software parts and programming tools in environments other than C++. Indirect competitors with such offerings include Microsoft (with its ActiveX technology), Borland, Oracle, ParcPlace-DigiTalk and Powersoft (a subsidiary of Sybase). Many of these competitors have longer operating histories, significantly greater financial, technical, marketing and other resources, significantly greater name recognition and larger installed bases of customers than the Company. In addition, several database vendors, such as Informix, Oracle and Sybase are increasingly developing robust software parts for inclusion with their database products and may begin to compete with the Company in the future. These potential competitors have well-established relationships with current and potential customers and have the resources to enable them to more easily offer a single vendor solution. Like the Company's current competitors, many of these companies have longer operating histories, significantly greater resources and name recognition and larger installed bases of customers than the Company. As a result, these potential competitors may be able to respond more quickly to new

or emerging technologies and changes in customer requirements, or to devote greater resources to the development, promotion and sale of their products than the Company. In addition, the Company faces competition from Borland, Symantec and other companies for its current Java products and it expects to face significant competition in the future from such companies with respect to other Java products the Company may introduce.

The Company also faces competition from systems integrators and internal development efforts. Many systems integrators possess industry specific expertise that may enable them to offer a single vendor solution more easily, and already have a reputation among potential customers for offering enterprise-wide solutions to software programming needs. There can be no assurance that these third parties, many of which have significantly greater resources than the Company, will not market competitive software products in the future. It is also possible that new competitors or alliances among competitors will emerge and rapidly acquire significant market share. The Company also expects that competition will increase as a result of software industry consolidation. Increased competition may result in price reductions, reduced gross margins and loss of market share, any of which could materially and adversely affect the Company's business, operating results and financial condition. There can be no assurance that the Company will be able to compete successfully against current and future competitors or that competitive pressures faced by the Company will not materially and adversely affect its business, financial condition and results of operations.

MANAGEMENT OF GROWTH. The Company is experiencing a period of transition and aggressive product introductions that has placed, and may continue to place, a significant strain on its resources, including its personnel. Following the Inmark Merger, management and other personnel have focused a significant amount of attention on the integration of Inmark with the Company, including the integration of Inmark personnel, as well as the integration of zApp and zApp Factory with the Company's existing product line and the introduction of JFactory. Expansion of the Company's product lines, additional product development and product introductions, or acquisitions of other technologies or companies, when added to the day-to-day activities of the Company, will place a further strain on the Company's resources and personnel. The Inmark Merger has also resulted in the Company's product development team being distributed in three separate sites across the country. Managing this distribution requires a significant amount of attention from management, particularly the Vice President, Development and the Chief Technology Officer, to ensure that the Company's development efforts are timely, consistent and well integrated.

Furthermore, the Company believes that its ability to achieve significant revenue growth in the future will depend in large part on its success in recruiting and training sufficient direct sales personnel and establishing and maintaining relationships with its outside sales representatives. Although the Company is currently investing, and plans to continue to invest, significant resources to expand its direct sales force and to develop distribution relationships with outside sales representatives, the Company has at times experienced and continues to experience difficulty in recruiting qualified sales personnel and in establishing necessary sales representative relationships. The Company believes that the hiring and retaining of qualified individuals at all levels in the Company is essential to the Company's ability to manage growth successfully, and there can be no assurance that the Company will

be successful in attracting and retaining the necessary personnel. If Company management is unable to effectively manage growth, the Company's business, financial condition and results of operations will be materially and adversely affected. See "--Future Acquisitions," "Business--The Rogue Wave Strategy" and "Business--Sales, Marketing and Customer Support."

DEPENDENCE ON EMERGING MARKET FOR C++ AND JAVA. The Company's product lines are designed for use in object-oriented software application development, specifically the C++ programming language, and substantially all of the Company's revenue has been attributable to sales of products and related maintenance and consulting services related to C++ programming and development. The Company believes that while the market for object-oriented technology in general, and C++ tools and programming applications in particular, is growing, the Company's growth depends upon broader market acceptance of object-oriented technology and the C++ programming language. Even if broader market acceptance is achieved, the object-oriented market may continue to be characterized by a lack of standards and numerous competitors in the areas of tools, methodology and services. Furthermore, the C++ programming language is very complex. Should the C++ programming language lose market acceptance or be replaced by another programming language, the Company's business, financial condition and results of operations would be materially and adversely affected. The Company's financial performance will depend in part upon continued growth in the object-oriented technology and C++ markets and the development of standards that the Company's products address. There can be no assurance that the market will continue to grow or that the Company will be able to respond effectively to the evolving requirements of the market.

The number of software developers using the C++ programming language is relatively small compared to the number of developers using more traditional software development technology. The adoption of the C++ programming language by software programmers who have traditionally used other technology requires reorientation to significantly different programming methods, and there can be no assurance that the acceptance of the C++ programming language will expand beyond the early adopters of the technology. Furthermore, there can be no assurance that potential corporate customers will be willing to make the investment required to retrain programmers to build software using C++ rather than structured or other object-oriented programming techniques. Many of the Company's customers have purchased only small quantities of the Company's products and there can be no assurance that these or new customers will broadly implement C++ programming or purchase additional products.

In addition, the Company has recently introduced several products for use in the Java market. The Company has spent and will continue to devote resources on the development of new and enhanced products that address the Java market. There can be no assurance that the Company will be successful in marketing its existing or future Java products or that the market for Java products will grow. If the Java market fails to grow, or grows more slowly than the Company currently anticipates, the Company's business, financial condition and results of operations could be materially and adversely affected. See "Business--Industry Background" and "--Products."

RAPID TECHNOLOGICAL CHANGE; DEPENDENCE ON NEW PRODUCTS. The market for software development tools is characterized by rapid technological advances, changes in customer requirements and frequent new product introductions and enhancements. The Company must respond rapidly to developments related to hardware platforms, operating systems and applicable programming languages. Such developments will require the Company to continue to make substantial product development investments. Any failure by the Company to anticipate or respond adequately to technological developments and customer requirements, or any significant delays in product development or introduction, could result in a loss of competitiveness or revenue.

The Company's future success will depend on its ability to continue to enhance its current product line and to continue to develop and introduce new products that keep pace with competitive product introductions and technological developments, satisfy diverse and evolving customer requirements and otherwise achieve market acceptance. There can be no assurance that the Company will be successful in continuing to develop and market on a timely and cost-effective basis fully functional product enhancements or new products that respond to technological advances by others, or that its enhanced and new products will achieve market acceptance. In addition, the Company has in the past experienced delays in the development, introduction and marketing of new or enhanced products, and there can be no assurance that the Company will not experience similar delays in the future. Any failure by the Company to anticipate or respond adequately to changes in technology and customer preferences, or any significant delays in product development or introduction, would have a material adverse effect on the Company's business, financial condition and results of operations. See "--Dependence on Emerging Market for C++ and Java" and "Business--Product Development."

FUTURE ACQUISITIONS. While there are currently no commitments or negotiations with respect to any particular acquisition, the Company frequently evaluates strategic opportunities available to it and may in the future pursue acquisitions of complementary technologies, products or businesses. Future acquisitions of complementary technologies, products or businesses by the Company will result in the diversion of management's attention from the day-to-day operations of the Company's business and may include numerous other risks, including difficulties in the integration of the operations, products and personnel of the acquired companies. Future acquisitions by the Company may also result in dilutive issuances of equity securities, the incurrence of debt and amortization expenses related to goodwill and other intangible assets. Failure of the Company to successfully manage future acquisitions may have a material adverse effect on the Company's business, financial condition and results of operations.

DEPENDENCE UPON KEY PERSONNEL. The Company's future performance depends in significant part upon the continued service of its key technical, sales and senior management personnel, none of whom is bound by an employment agreement. The Company believes that the technological and creative skills of its personnel are essential to establishing and maintaining a leadership position, particularly in light of the fact that its intellectual property, once sold to the public market, is easily replicated. The loss of the services of one or more of the Company's executive officers or key technical personnel would have a material adverse effect on the Company's business, financial condition and results of operations. In particular, the services of Thomas Keffer, Dan Whitaker and Michael Scally,

the Company's President and Chief Executive Officer, Executive Vice President and Chief Operating Officer, respectively, would be difficult to replace. The Company has key person life insurance policies in the amount of $1.0 million on each of Mr. Keffer and Mr. Whitaker. In addition, the Company is in the process of acquiring a key person life insurance policy in the amount of $1.0 million on Mr. Scally. The Company's future success also depends on its continuing ability to attract and retain highly-qualified technical, sales and managerial personnel. In the past, the Company has experienced some difficulty in attracting key technical personnel to work at its headquarters in Corvallis, Oregon. Competition for such personnel is intense, and there can be no assurance that the Company can retain its key technical, sales and managerial employees or that it can attract, assimilate or retain other highly qualified technical, sales and managerial personnel in the future. See "Business--Sales, Marketing and Customer Support" and "Management."

VARIABILITY OF SALES CYCLES. The Company distributes its products through two different direct sales channels, a telesales force and a field sales force, each of which is subject to a variable sales cycle. Products sold by the Company's telesales force may be sold after a single phone call or may require several weeks of education and negotiation before a sale is made. As such, the sales cycle associated with telesales typically ranges from a few days to two months. On the other hand, the purchase of products from the Company's field sales force is often an enterprise-wide decision and may require the sales person to provide a significant level of education to prospective customers regarding the use and benefits of the Company's products. For these and other reasons, the sales cycle associated with the sale of the Company's products through its field sales force typically ranges from two to six months and is subject to a number of significant delays over which the Company has little or no control. Due to the foregoing factors, quarterly revenue and operating results can be variable and are difficult to forecast, and the Company believes that period-to-period comparisons of quarterly revenue are not necessarily meaningful and should not be relied upon as an indicator of future revenue. See "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Business--Sales, Marketing and Customer Support."

PROPRIETARY RIGHTS, RISKS OF INFRINGEMENT AND SOURCE CODE RELEASE. The Company relies primarily on a combination of copyright, trademark and trade secret laws, confidentiality procedures and contractual provisions to protect its proprietary rights. The Company also believes that factors such as the technological and creative skills of its personnel, new product developments, frequent product enhancements, name recognition and reliable product maintenance are essential to establishing and maintaining a technological leadership position. The Company seeks to protect its software, documentation and other written materials under trade secret and copyright laws, which afford only limited protection. The Company currently has one patent application pending in the United States. There can be no assurance that the Company's pending patent application, whether or not being currently challenged by applicable governmental patent examiners, will be issued with the scope of the claims sought by the Company, if at all. Furthermore, there can be no assurance that others will not develop technologies that are similar or superior to the Company's technology or design around the Company's pending patent. Despite the Company's efforts to protect its proprietary rights, unauthorized parties may attempt to copy aspects of the Company's products or to obtain and

use information that the Company regards as proprietary. The nature of many of the Company's products requires the release of the source code to all customers. As such, policing unauthorized use of the Company's products is difficult, and while the Company is unable to determine the extent to which piracy of its software products exists, software piracy can be expected to be a persistent problem. In addition, the laws of some foreign countries do not protect the Company's proprietary rights as fully as do the laws of the United States. There can be no assurance that the Company's means of protecting its proprietary rights in the United States or abroad will be adequate or that competition will not independently develop similar technology.

The Company is not aware that it is infringing any proprietary rights of third parties. There can be no assurance, however, that third parties will not claim infringement by the Company of their intellectual property rights. The Company expects that software product developers will increasingly be subject to infringement claims as the number of products and competitors in the Company's industry segment grows and the functionality of products in different industry segments overlaps. Any such claims, with or without merit, could be time consuming to defend, result in costly litigation, divert management's attention and resources, cause product shipment delays or require the Company to enter into royalty or licensing agreements. Such royalty or licensing agreements, if required, may not be available on terms acceptable to the Company, if at all. In the event of a successful claim of product infringement against the Company and failure or inability of the Company to license the infringed or similar technology, the Company's business, financial condition and results of operations would be materially and adversely affected.

LIMITED INTERNATIONAL SALES AND MARKETING EXPERIENCE. The Company opened its first international sales office in Germany in January 1996. As of September 30, 1996, there were six employees in the German office. International revenue accounted for less than 10% and approximately 17% of the Company's total revenue in fiscal 1995 and the nine months ended June 30, 1996, respectively. The Company believes that in order to increase sales opportunities and profitability it will be required to expand its international operations. The Company has committed and continues to commit significant management time and financial resources to developing direct and indirect international sales and support channels. There can be no assurance, however, that the Company will be able to maintain or increase international market demand for its products. To the extent that the Company is unable to do so in a timely manner, the Company's international revenue would be limited, and the Company's business, financial condition and results of operations would be materially and adversely affected.

RISKS INHERENT IN INTERNATIONAL OPERATIONS. International operations are subject to inherent risks, including the impact of possible recessionary environments in economies outside the United States, costs of localizing products for foreign markets, longer receivables collection periods and greater difficulty in accounts receivable collection, unexpected changes in regulatory requirements, difficulties and costs of staffing and managing foreign operations, reduced protection for intellectual property rights in some countries, potentially adverse tax consequences, and political and economic instability. There can be no assurance that the Company will be able to sustain or increase international revenue from licenses or from maintenance and service, or that the foregoing factors will not have a

material adverse effect on the Company's future international revenue and, consequently, on the Company's business, financial condition and results of operations. The Company's direct international revenue is generally denominated in local currencies. The Company does not currently engage in hedging activities. Although exposure to currency fluctuations to date has been insignificant, there can be no assurance that fluctuations in currency exchange rates in the future will not have a material adverse impact on international revenue and thus the Company's business, financial condition and results of operations. See "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Business--Customers" and "--Sales, Marketing and Customer Support."

PRODUCT LIABILITY. The Company's license agreements with its customers typically contain provisions designed to limit the Company's exposure to potential product liability claims. It is possible, however, that the limitation of liability provisions contained in the Company's license agreements may not be effective under the laws of certain jurisdictions. Although the Company has not experienced any product liability claims to date, the sale and support of products by the Company may entail the risk of such claims, and there can be no assurance that the Company will not be subject to such claims in the future. A successful product liability claim brought against the Company could have a material adverse effect upon the Company's business, financial condition and results of operations.

RISK OF PRODUCT DEFECTS. Software products as complex as those offered by the Company frequently contain errors or failures, especially when first introduced or when new versions are released. Also, new products or enhancements may contain undetected errors, or "bugs," or performance problems that, despite testing, are discovered only after a product has been installed and used by customers. There can be no assurance that such errors or performance problems will not be discovered in the future, causing delays in product introduction and shipments or requiring design modifications that could materially and adversely affect the Company's competitive position and operating results. The Company's products are typically intended for use in applications that may be critical to a customer's business. As a result, the Company expects that its customers and potential customers have a greater sensitivity to product defects than the market for software products generally. Although the Company has not experienced material adverse effects resulting from any such errors to date, there can be no assurance that, despite testing by the Company and by current and potential customers, errors will not be found in new products or releases after commencement of commercial shipments, resulting in loss of revenue or delay in market acceptance, diversion of development resources, damage to the Company's reputation, or increased service and warranty costs, any of which could have a material adverse effect upon the Company's business, financial condition and results of operations. See "Business--Product Development."

CONTROL BY EXISTING STOCKHOLDERS. Upon completion of this offering, the Company's officers, directors and affiliated entities together will beneficially own approximately 59.8% of the outstanding shares of Common Stock (56.0% if the Underwriters' over-allotment option is exercised in full). In particular, upon completion of this offering, Thomas Keffer, the Company's President and Chief Executive Officer, will own approximately 22.1% of the outstanding shares of Common Stock (21.5% if the Underwriters' over-allotment option is exercised in full). As a result, these stockholders will be able to exercise control over matters requiring stockholder approval, including the election of

directors, mergers, consolidations and sales of all or substantially all of the assets of the Company. This stockholder control may prevent or discourage tender offers for the Company's Common Stock unless the terms are approved by such stockholders. See "Principal and Selling Stockholders."

NO PRIOR PUBLIC MARKET FOR COMMON STOCK; POSSIBLE VOLATILITY OF STOCK PRICE. Prior to this offering, there has been no public market for the Common Stock, and there can be no assurance that an active public market for the Common Stock will develop or be sustained after the offering. The initial public offering price will be determined by negotiations between the Company, the representatives of the Selling Stockholders and the representatives of the Underwriters. See "Underwriting" for a discussion of the factors to be considered in determining the initial public offering price. The trading price of the Company's Common Stock could be subject to significant fluctuations in response to variations in quarterly operating results, the gain or loss of significant orders, changes in earning estimates by analysts, announcements of technological innovations or new products by the Company or its competitors, general conditions in the software and computer industries and other events or factors. In addition, the stock market in general has experienced extreme price and volume fluctuations that have affected the market price for many companies in industries similar or related to that of the Company and that have been unrelated to the operating performance of these companies. These market fluctuations may materially and adversely affect the market price of the Company's Common Stock.

ANTITAKEOVER EFFECTS OF CERTIFICATE OF INCORPORATION, BYLAWS AND DELAWARE LAW. The Company's Board of Directors has the authority to issue up to 5,000,000 shares of Preferred Stock and to determine the price, rights, preferences, privileges and restrictions, including voting rights, of those shares without any further vote or action by the stockholders. The Preferred Stock could be issued with voting, liquidation, dividend and other rights superior to those of the Common Stock. The rights of the holders of Common Stock will be subject to, and may be adversely affected by, the rights of the holders of any Preferred Stock that may be issued in the future. The issuance of Preferred Stock, while providing desirable flexibility in connection with possible acquisitions and other corporate purposes, could have the effect of making it more difficult for a third party to acquire a majority of the outstanding voting stock of the Company. Further, certain provisions of the Company's Certificate of Incorporation and Bylaws and of Delaware law could delay or make more difficult a merger, tender offer or proxy contest involving the Company. See "Description of Capital Stock."

SHARES ELIGIBLE FOR FUTURE SALE; REGISTRATION RIGHTS. Sales of substantial numbers of shares of Common Stock in the public market following this offering could adversely affect the market price for the Common Stock. Upon completion of this offering, the Company will have outstanding an aggregate of 7,196,259 shares of Common Stock, assuming no exercise of the Underwriters' over-allotment option and no exercise of outstanding options and based upon the number of shares outstanding as of September 30, 1996. Of these shares, the 2,025,000 shares sold in this offering will be freely tradeable without restriction or further registration under the Securities Act of 1933, as amended (the "Securities Act"), unless such shares are purchased by "affiliates" of the Company, as that term is defined in Rule 144 under the Securities Act. In addition, 586,387 shares issued in connection with the Inmark Merger will be freely tradeable without restriction upon the expiration of the lock-up

period described below. The remaining 4,584,872 shares of Common Stock held by existing stockholders are "restricted securities" as that term is defined in Rule 144 under the Securities Act (the "Restricted Shares"). Restricted Shares may be sold in the public market only if registered or if they qualify for an exemption from registration under Rules 144, 144(k), 145 or 701 promulgated under the Securities Act. Holders of an aggregate of 4,857,526 shares of Common Stock after the offering, have agreed that they will not, without the prior written consent of Hambrecht & Quist LLC, directly or indirectly, sell, offer, contract to sell, transfer the economic risk of ownership in, make any short sale, pledge or otherwise dispose of any shares of Common Stock or any securities convertible into or exchangeable or exercisable for or any other rights to purchase or acquire shares of Common Stock owned by them during the 180-day period commencing on the date of this Prospectus. Upon expiration of the lock-up period, in addition to the 586,387 shares issued in connection with the Inmark Merger, approximately 531,172 shares of Common Stock held by existing stockholders will be eligible for sale without restriction pursuant to Rule 144(k) or Rule 701, and approximately 3,057,930 shares held by existing stockholders will be eligible for sale subject to the volume and other restrictions of Rule 144. The remaining 995,770 shares held by existing stockholders will become eligible for sale pursuant to Rule 144 upon the expiration of their two-year holding periods. In addition, as of September 30, 1996, 1,456,827 shares were subject to outstanding options. Substantially all of these shares are subject to the lock-up agreements described above. Upon the expiration of such lock-up agreements, approximately 665,253 shares subject to such options will be vested. 4,150,651 of the shares outstanding immediately following the completion of this offering will be entitled to registration rights with respect to such shares upon termination of lock-up agreements. The number of shares sold in the public market could increase if registration rights are exercised. See "Description of Capital Stock" and "Shares Eligible for Future Sale."

UNCERTAINTY AS TO USE OF PROCEEDS. The primary purposes of this offering are to create a public market for the Company's Common Stock, to facilitate future access to public markets and to obtain additional working capital. As of the date of this Prospectus, the Company has no specific plans to use the net proceeds from this offering other than for working capital and general corporate purposes. Accordingly, the Company's management will retain broad discretion as to the allocation of a substantial portion of the net proceeds from this offering. Pending any such uses, the Company plans to invest the net proceeds in investment-grade, interest-bearing securities. See "Use of Proceeds."

IMMEDIATE AND SUBSTANTIAL DILUTION. Investors participating in this offering will incur immediate, substantial dilution of $ per share. To the extent outstanding options to purchase the Company's Common Stock are exercised, there will be further dilution. If the net proceeds of this offering, together with available funds and cash generated from operations, are insufficient to satisfy the Company's cash needs, the Company may be required to sell additional equity or convertible debt securities. The sale of additional equity or convertible debt securities could result in additional dilution to the Company's stockholders. See "Dilution" and "Management's Discussion and Analysis of Financial Condition and Results of Operations--Liquidity and Capital Resources."

# *The Company*

The Company was founded in 1989 and incorporated in Oregon in July 1991. The Company intends to reincorporate in Delaware prior to the completion of this offering. Unless the context otherwise requires, "Rogue Wave" and the "Company" refer to Rogue Wave Software, Inc. and its subsidiary. The Company's executive offices are located at 850 SW 35th Street, Corvallis, Oregon 97333. Its telephone number is (541) 754-3010. The Company maintains a Web site on the World Wide Web.

The Company intends to distribute to its stockholders annual reports containing financial statements audited by its independent auditors and will make available copies of quarterly reports for the first three quarters of each fiscal year containing unaudited financial information.

Rogue Wave-Registered Trademark-, .h++-Registered Trademark-, zApp-Registered Trademark- and zApp Factory-Registered Trademark- are registered trademarks of the Company. JFactory, JMoney, JTools, JWidgets, DBTools and DBFactory are trademarks of the Company. All other brand names or trademarks appearing in this Prospectus are the property of their respective holders.

# *Use of Proceeds*

The net proceeds to the Company from the sale of the 2,000,000 shares of Common Stock offered by the Company hereby, at the assumed initial public offering price of $ per share, are estimated to be $ ( if the Underwriters' over-allotment option is exercised in full). The Company will not receive any proceeds from the sale of shares of Common Stock by the Selling Stockholders. See "Principal and Selling Stockholders."

The principal purposes of this offering are to increase the Company's equity capital and to create a public market for the Company's Common Stock, which will enhance the ability of the Company to use its Common Stock as consideration for acquisitions and as a means for attracting and retaining key employees.

The Company intends to use the net proceeds of this offering primarily for working capital and other general corporate purposes, including expansion of general sales and customer support activities to accommodate growth in the Company's business and customer base. The amounts actually expended by the Company for working capital purposes will vary significantly depending upon a number of factors, including future revenue growth, the amount of cash generated by the Company's operations and the progress of the Company's product development efforts, and hence the Company's management will retain broad discretion in the allocation of the proceeds from this offering. In addition, the Company may make one or more acquisitions of complementary technologies, products or businesses which broaden or enhance the Company's current product offerings. The Company has no specific agreements or commitments, however, and is not currently engaged in any negotiations for any such acquisition. Pending the uses described above, the net proceeds will be invested in interest-bearing, investment-grade securities.

# *Dividend Policy*

In June 1994, the Company, as a Subchapter S corporation, declared and paid a cash dividend in the aggregate amount of $500,000. The Company currently intends to retain any future earnings to finance the growth and development of its business and therefore does not anticipate paying any cash dividends in the foreseeable future.

# *Capitalization*

The following table sets forth (i) the capitalization of the Company as of June 30, 1996, (ii) the pro forma capitalization of the Company after giving effect to the conversion of all outstanding shares of Preferred Stock into Common Stock, and (iii) the pro forma capitalization as adjusted to reflect the sale by the Company of 2,000,000 shares of the Common Stock offered hereby at an assumed initial offering price of $ .

JUNE 30, 1996 ACTUAL PRO FORMA AS ADJUSTED (IN THOUSANDS) Long-term obligations, less current portion (1)..... $ 377 $ 377 $377 Mandatorily redeemable preferred stock, $0.0015 par value; 2,350,000 shares authorized; 1,543,000 shares issued and outstanding, actual; none issued and outstanding, pro forma and as adjusted..... 4,664 -- -- Stockholders' equity: Common Stock, $0.0015 par value; 13,000,000 shares authorized; 3,652,000 shares issued and outstanding, actual; 5,195,000 shares issued and outstanding, pro forma; and 7,195,000 shares issued and outstanding, as adjusted (2)..... 5 7 Additional paid-in capital..... 670 5,332 Stockholder note receivable..... (13) (13) (13) Retained earnings..... (125) (125) (125) Cumulative translation adjustment..... (10) (10) (10) Total stockholders' equity..... 527 5,191 Total capitalization..... $5,568 $5,568 $ (1) See Notes 4 and 5 of Notes to Consolidated Financial Statements for a description of the Company's long-term obligations, less current portion.

(2) Excludes 2,268,804 shares of Common Stock reserved for issuance pursuant to the Company's 1996 Equity Incentive Plan (the "Equity Incentive Plan") under which options to purchase 1,456,827 shares of Common Stock were outstanding as of September 30, 1996 at a weighted average exercise price of $2.37. Also excludes 350,000 shares of Common Stock reserved for issuance pursuant to the Company's Employee Stock Purchase Plan (the "Purchase Plan").

# *Dilution*

The pro forma net tangible book value of the Company as of June 30, 1996, was approximately $ million or $ per share. Pro forma net tangible book value per share is equal to the Company's total tangible assets less its total liabilities, divided by the number of outstanding shares of Common Stock, assuming conversion of all outstanding shares of Preferred Stock into Common Stock. After giving effect to the sale of the Common Stock offered by the Company hereby (at the assumed initial public offering price of $ per share), the pro forma net tangible book value of the Company at June 30, 1996

would have been approximately $ million or $ per share. This represents an immediate increase in such net tangible book value of $ per share to existing stockholders and an immediate dilution of $ per share to new investors purchasing shares in this offering. The following table illustrates this per share dilution:

Assumed initial public offering price per share..... $ Pro forma net tangible book value per share as of June 30, 1996..... $ Increase per share attributable to new investors..... Pro forma net tangible book value per share after this offering..... Dilution per share to new investors..... $ The following table summarizes on a pro forma basis, as of June 30, 1996, the differences between the number of shares purchased from the Company, assuming conversion of all outstanding shares of Preferred Stock into Common Stock, the total consideration paid and the average price paid per share by the existing holders of Common Stock and by the new investors at the assumed initial public offering price of $ per share:

| | SHARES PURCHASED | | TOTAL CONSIDERATION | | AVERAGE PRICE PER SHARE |
|---|---|---|---|---|---|
| | NUMBER | PERCENT | AMOUNT | PERCENT | |
| Existing stockholders (1)..... | 5,196,259 | 72.2% | $ | % | $ |
| New investors (1)..... | 2,000,000 | 27.8 | | | |
| Total..... | 7,196,259 | 100.0% | $ | 100.0% | |

The foregoing tables exclude 2,268,804 shares of Common Stock reserved for issuance pursuant to the Equity Incentive Plan, under which options to purchase 1,456,827 shares of Common Stock at a weighted average exercise price of $2.37 were outstanding as of September 30, 1996. In addition, 350,000 shares of Common Stock have been reserved for issuance under the Purchase Plan. To the extent that options are exercised in the future, there will be further dilution to new stockholders. See "Management--Equity Incentive Plans." (1) Sales by the Selling Stockholders in this offering will reduce the number of shares held by existing stockholders to 5,171,259 shares or approximately 71.9% of the total shares of Common Stock outstanding after this offering and will increase the number of shares held by new investors to 2,025,000 shares or approximately 28.1% of the total shares of Common Stock outstanding after this offering.

## *Selected Consolidated Financial Data*

The following selected consolidated financial data should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the Consolidated Financial Statements and the Notes related thereto included elsewhere in this Prospectus. The balance sheet data at September 30, 1993 are derived from financial statements not included in this Prospectus. The selected consolidated financial data presented below for each of the years in the three-year period ended September 30, 1995 and the balance sheet data as of September 30, 1994 and 1995 are derived from the Consolidated Financial Statements of the Company, which are included elsewhere in this Prospectus and have been audited by KPMG Peat Marwick LLP, independent certified public

accountants, whose report thereon also is included herein. The consolidated balance sheet data at June 30, 1996, and the consolidated statements of operations data for the nine months ended June 30, 1995 and 1996 are derived from unaudited consolidated financial statements included elsewhere in this Prospectus. The unaudited consolidated financial statements include all adjustments, consisting only of normal recurring adjustments, that the Company considers necessary for a fair presentation of the financial position and results of operations for these periods. Operating results for the nine months ended June 30, 1996 are not necessarily indicative of the results that may be expected for the entire year ending September 30, 1996.

| | YEAR ENDED SEPTEMBER 30, | | | NINE MONTHS ENDED JUNE 30, | |
|---|---|---|---|---|---|
| | 1993 | 1994 | 1995 | 1995 | 1996 |
| | (IN THOUSANDS, EXCEPT PER SHARE DATA) | | | | |
| CONSOLIDATED STATEMENTS OF OPERATIONS DATA: | | | | | |
| Revenue: | | | | | |
| License revenue | $ 2,949 | $ 6,652 | $ 10,417 | $ 7,566 | $ 10,605 |
| Service and maintenance revenue | 263 | 557 | 1,520 | 963 | 2,587 |
| Total revenue | 3,212 | 7,209 | 11,937 | 8,529 | 13,192 |
| Cost of revenue: | | | | | |
| Cost of license revenue | 301 | 693 | 1,048 | 787 | 873 |
| Cost of service and maintenance revenue | 166 | 331 | 1,123 | 775 | 1,025 |
| Total cost of revenue | 467 | 1,024 | 2,171 | 1,562 | 1,898 |
| Gross profit | 2,745 | 6,185 | 9,766 | 6,967 | 11,294 |
| Operating expenses: | | | | | |
| Product development | 893 | 2,109 | 3,204 | 2,302 | 3,984 |
| Sales and marketing | 1,330 | 2,652 | 4,880 | 3,336 | 5,969 |
| General and administrative | 342 | 780 | 1,487 | 984 | 1,596 |
| Total operating expenses | 2,565 | 5,541 | 9,571 | 6,622 | 11,549 |
| Income (loss) from operations | 180 | 644 | 195 | 345 | (255) |
| Other income (expense), net | (5) | 4 | (10) | (19) | 68 |
| Income (loss) before income taxes | 175 | 648 | 185 | 326 | (187) |
| Income tax expense (benefit) | -- | 80 | 106 | 186 | (73) |
| Net income (loss) | $ 175 | $ 568 | $ 79 | $ 140 | $ (114) |
| Net income (loss) per common share | $ 0.05 | $ 0.14 | $ 0.02 | $ 0.03 | $ (0.03) |
| Shares used in per share calculation (1) | 3,878 | 4,118 | 4,973 | 4,784 | 4,052 |

| | | |
|---|---|---|
| Pro forma net income data (2): | | |
| Income before income taxes, as reported | $ 175 | $ 648 |
| Pro forma income tax expense | 32 | 142 |
| Pro forma net income | $ 143 | $ 506 |
| Pro forma net income per common share | $ 0.04 | $ 0.12 |

| | SEPTEMBER 30, | | | JUNE 30, |
|---|---|---|---|---|
| | 1993 | 1994 | 1995 | 1996 |
| | (IN THOUSANDS) | | | |
| CONSOLIDATED BALANCE SHEET DATA: | | | | |
| Cash and cash equivalents | $ 76 | $ 609 | $ 1,010 | $ 2,611 |
| Total assets | 881 | 3,301 | 4,758 | 9,537 |
| Long-term obligations, less current portion | 59 | 166 | 230 | 377 |
| Mandatorily redeemable preferred stock | -- | 941 | 1,140 | 4,664 |
| Total stockholders' equity | 457 | 536 | 619 | 527 |

(1) See Note 1 of Notes to Consolidated Financial Statements.

(2) The Company was a Subchapter S corporation until June 30, 1994 and accordingly not subject to federal and state income taxes during the periods indicated. Pro forma net income reflects federal and state income taxes as if the Company has been a C corporation, based on effective tax rates during the periods indicated. See Notes 1 and 6 of Notes to Consolidated Financial Statements.

# *Management's Discussion and Analysis of Financial Condition and Results of Operations*

THIS PROSPECTUS CONTAINS FORWARD-LOOKING STATEMENTS THAT INVOLVE RISKS AND UNCERTAINTIES. THE COMPANY'S ACTUAL RESULTS MAY DIFFER MATERIALLY FROM THE RESULTS DISCUSSED IN THE FORWARD-LOOKING STATEMENTS. FACTORS THAT MIGHT CAUSE SUCH A DIFFERENCE INCLUDE, BUT ARE NOT LIMITED TO, THOSE DISCUSSED IN "RISK FACTORS," "MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS" AND ELSEWHERE IN THIS PROSPECTUS.

## *Overview*

Rogue Wave was founded in 1989 to provide reusable software parts for the development of object-oriented software applications. The Company operated as a Subchapter S corporation until June 1994. In October 1995, Rogue Wave merged with Inmark Development Corporation ("Inmark"), a privately held corporation specializing in the development, distribution and support of an object-oriented graphical user interface library written in the C++ programming language. The transaction was

accounted for as a pooling-of-interests business combination. The Inmark graphical user interface library is currently being marketed by Rogue Wave as a component of its Visual User Interface family of products. The Company intends to integrate these products into future product releases.

The Company has experienced significant revenue growth over the last several years. The Company has in recent periods shifted its focus from achieving profitability to expanding its sales channels, marketing efforts and product development capacity. While the Company expects operating expenses to continue to increase in absolute dollar amounts, the Company expects operating expenses to decrease as a percentage of total revenue. There can be no assurance that the Company will be profitable on a quarterly or annual basis. The Company's limited operating history makes the prediction of future operating results difficult, if not impossible. See "Risk Factors--Limited Operating History" and "--Uncertainty of Future Operating Results; Fluctuations in Quarterly Operating Results."

To date, the Company's revenue has been derived from licenses of its software products and related maintenance, training and consulting services. License revenue is recognized upon execution of a license agreement and shipment of the product if no significant contractual obligations remain and collection of the resulting receivable is probable. Allowances for credit risks and for estimated future returns are provided for upon shipment. Returns to date have not been material. Service and maintenance revenue consists of fees that are charged separately from the product licenses. Maintenance revenue consists of fees for ongoing support and product updates and is recognized ratably over the term of the contract, which is typically 12 months. Service revenue consists of training and consulting services and is recognized upon completion of the related activity. For all periods presented, the Company has recognized revenue in accordance with Statement of Position 91-1, SOFTWARE REVENUE RECOGNITION. See Note 1 of Notes to Consolidated Financial Statements.

The Company markets its products primarily through its direct sales force, and to a lesser extent through an indirect channel consisting of OEMs, VARs, dealers and distributors. The Company's direct sales force consists of an inside telesales group that focuses on smaller orders ($50,000 or less), and an outside sales force that focuses on larger site licenses. The Company makes all of its products available for sale and distribution over the Internet to customers in the United States. Revenue through this channel has not been significant to date, and there can be no assurance that the Company will be successful in marketing its products through this channel.

International revenue represented less than 10% of the Company's total revenue for each of the fiscal years ended September 30, 1993, 1994 and 1995. International revenue for the nine months ended June 30, 1996 was approximately 17% of total revenue. In January 1996, the Company established a wholly-owned subsidiary in Germany to market and support the Company's products in Germany and neighboring countries. The Company anticipates establishing similar organizations in other locations in Europe, and possibly in Asia. The Company expects that international license and service and maintenance revenue will account for an increasing portion of its total revenue in the future. The Company has committed and continues to commit significant management time and financial resources to developing direct and indirect international sales and support channels. There can be no assurance, however, that the Company will be able to maintain or increase international market

demand for its products. To date, other than revenue generated by the Company's German subsidiary, the Company's international revenue has been denominated in United States dollars and the Company currently does not engage in hedging activities. Although exposure to currency fluctuations to date has been insignificant, to the extent international revenue is denominated in local currencies, foreign currency translations may contribute to significant fluctuations in, and could have a material adverse effect upon, the Company's business, financial condition and results of operations. See "Risk Factors--Risks Inherent in International Operations."

# *Results of Operations*

The following table sets forth certain operating data expressed as a percentage of total revenue for each period indicated:

| | | | | NINE MONTHS ENDED JUNE 30, | |
|---|---|---|---|---|---|
| | YEAR ENDED SEPTEMBER 30, | | | | |
| | 1993 | 1994 | 1995 | 1995 | 1996 |
| STATEMENTS OF OPERATIONS: | | | | | |
| Revenue: | | | | | |
| License revenue | 91.8% | 92.3% | 87.3% | 88.7% | 80.4% |
| Service and maintenance revenue | 8.2 | 7.7 | 12.7 | 11.3 | 19.6 |
| Total revenue | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |
| Cost of revenue: | | | | | |
| Cost of license revenue | 9.4 | 9.6 | 8.8 | 9.2 | 6.6 |
| Cost of service and maintenance revenue | 5.1 | 4.6 | 9.4 | 9.1 | 7.8 |
| Total cost of revenue | 14.5 | 14.2 | 18.2 | 18.3 | 14.4 |
| Gross profit | 85.5 | 85.8 | 81.8 | 81.7 | 85.6 |
| Operating expenses: | | | | | |
| Product development | 27.8 | 29.3 | 26.8 | 27.1 | 30.2 |
| Sales and marketing | 41.4 | 36.8 | 40.9 | 39.1 | 45.2 |
| General and administrative | 10.7 | 10.8 | 12.5 | 11.5 | 12.1 |
| Total operating expenses | 79.9 | 76.9 | 80.2 | 77.7 | 87.5 |
| Income (loss) from operations | 5.6 | 8.9 | 1.6 | 4.0 | (1.9) |
| Other income (expense), net | (0.2) | 0.1 | (0.1) | (0.2) | 0.5 |
| Income (loss) before income taxes | 5.4 | 9.0 | 1.5 | 3.8 | (1.4) |
| Income tax expense (benefit) | 0.0 | 1.1 | 0.8 | 2.2 | (0.5) |
| Net income (loss) | 5.4% | 7.9% | 0.7% | 1.6% | (0.9)% |

# *Revenue*

The Company's total revenue was $3.2 million, $7.2 million and $11.9 million in fiscal 1993, 1994 and 1995, respectively. Total revenue was $8.5 million and $13.2 million for the nine months ended June 30, 1995 and June 30, 1996, respectively. License revenue increased from $2.9 million in fiscal 1993 to $6.7 million in fiscal 1994 and to $10.4 million in fiscal 1995; and also increased from $7.6 million in the nine months ended June 30, 1995 to $10.6 million in the nine months ended June 30, 1996. License revenue increased primarily as a result of an increase in the number of licenses sold to existing and new customers, reflecting additional product offerings, an expanding market, increased market awareness and expansion of the Company's direct sales organization. In particular, the Company introduced its DBTools.h++ product in the first half of fiscal 1995 and its Standard C++ Library product during the third quarter of fiscal 1995, and established its direct sales force in the second quarter of fiscal 1995. Service and maintenance revenue increased from $263,000 in fiscal 1993 to $557,000 in fiscal 1994 and to $1.5 million in fiscal 1995, and also increased from $963,000 in the nine months ended June 30, 1995 to $2.6 million in the nine months ended June 30, 1996. These increases in service and maintenance revenue were generally attributable to the growing installed base of the Company's products and the associated increase in demand for maintenance and training services. An increased focus on marketing support and maintenance services, which include upgrades and telephone support, as well as the introduction of mentoring services, also contributed to increased service and maintenance revenue for fiscal 1995 and the nine months ended June 30, 1996.

# *Cost of Revenue*

COST OF LICENSE REVENUE. Cost of license revenue consists primarily of amortization of purchased software, materials, packaging and freight expenses. Cost of license revenue was $301,000, $693,000 and $1.0 million in fiscal 1993, 1994 and 1995, respectively, and $787,000 and $873,000 for the nine months ended June 30, 1995 and June 30, 1996 respectively, representing 10.2%, 10.4%, 10.1%, 10.4% and 8.2% of the license revenue for the respective periods. The period to period dollar increases in cost of license revenue were primarily the result of an increase in the number of licenses sold. Fluctuations in cost of license revenue as a percentage of total license revenue are primarily the result of varying levels of royalties paid, changes in product mix, the timing of large site license sales and the timing of product upgrades.

COST OF SERVICE AND MAINTENANCE REVENUE. Cost of service and maintenance revenue consists primarily of personnel-related and facilities costs incurred in providing customer support and training services, as well as third-party costs incurred in providing training services. Cost of service and maintenance revenue was $166,000, $331,000 and $1.1 million in fiscal 1993, 1994 and 1995, respectively, and $775,000 and $1.0 million for the nine months ended June 30, 1995 and June 30, 1996, respectively, representing 63.1%, 59.4%, 73.9%, 80.5% and 39.6% of the service and maintenance revenue for the respective periods. The period to period dollar increases in cost of service and maintenance revenue were primarily the result of expenses associated with the development of training programs, utilization of training and mentoring consultants and additional product support

personnel. The higher percentages of cost of service and maintenance revenue as a percentage of service and maintenance revenue for fiscal 1995 and the nine months ended June 30, 1995 reflect the fact that increases in such costs occurred prior to an anticipated increase in demand. The decrease as a percentage of service and maintenance revenue for the nine months ended June 30, 1996 primarily was the result of the increase in service and maintenance revenue.

## *Operating Expenses*

PRODUCT DEVELOPMENT. Product development expenses consist primarily of personnel related expenses. Product development expenses increased from $893,000 in fiscal 1993 to $2.1 million in fiscal 1994 and to $3.2 million in fiscal 1995. Product development expenses increased from $2.3 million for the nine months ended June 30, 1995 to $4.0 million for the nine months ended June 30, 1996. As a percentage of total revenue, product development expenses were 27.8%, 29.3%, 26.8%, 27.1% and 30.2% in each respective period. The increases in product development expenses were primarily attributable to the hiring of additional product development personnel. The Company anticipates that it will continue to devote substantial resources to product development and that product development expenses will increase in dollar amount for fiscal 1996 and fiscal 1997. All costs incurred in the research and development of software products and enhancements to existing products have been expensed as incurred. See Note 1 of Notes to Consolidated Financial Statements.

SALES AND MARKETING. Sales and marketing expenses consist primarily of salaries, commissions and bonuses earned by sales and marketing personnel, field office expenses, and travel, entertainment and promotional expenses. Sales and marketing expenses increased from $1.3 million in fiscal 1993 to $2.7 million in fiscal 1994 and $4.9 million in fiscal 1995. Sales and marketing expenses increased from $3.3 million for the nine months ended June 30, 1995 to $6.0 million for the nine months ended June 30, 1996. As a percentage of total revenue, sales and marketing expenses were 41.4%, 36.8%, 40.9%, 39.1% and 45.2% in each respective period. The increase in sales and marketing expenses reflects the hiring of additional sales and marketing personnel and related costs, as well as increased costs associated with expanded promotional activities. The Company expects that sales and marketing expenses will continue to increase in dollar amount as the Company continues to hire additional sales and marketing personnel and increase promotional activities in the future.

GENERAL AND ADMINISTRATIVE. General and administrative expenses increased from $342,000 in fiscal 1993 to $780,000 in fiscal 1994 and to $1.5 million in fiscal 1995. General and administrative expenses increased from $984,000 for the nine months ended June 30, 1995 to $1.6 million for the nine months ended June 30, 1996. As a percentage of total revenue, general and administrative expenses were 10.7%, 10.8%, 12.5%, 11.5% and 12.1% in each respective period. The increases in general and administrative expenses were primarily due to increased staffing, investment in infrastructure and associated expenses necessary to manage and support the Company's growing operations. The Company believes that its general and administrative expenses will increase in dollar

amount in fiscal 1996 and fiscal 1997 as a result of an anticipated expansion of the Company's administrative staff required to support its growing operations and as a result of an increase in expenses associated with being a public company.

## *Other Income (Expense), Net*

Other income (expense), net primarily represents interest income earned on the Company's cash, cash equivalents and short-term investments, net of interest expense on long-term obligations.

## *Provision for Income Taxes*

The Company was a cash basis taxpayer through fiscal 1994. Prior to July 1, 1994, the Company was taxed under the S corporation provisions of the Internal Revenue Code. Under those provisions, the Company did not pay federal or state corporate income taxes on its income. The Company's income taxes since July 1, 1994, and Inmark's income taxes for all periods presented, have been accounted for in accordance with Statement of Financial Accounting Standards No. 109, ACCOUNTING FOR INCOME TAXES. The Company's effective tax rates were 0%, 12.3% and 57.1% for fiscal 1993, 1994 and 1995. The effective tax rate for fiscal 1993 was the result of the exclusion of earnings due to the Company's Subchapter S election and the net loss incurred by Inmark. The 12.3% rate of fiscal 1994 reflects three quarters of exclusion of earnings due to the Subchapter S status of the Company and marginal profitability of Inmark. The tax rate for fiscal 1995 reflects the inability to offset Inmark's losses against the Company's income for the period. As a result of the merger with Inmark, utilization of approximately $430,000 of federal net operating loss carryforwards is limited to the future income attributable to Inmark.

## *Quarterly Results of Operations*

The following tables set forth the quarterly financial data for the six quarters ended June 30, 1996, including such amounts expressed as a percentage of total revenue, as well as certain operating data. This quarterly information is unaudited, has been prepared on the same basis as the annual consolidated financial statements and, in the opinion of the Company's management, reflects all adjustments (consisting only of normal recurring adjustments) necessary for a fair presentation of the information for the periods presented. Such statements of operations data should be read in conjunction with the Company's audited consolidated financial statements and notes thereto. Operating results for any quarter are not necessarily indicative of results for any future period.

| | QUARTER ENDED | | | | |
|---|---|---|---|---|---|
| | MAR. 31, 1995 | JUN. 30, 1995 | SEPT. 30, 1995 | DEC. 31, 1995 | MAR. 31, 1996 | JUN. 30, 1996 |
| | (IN THOUSANDS) | | | | |

| | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Revenue: | | | | | | | | | | |
| License revenue | $ | 2,536 | $ | 2,447 | $ | 2,850 | $ | 2,733 | $ | 3,697 | $ | 4,175 |
| Service and maintenance revenue | | 316 | | 426 | | 558 | | 804 | | 950 | | 833 |
| Total revenue | | 2,852 | | 2,873 | | 3,408 | | 3,537 | | 4,647 | | 5,008 |
| Cost of revenue: | | | | | | | | | | |
| Cost of license revenue | | 225 | | 274 | | 262 | | 219 | | 242 | | 412 |
| Cost of service and maintenance revenue | | 268 | | 249 | | 348 | | 294 | | 343 | | 388 |
| Total cost of revenue | | 493 | | 523 | | 610 | | 513 | | 585 | | 800 |
| Gross profit | | 2,359 | | 2,350 | | 2,798 | | 3,024 | | 4,062 | | 4,208 |
| Operating expenses: | | | | | | | | | | |
| Product development | | 760 | | 763 | | 903 | | 924 | | 1,486 | | 1,574 |
| Sales and marketing | | 1,126 | | 1,305 | | 1,544 | | 1,606 | | 2,101 | | 2,262 |
| General and administrative | | 382 | | 329 | | 502 | | 472 | | 500 | | 624 |
| Total operating expenses | | 2,268 | | 2,397 | | 2,949 | | 3,002 | | 4,087 | | 4,460 |
| Income (loss) from operations | | 91 | | (47) | | (151) | | 22 | | (25) | | (252) |
| Other income (expense), net | | 4 | | (6) | | 9 | | 14 | | 43 | | 11 |
| Income (loss) before income taxes | | 95 | | (53) | | (142) | | 36 | | 18 | | (241) |
| Income tax expense (benefit) | | 54 | | (30) | | (81) | | 7 | | 4 | | (84) |
| Net income (loss) | $ | 41 | $ | (23) | $ | (61) | $ | 29 | $ | 14 | $ | (157) |

# *As a Percentage of Total Revenue*

| | | | | | | |
|---|---|---|---|---|---|---|
| Revenue: | | | | | | |
| License revenue | 88.9% | 85.2% | 83.6% | 77.3% | 79.6% | 83.4% |
| Service and maintenance revenue | 11.1 | 14.8 | 16.4 | 22.7 | 20.4 | 16.6 |
| Total revenue | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |
| Cost of revenue: | | | | | | |
| Cost of license revenue | 7.9 | 9.5 | 7.7 | 6.2 | 5.2 | 8.3 |
| Cost of service and maintenance revenue | 9.4 | 8.7 | 10.2 | 8.3 | 7.4 | 7.7 |
| Total cost of revenue | 17.3 | 18.2 | 17.9 | 14.5 | 12.6 | 16.0 |
| Gross profit | 82.7 | 81.8 | 82.1 | 85.5 | 87.4 | 84.0 |
| Operating expenses: | | | | | | |
| Product development | 26.6 | 26.6 | 26.5 | 26.1 | 32.0 | 31.4 |
| Sales and marketing | 39.5 | 45.4 | 45.3 | 45.5 | 45.2 | 45.2 |
| General and administrative | 13.4 | 11.4 | 14.7 | 13.3 | 10.8 | 12.4 |
| Total operating expenses | 79.5 | 83.4 | 86.5 | 84.9 | | |

```
88.0        89.0
    Income (loss) from operations.............        3.2        (1.6)       (4.4)        0.6
(0.6)       (5.0)
Other income (expense), net...................        0.1        (0.2)        0.3         0.4
0.9         0.2
    Income (loss) before income taxes.........        3.3        (1.8)       (4.1)        1.0
0.3         (4.8)
Income tax expense (benefit)..................        1.9        (1.0)       (2.3)        0.2
0.0         (1.7)
    Net income (loss).........................        1.4%       (0.8)%      (1.8)%       0.8%
0.3%        (3.1)%
```

Prior growth rates in the Company's revenue and net income should not be considered indicative of future operating results. Future operating results will depend upon many factors, including the demand for the Company's products, the level of product and price competition, the length of the Company's sales cycle, the size and timing of individual license transactions, the delay or deferral of customer implementations, the budget cycles of the Company's customers, the Company's success in expanding its direct sales force and indirect distribution channels, the timing of new product introductions and product enhancements, the mix of products and services sold, levels of international sales, activities of and acquisitions by competitors, the timing of new hires, changes in foreign currency exchange rates, and the ability of the Company to develop and market new products and control costs. A significant portion of the Company's revenue has been, and the Company believes will continue to be, derived from relatively large orders, and the timing of such orders has caused and may continue to cause material fluctuations in the Company's operating results, particularly on a quarterly basis. The Company generally ships orders as received and as a result typically has little or no backlog. Quarterly revenue and operating results therefore depend on the volume and timing of orders received during the quarter, which are difficult to forecast. In addition, the Company has historically earned a substantial portion of its revenue in the last days of each quarter. To the extent this trend continues, the failure to achieve such revenue during the last days of any given quarter will have a material adverse effect on the Company's business, financial condition and results of operations.

## *Liquidity and Capital Resources*

Since inception, the Company has funded its operations through cash flows from operations and the private sale of $5.4 million of equity securities. As of June 30, 1996, the Company had $2.6 million in cash and cash equivalents. Net cash from operating activities was $218,000, $1.1 million, $493,000 and $(303,000) in fiscal 1993, 1994, 1995 and the nine months ended June 30, 1996, respectively. For fiscal 1995, net cash from operating activities of $493,000 was primarily attributable to increases in accounts payable, accrued expenses of $440,000 and deferred revenue of $702,000, offset by an increase in accounts receivable of $1.1 million, and adjusted for depreciation and amortization of $514,000. For the nine months ended June 30, 1996, net cash from operating activities of $(303,000) was primarily attributable to an increase in accounts receivable of $1.2 million, partially offset by an increase in deferred revenue of $858,000.

The Company currently does not employ a line of credit for support of its working capital requirements.

As of June 30, 1996, the Company's primary investing activities have consisted of purchases of equipment and software rights. The Company's expenditures for equipment, including those under capital leases, totaled $228,000, $414,000, $672,000 and $1.9 million in fiscal 1993, 1994, 1995 and the nine months ended June 30, 1996, respectively. Capital expenditures were primarily for computer equipment, telecommunications and Internet infrastructure hardware and software used in support of product development and other Company activities.

Deferred revenue consists primarily of the unrecognized portion of revenue under maintenance and support contracts, which revenue is deferred and recognized ratably over the term of such contracts and for the unrecognized portion of revenue associated with product license subscription contracts. See Note 1 of Notes to Consolidated Financial Statements.

The Company believes that the net proceeds from the offering, together with the anticipated cash flows from operations, cash and cash equivalents and short-term investments, will be adequate to meet its cash needs for working capital and capital expenditures for at least the next 18 months. Thereafter, the Company may require additional funds to support its working capital requirements or for other purposes, and may seek to raise such additional funds through public or private equity financing or from other sources. There can be no assurance that such additional financing will be available on terms favorable to the Company, if at all, and will not be dilutive to the Company's then current stockholders.

## *New Accounting Pronouncements*

During October 1995, the Financial Accounting Standards Board issued Statement No. 123 ("SFAS 123"), which establishes a fair value based method of accounting for equity compensation plans. The Company believes that there will be no impact of the pronouncement other than pro forma disclosures in the footnotes to the financial statements and it will continue to account for employee stock options under APB Opinion No. 25, ACCOUNTING FOR STOCK ISSUED TO EMPLOYEES. SFAS 123 is effective for fiscal years beginning after December 15, 1995.

## *Business*

Rogue Wave is a leading provider of object-oriented software parts and related tools. The Company's C++ and Java-based products are used to develop robust, scalable software applications for a wide variety of environments, including client-server, intranet and Internet environments. These products enable customers to construct software applications more quickly, with higher quality and across multiple platforms, and reduce the complexity associated with the software development process. The Company's software parts provide the functionality to perform fundamental operations such as network and database connectivity, thereby allowing programmers to focus on the core functionality of the software under development. Rogue Wave offers a broad suite of software parts and related tools for C++, and has recently introduced and continues to develop software parts and related tools for Java. The Company believes it was the first to deliver a commercially available Java interface builder.

# *Industry Background*

INCREASING DEPENDENCE ON SOFTWARE. Businesses are increasingly relying on information systems as a strategic resource and as a way of differentiating themselves from their competitors. A sophisticated enterprise-wide information system can allow a company to take advantage of new markets before a competitor, reduce operating expenses and increase ties with suppliers and customers. Internet and intranet technologies can be particularly effective in extending the information system outside the bounds of a company, creating even more opportunities. Of all the pieces that make up an information system, it is increasingly software that plays a critical role. Therefore, as businesses become more dependent on these information systems, they become more dependent on software. In addition, electronic systems manufacturers and independent software vendors are increasingly dependent on the development of software to provide critical functionality and product differentiation.

NEED FOR IMPROVED SOFTWARE DEVELOPMENT TECHNOLOGIES AND METHODS. Software development technologies and methods have not kept pace with the increasing reliance on software systems. In fact, the intricacies of modern software systems have tended to make the software development process longer, more complicated and increasingly error prone. For example, many businesses are implementing client-server applications that must be scalable enough to handle hundreds or thousands of users, yet flexible enough to meet continually changing business requirements. Businesses implementing enterprise-wide information systems face a particularly difficult challenge in developing software for the distributed, heterogeneous environments that these systems typically demand. In addition, businesses recognize that not only are these software systems expensive to develop, they can also be expensive to maintain.

Organizations have taken an initial step in addressing the complexity and cost of today's software systems by breaking software applications into functional segments to be developed by separate teams of programmers. However, traditional software development methodologies often produce unnecessary and complex interdependencies among functional software segments. The resulting software is typically difficult to develop and test, as well as expensive to modify and maintain.

ADOPTION OF OBJECT-ORIENTED TECHNOLOGIES. To address the difficulties of developing and maintaining complex software systems, organizations are increasingly adopting object-oriented technologies and development methodologies. Object-oriented programming allows software to be written in terms of objects that are used as building blocks to model real-world objects and systems. Objects are self-contained units that encapsulate a collection of data and related procedures. Although objects may be internally complex, they are designed to have simple interfaces that allow programmers to develop and change objects independently without affecting other segments of the software system. The generalized, self-contained nature of well-designed objects allows them to be reused within a single software system and in subsequent applications. To a large extent, developing software applications then becomes a matter of assembling new and existing objects, rather than writing entire programs

from scratch, resulting in significantly reduced development times and improved software quality. In addition, because the internal details of each object are relatively insulated from the rest of the system, objects can be tested, modified and maintained independently.

As object-oriented technologies have been adopted over the last several years, C++ has emerged as the de facto standard computer language for object-oriented software development. Java, another object-oriented programming language that is similar to C++, has been recently popularized through the growth of the Internet and intranet environments. Java offers additional benefits in the areas of platform independence and distributed computing.

NEED FOR ROBUST THIRD-PARTY SOFTWARE PARTS. While objects are easy to use once built, developing robust, well-designed objects can be extremely difficult and time consuming. Many technical details must be addressed, including support for various platforms, graphical user interfaces, databases and networking protocols. As a result, object-oriented software development can be improved significantly through the use of pre-built, industry-standard objects ("software parts"). Software parts are typically sold as a "class library," a group of 20-100 related object types ("classes"). Organizations seek to improve quality and time-to-market by purchasing pre-written objects from independent vendors to handle fundamental operations ranging from simple functions such as date handling to more complex functions such as network communications. Using off-the-shelf parts for such tasks allows programmers to focus on the core functionality of the systems they are developing. For example, using a standard object for database connectivity allows a programmer to develop an application without regard to the low level details of programming to any particular database while allowing the freedom to switch between different database vendors. In addition, commercially available software parts typically are more thoroughly tested and provide more complete functionality than parts developed in-house. The Company believes that the use of third-party software parts will enable organizations to develop robust software applications more rapidly, at lower cost and with more functionality than applications using only internally developed objects.

## *The Rogue Wave Solution*

Rogue Wave is a leading provider of object-oriented software parts and related tools. The Company's products are designed to enable customers to construct robust applications more quickly, with higher quality and across multiple platforms, while reducing the complexity associated with the development process. The Company provides customers with proven object-oriented development technology so that they can better apply the principles of software reuse to their own software development efforts. Rogue Wave's products are designed to be general purpose in nature, supporting a broad range of development environments and methodologies. The Company's software parts span a range of functionality from low-level ANSI/ISO standardized data structures, to higher level database connectivity objects. The Company follows a cross-platform strategy allowing most objects to be used on the most popular operating systems, such as Windows and UNIX. The Company offers a broad suite

of software parts and related tools for C++, the de facto standard object-oriented programming language. In addition, the Company is developing a suite of Java-based software parts and related tools and believes it was the first to deliver a commercially available Java interface builder.

The Company's products and services provide professional programmers with the following benefits:

IMPROVED SOFTWARE QUALITY. Rogue Wave's products improve software quality by providing professional programmers with robust and reusable software parts and related tools. The use of the Company's products can result in applications that are internally simpler and contain less untested code, resulting in fewer bugs and higher quality.

ACCELERATED DEVELOPMENT TIME. By using the Company's software parts, developers produce and test fewer lines of original code, thereby reducing overall development time. In addition, the Company's C++ and Java application builders simplify and accelerate prototyping and development efforts by offering visual design environments along with code generation and testing capabilities.

INCREASED FLEXIBLITY. Most of the Company's software parts have been written to be cross-platform. In addition, the database products can be used with a wide variety of databases, and the visual products with a wide variety of GUIs. This flexiblity allows programmers to develop applications with minimal regard to the environments in which they will be deployed. Businesses gain the ability to deploy software systems in a wide variety of environments with minimal redevelopment.

INCREASED FOCUS ON CRITICAL FUNCTIONALITY. Rogue Wave's products encapsulate fundamental operations within software parts, allowing developers to focus on creating the critical business logic within applications rather than the arcane features of the environments in which they are developing.

REDUCED MAINTENANCE COST. Rogue Wave's products are designed to reduce overall maintenance and support costs over the life of an application. The use of the Company's products helps programmers develop flexible, modular applications that can be more easily updated, modified and refined.

## *The Rogue Wave Strategy*

The Company's objective is to be the leading provider of high quality, reusable software parts and related tools for the development of object-oriented software applications. The key elements of the Company's strategy to achieve this objective include:

PROMOTE "TOOLS.H++ EVERYWHERE" STRATEGY. In order to establish brand awareness and cultivate a loyal base of programmers using the Company's products, the Company promotes the widespread use of its Tools.h++ product. The Company believes that Tools.h++ is the most widely used cross-platform C++ class library. In addition to its direct sales efforts, the Company has entered into OEM agreements to bundle Tools.h++ with popular compilers offered by leading vendors, including Fujitsu, Hewlett-Packard, Microware, Siemens-Nixdorf, Silicon Graphics and Sun Microsystems. The

Company believes its "Tools.h++ Everywhere" strategy enables the Company to leverage its installed base of Tools.h++ customers by offering additional object-oriented software parts and related tools through its telesales organization.

EXTEND TECHNOLOGICAL LEADERSHIP. The Company believes that it has developed industry-leading, standards-based class libraries. The Company is an active participant on the ANSI/ISO C++ Standards Committee and has authored several standards. The Company's implementation of the ANSI/ISO Standard C++ Library has been evaluated and selected by several compiler vendors such as Hewlett-Packard, Siemens-Nixdorf, Silicon Graphics and Sun Microsystems. The Company intends to continue to invest significant resources to maintain and extend its technological leadership.

LEVERAGE C++ EXPERTISE TO ADDRESS THE JAVA MARKET. The Company has considerable expertise in the C++ language, gained through the development of its class libraries, that is directly applicable to the Java language. Java has many of the same features of C++ but is simpler to use. Java also explicitly supports cross-platform, distributed applications. The Company believes it was the first to deliver a commercially available Java interface builder (JFactory) and believes it will be able to leverage its C++ expertise to continue to address the Java marketplace. The Company's strategy is to continue to focus on the Java language in order to expand its product offering by developing a full suite of Java class libraries and related development tools.

PROMOTE THE ENTERPRISE-WIDE ADOPTION OF ROGUE WAVE PRODUCTS. The Company has traditionally marketed its products to individual professional programmers, and the Company has sold over 50,000 end-user licenses to date. The Company intends to leverage its installed customer base of corporate programmers to approach its customers' higher level management and promote the standardization of its products within customer organizations. Furthermore, the Company intends to broaden its suite of complementary products, allowing the Company to fulfill more of its customers' software development needs.

CONTINUE TO PROVIDE FLEXIBLE CROSS-PLATFORM SOFTWARE. The Company supports multiple development platforms, including Windows 3.1, Windows 95, Windows NT, UNIX, OS/2 and MacOS. In addition, the Company is committed to providing "policy free" class libraries that provide users the flexibility to use Rogue Wave's products with a wide variety of C++ based programming environments and methodologies. The Company believes that this flexibility improves the competitiveness of its products.

EXPAND WORLDWIDE DISTRIBUTION. The Company distributes its products primarily through its direct telesales and field sales organizations and, to a lesser extent, through OEMs and VARs. The Company intends to expand its global distribution capabilities by increasing its presence in strategic international markets. In particular, the Company believes that there are significant growth opportunities in Europe. The Company intends to build on the success of its German subsidiary, established in January 1996, by establishing direct sales forces in additional European markets. The Company also plans to continue to increase its domestic sales force in order to expand its market presence.

# *Products*

Rogue Wave's products are designed to be used individually, with each other, or with other industry standard products. They fall into six different product groups: Foundation (general purpose data structures and algorithms); Database (software parts for interfacing to relational databases as well as related tools); Visual User Interface (GUI libraries as well as related tools); Mathematical (software parts for numerical and mathematical calculations); Distributed (software parts for facilitating distributed computing); and Java (Java software parts and related tools). All products are portable between Windows and UNIX, except Heap.h++ and View.h++, which are for UNIX only.

The table below summarizes the development and release history of Rogue Wave's principal products, and includes current list prices for perpetual-use single-user licenses and single-user multiple platform licenses. Support is generally available at an annual cost equal to 20% to 50% of the list price. Rogue Wave offers site pricing for 25, 50 and 100 users.

| PRODUCT LINE | ORIGINAL RELEASE DATE | CURRENT VERSION | LATEST RELEASE DATE | PRICE SINGLE-USER LICENSES | PRICE MULTI-PLATFORM LICENSES |
|---|---|---|---|---|---|
| FOUNDATION | | | | | |
| Standard C++ Library | 1995 | 1.2 | March 1996 | $ 195 | $ 390 |
| Tools.h++ | 1990 | 7.0 | July 1996 | 395 | 790 |
| Heap.h++ | 1994 | 1.0 | September 1994 | 995 | N/A |
| DATABASE | | | | | |
| DBTools.h++ | 1994 | 2.0 | June 1996 | $ 1,295 | $ 2,090 |
| DBFactory | 1996 | 1.0 | February 1996 | 995 | 1,990 |
| VISUAL USER INTERFACE | | | | | |
| zApp Developers Suite | 1994 | 3.0 | July 1996 | $ 2,995 | $ 4,990 |
| View.h++ | 1993 | 1.3 | February 1996 | 1,995 | N/A |
| MATHEMATICAL | | | | | |
| Money.h++ | 1994 | 1.3 | October 1995 | $ 1,295 | $ 2,590 |
| Math.h++ | 1989 | 6.0 | May 1996 | 595 | 1,190 |
| LAPACK.h++ | 1994 | 2.0 | July 1996 | 795 | 1,590 |
| DISTRIBUTED | | | | | |
| Net.h++ | 1995 | 1.1 | May 1996 | $ 1,495 | $ 2,490 |
| ORBstreams.h++ | 1996 | 1.0 | May 1996 | 395 | 790 |
| JAVA | | | | | |
| JFactory | 1996 | 1.1 | July 1996 | $ 195 | $ 390 |
| JMoney | 1996 | 2.0 | September 1996 | 99 | 198 |
| JTools | 1996 | 1.0 | July 1996 | 99 | |

```
198
  JWidgets                                  1996        2.0      September 1996            99
198
```

# *Foundation*

STANDARD C++ LIBRARY. Rogue Wave has played an active role on the ANSI/ISO C++ Standards Committee and has leveraged that experience to develop its version of the Standard C++ Library. Rogue Wave's Standard C++ Library includes fundamental data structures, as well as string, numeric limits, complex, allocator, valarray, iostream and locale classes. Rogue Wave's Standard C++ Library has been adopted by many of the leading C++ compiler vendors, including Fujitsu, Hewlett-Packard, Siemens-Nixdorf, Silicon Graphics, Sun Microsystems and others.

TOOLS.H++. Tools.h++ encapsulates and extends the Standard C++ Library, making the Standard C++ Library easier to use by introducing object-oriented constructs and adding new classes, such as hash tables, that are not part of the Standard C++ Library. Used together, Tools.h++ and the Standard C++ Library give users the portability of the Standard C++ Library plus the safety and reusability associated with object-oriented design.

HEAP.H++. Heap.h++ is a replacement for the standard memory allocator that comes with UNIX machines. This product uses a proprietary memory allocation algorithm that allocates memory faster and with less fragmentation than most native allocators.

# *Database*

DBTOOLS.H++. DBTools.h++, which is built on top of the Tools.h++ foundation class library, provides a common, object-oriented interface to relational databases. Applications can be written once to the DBTools.h++ Application Programming Interface ("API") and then deployed to any of the supported databases, regardless of the differences in data structures and function calls between the different databases. DBTools.h++ provides native access to Informix, Ingres, Oracle and Sybase, plus general connectivity to these and other relational databases through the ODBC standard. In addition, DBTools.h++ provides a flexible error-handling model and encapsulates SQL 92 DML functionality, including SQL extensions such as stored procedures.

DBFACTORY. DBFactory is a development tool that automatically creates business objects represented in the schemas held in a relational database. DBFactory maps schema information, stored procedure activation and query results into DBTools.h++ classes. Code generation is controlled through a point-and-click interface, which displays database and schema information on the screen. DBFactory uses "style files" to control code generation. The user can edit the style files to tailor output to specific needs.

# *Visual User Interface*

ZAPP DEVELOPERS SUITE. The zApp Developers Suite consists of three different products: the zApp Application Framework, zApp Factory and the zApp Interface Pack. The zApp Application Framework, which is built on top of the Tools.h++ foundation class library, is an object-oriented, GUI library written in C++ that provides portability among Windows 95, Windows NT, OS/2 and many versions of UNIX. The user programs once to the zApp API and is then able to deploy to any supported platform with minimal changes. zApp Factory allows the user to create an application visually. The user drags and drops various user elements, such as push buttons, edit boxes and drop down lists, onto a window, thereby building an application more quickly. zApp Factory then generates calls to the zApp Application Framework library needed to represent the visual interface. zApp Interface Pack provides high-level visual objects and custom controls and extends the functionality of the zApp Application Framework. zApp Interface Pack consists of approximately 100 classes, including tables, toolbars, status lines, 3D controls and bitmap buttons. The zApp Developers Suite was acquired by the Company in the Inmark Merger in October 1995.

VIEW.H++. View.h++, which is built on top of the Tools.h++ foundation class library, is a C++ library that provides an object-oriented, C++ interface to OSF/Motif, the industry standard GUI for UNIX machines. View.h++ supports both Motif 1.1 and Motif 1.2 features.

# *Mathematical*

MONEY.H++. Money.h++ is a C++ class library for representing and manipulating exact decimal fractions, primarily in banking and other financial applications. It also includes I/O formatting objects, error handling, control over rounding and explicit representation for several non-numeric values.

MATH.H++. Math.h++ is a C++ class library that improves the performance and reliability of any code that manipulates arrays of numbers. It includes vectors, matrices, arrays, random number generators and Fast Fourier Transforms. Math.h++ is useful in mathematical and numerical applications.

```
    LAPACK.H++.  LAPACK.h++  is a C++  class library that  is designed to  solve
numerical   linear   algebra   problems.   It   manages   the   details   of   data
representation,  enabling   the   programmer   to   concentrate   on   application
development.
```

# *Distributed*

NET.H++. Net.h++, which is built on top of the Tools.h++ foundation class library, is a C++ class library for developing applications that communicate across a network. By programming to the Net.h++ API, the user can write code that is both simpler and platform independent.

ORBSTREAMS.H++. ORBstreams.h++, which is built on top of the Tools.h++ foundation class library, is a C++ library that makes C++ programming in an OMG CORBA environment much easier by providing C++ classes that stream complicated C++ objects across a CORBA interface, eliminating the

need to write custom marshalling and unmarshalling routines.

## *Java*

JFACTORY. JFactory is similar to zApp Factory, except that it generates Java calls to the Abstract Windowing Toolkit (from Sun Microsystems), instead of C++ calls to the zApp Application Framework. The user can design an application visually by dragging and dropping elements, such as radio buttons and edit boxes, onto a window. Once the look of the application has been designed, the user can generate the code for the application by pushing a button.

JMONEY. JMoney is a Java class library for representing and manipulating exact decimal fractions, primarily for banking and other financial applications. It also includes algorithms for calculating amortization and other schedules.

JTOOLS. JTools is a Java class library that extends the set of utility data structures that comes with the Java Development Kit distributed by Sun Microsystems.

JWIDGETS. JWidgets is a Java class library that extends the set of user controls that comes with the Java Development Kit distributed by Sun Microsystems. It includes such controls as trees, tabbed notebooks, grids and others.

## *Customers*

```
    The  Company's  products  are  used  by  programmers  to  develop  software
applications for organizations  in a wide  variety of industries.  To date,  the
Company  has  sold  over  50,000  end-user  licenses.  The  following  is  a
representative list of customers  responsible for more  than $50,000 in  revenue
during the 24 months ended September 30, 1996.
```

TELECOMMUNICATIONS Bell Atlantic Bell Northern Research BellSouth Telecommunications Bosch Telecom Deutche Telecom Ericsson Lucent Technologies MCI Motorola Northern Telecom NYNEX US West Communications INFORMATION SYSTEMS/SOFTWARE Cadence Design Systems ComputerVision D&B Software ICON Solutions Netscape Objective Systems Integrators SYSTEMS INTEGRATORS American Management Systems Andersen Consulting Cap Gemini E Systems PSI AG FINANCIAL INSTITUTIONS Citicorp Deutsche Bank Edward D. Jones and Company Lehman Brothers Morgan Guaranty Trust Co. Morgan Stanley Smith Barney The Options Clearing Corporation Union Bank of Switzerland Westdeutche Landesbank INDUSTRIAL, CONSUMER & OTHER A.C. Nielsen Company Blue Cross/Blue Shield DOD, Maryland Procurement Office FedEx Ford Motor Company Hughes Electronics Lockheed Martin Loral Mead Data Central Medaphis Corporation Schlumberger Technologies TASC COMPUTER/ELECTRONICS 3Com Cable Data Cabletron Systems IBM Sony TRANSPORTATION Sabre Decision Technologies TransQuest Information Systems Worldspan VARS AND OEMS Hewlett-Packard Microware Rational Software Siemens Nixdorf Silicon Graphics Sun Microsystems Tandem Computers

# *Sales, Marketing and Customer Support*

The Company markets its software primarily through its direct sales organization and, to a lesser extent, through outside sales representatives and indirect channel partners. As of August 31, 1996, the Company's sales and marketing organization consisted of 62 individuals. In addition, the Company's products and related tools are sold directly through VARs and OEMs.

TELESALES. As of August 31, 1996, the Company employed 24 telesales representatives. A significant part of the Company's "Tools.h++ Everywhere" strategy is the sale of its products to individual and small groups of programmers. The Company uses OEM generated and other targeted mailing lists to distribute product catalogs to those individuals. The Company's telesales force complements the "Tools.h++ Everywhere" strategy by fielding inquiries and orders from a broad range of users who are exposed to one or more of the Company's products. Sales through this channel are typically less than $50,000 per order and the sales cycle is generally less than two months.

DIRECT FIELD SALES. To date, the Company has primarily conducted its direct sales activities in the United States and through a recently established sales office in Germany. The Company currently employs 12 direct field sales representatives supported by two technical sales representatives. The Company's field sales force targets Fortune 500 customers in strategic industries, such as financial services and telecommunications. The field sales force typically focuses on reaching chief information officers or similar enterprise-wide technology purchasers. The sales cycle for this "top down" approach typically ranges from two to six months. The Company maintains domestic direct sales offices or personnel in Oregon, California, Colorado, Georgia, Illinois and New York. German direct sales operations are located in Aschaffenburg, Germany.

ORIGINAL EQUIPMENT MANUFACTURERS AND VALUE ADDED RESELLERS. The Company's foundation products are bundled with many leading C++ compilers and distributed by major OEMs and VARs. Although this use of OEMs and VARs does not contribute significantly to the Company's revenue, it does further the Company's "Tools.h++ Everywhere" strategy by increasing the exposure of C++ users to the Company's products and providing name recognition for the Company.

The Company's marketing efforts are directed at broadening the market for its products by increasing awareness among corporate programmers and chief information officers. In support of its sales efforts, the Company's marketing department conducts comprehensive programs that include advertising, direct mail, public relations, trade shows, seminars and ongoing customer communications programs. The Company also keeps its customers informed of advances in the field through technical papers and other mailings. The Company maintains a Web site on the Internet that provides Company and product information and handles sales and distribution of JFactory. The Company makes all of its products available for sale and distribution over the Internet to customers in the United States.

The Company believes that a high level of customer support is important to the successful marketing and sale of its products. The Company offers telephone, electronic mail, fax and Internet-based customer support through its support services staff. Initial product license fees include 30 days of

customer support. The Company also offers annual maintenance agreements that include technical support and upgrades, and offers introductory and advanced classes and training programs.

## *Product Development*

As of September 30, 1996, there were 62 employees on the Company's product development staff. The Company's product development expenditures in fiscal 1994 and 1995 and for the nine months ended June 30, 1996 were $2.1 million, $3.2 million and $4.0 million, respectively, and represented 29.3%, 26.8% and 30.2% of revenue, respectively. The Company expects that it will continue to commit substantial resources to product development in the future.

The majority of the Company's research and development department is located at the Company's headquarters in Corvallis, Oregon, with additional groups in Mountain View, California and Charlotte, North Carolina. The Company's research and development department is organized into six different teams, reflecting the six different product groups, Foundation, Database, Visual User Interface, Mathematical, Distributed and Java. Each team has a lead architect who is responsible for the technical content of the product group, as well as a development manager who is responsible for the personnel in the group, both of whom work closely with a corresponding marketing manager in the marketing department. Although development teams are responsible for the overall design, implementation and testing of products, the Company has a Quality Engineering ("QE") team that designs test suites and maintains configuration management systems.

The Company has begun to adopt ClearCase from Atria Software for configuration management. The Company intends to perform synchronization between sites using the ClearCase "Remote Site" option. Full adoption is expected by late calendar 1996. In addition, the Company uses Purify and Quantify from Pure Software to improve product quality. All products developed by the Company are tested using Purify during the Company QE process. The Company uses an internal DESIGN AND STYLE GUIDE to ensure consistency of general architectural, design and style features. Furthermore, the Chief Technical Officer is responsible for the design and implementation of common architectural features across all products.

Rogue Wave is continuing to expand and enhance its catalogue of C++ class libraries and related development tools. In addition, Rogue Wave is working to solidify its place as a leader in the newly developing Java tools market.

An important architectural principle of the Company is that all products should be "policy-free." That is, they should not dictate how the product should be used and in what environment. As an example, DBTools.h++ can manage database connections (how and when they are established and terminated) or it can allow the programmer to manage them manually.

C++ PRODUCTS. The Company plans to introduce a new version of DBTools.h++ that will support SQL 3 features, as well as improved performance and support for transactions. The Company is also working on libraries to facilitate developing distributed intranet applications.

Rogue Wave plans to introduce a new product designed to integrate and enhance the functionality of its code generation tools, zApp Factory and DBFactory. The new product is being designed to enable customers to create business objects that can include both visual and database access components. The product is being designed to utilize live data, even in design mode, to enhance the realism of applications as they are being developed. It is expected to be able to generate both C++ code and database schema information to model business objects.

JAVA PRODUCTS. The Company is also developing additional products for Java. Although the Java language comes with a development library, the built-in library lacks the breadth and sophistication of a complete foundation library like Rogue Wave's Tools.h++. Rogue Wave plans to fill this gap by continuing to augment JTools, its Java foundation library. Rogue Wave also plans to enhance the current JFactory product with a family of products designed to allow the building of business objects in Java. The new products will utilize the same underlying code base used in the Company's C++ Factory product line. As with the C++ Factory products, the resulting business objects can have both visual and database components.

The Company's future success will depend on its ability to continue to enhance its current product line and to continue to develop and introduce new products that keep pace with competitive product introductions and technological developments, satisfy diverse and evolving customer requirements and otherwise achieve market acceptance. There can be no assurance that the Company will be successful in continuing to develop and market on a timely and cost-effective basis fully functional product enhancements or new products that respond to technological advances by others, or that its enhanced and new products will achieve market acceptance. In addition, the Company has in the past experienced delays in the development, introduction and marketing of new or enhanced products, and there can be no assurance that the Company will not experience similar delays in the future. Any failure by the Company to anticipate or respond adequately to changes in technology and customer preferences, or any significant delays in product development or introduction, would have a material adverse effect on the Company's business, financial condition and results of operations.

## *Intellectual Property and Other Proprietary Rights*

The Company relies primarily on a combination of copyright, trademark and trade secret laws, confidentiality procedures and contractual provisions to protect its proprietary rights. The Company also believes that factors such as the technological and creative skills of its personnel, new product developments, frequent product enhancements, name recognition and reliable product maintenance are essential to establishing and maintaining a technological leadership position. The Company seeks to protect its software, documentation and other written materials under trade secret and copyright laws, which afford only limited protection. The Company currently has one patent application pending in the United States. There can be no assurance that the Company's pending patent application whether or not being currently challenged by applicable governmental patent examiners, will be issued with the scope of the claims sought by the Company, if at all. Furthermore, there can be no assurance that others will not develop technologies that are similar or superior to the Company's technology or

design around the Company's pending patent. Despite the Company's efforts to protect its proprietary rights, unauthorized parties may attempt to copy aspects of the Company's products or to obtain and use information that the Company regards as proprietary. The nature of many of the Company's products requires the release of the source code to all customers. As such, policing unauthorized use of the Company's products is difficult, and while the Company is unable to determine the extent to which piracy of its software products exists, software piracy can be expected to be a persistent problem. In addition, the laws of some foreign countries do not protect the Company's proprietary rights as fully as do the laws of the United States. There can be no assurance that the Company's means of protecting its proprietary rights in the United States or abroad will be adequate or that competition will not independently develop similar technology.

The Company is not aware that it is infringing any proprietary rights of third parties. There can be no assurance, however, that third parties will not claim infringement by the Company of their intellectual property rights. The Company expects that software product developers will increasingly be subject to infringement claims as the number of products and competitors in the Company's industry segment grows and the functionality of products in different industry segments overlaps. Any such claims, with or without merit, could be time consuming to defend, result in costly litigation, divert management's attention and resources, cause product shipment delays or require the Company to enter into royalty or licensing agreements. Such royalty or licensing agreements, if required, may not be available on terms acceptable to the Company, if at all. In the event of a successful claim of product infringement against the Company and failure or inability of the Company to license the infringed or similar technology, the Company's business, operating results and financial condition would be materially and adversely affected.

## *Competition*

The market for the Company's products is intensely competitive, subject to rapid change and significantly affected by new product introductions and other market activities of industry participants. The Company's products are targeted at the emerging market for C++ software parts and programming tools, and the Company's competitors offer a variety of products and services to address this market. The Company believes that the principal competitive factors in this market are product quality, flexibility, performance, functionality and features, use of standards based technology, quality of support and service, company reputation and price. While price is less significant than other factors for corporate customers, price can be a significant factor for individual programmers. Direct competitors include Microsoft (with its MFC), IBM and several privately held companies. Microsoft is a particularly strong competitor due to its large installed base and the fact that it bundles its MFC library with its own and other C++ compilers. Microsoft may decide in the future to devote more resources to or may broaden the functions of MFC in order to address and more effectively compete with the functionality of the Company's products. Software applications can also be developed using software parts and programming tools in environments other than C++. Indirect competitors with such offerings include Microsoft (with its ActiveX technology), Borland, Oracle, ParcPlace-DigiTalk and

Powersoft (a subsidiary of Sybase). Many of these competitors have longer operating histories, significantly greater financial, technical, marketing and other resources, significantly greater name recognition and larger installed bases of customers than the Company. In addition, several database vendors, such as Informix, Oracle and Sybase are increasingly developing robust software parts for inclusion with their database products and may begin to compete with the Company in the future. These potential competitors have well-established relationships with current and potential customers and have the resources to enable them to more easily offer a single vendor solution. Like the Company's current competitors, many of these companies have longer operating histories, significantly greater resources and name recognition and larger installed bases of customers than the Company. As a result, these potential competitors may be able to respond more quickly to new or emerging technologies and changes in customer requirements, or to devote greater resources to the development, promotion and sale of their products than the Company. In addition, the Company faces competition from Borland, Symantec and other companies for its current Java product and it expects to face significant competition in the future from such companies with respect to other Java products it may introduce.

The Company also faces competition from systems integrators and internal development efforts. Many systems integrators possess industry specific expertise that may enable them to offer a single vendor solution more easily, and already have a reputation among potential customers for offering enterprise-wide solutions to software programming needs. There can be no assurance that these third parties, many of which have significantly greater resources than the Company, will not market competitive software products in the future. It is also possible that new competitors or alliances among competitors will emerge and rapidly acquire significant market share. The Company also expects that competition will increase as a result of software industry consolidation. Increased competition may result in price reductions, reduced gross margins and loss of market share, any of which could materially and adversely affect the Company's business, operating results and financial condition. There can be no assurance that the Company will be able to compete successfully against current and future competitors or that competitive pressures faced by the Company will not materially and adversely affect its business, financial condition and results of operations.

## *Employees*

As of September 30, 1996, the Company had a total of 176 employees, of which 170 were based in the United States and six were based in Germany. Of the total, 68 were engaged in sales and marketing, 62 were in product development, 18 were in customer support, and 28 were in finance, administration and operations. The Company's future performance depends in significant part upon the continued service of its key technical, sales and senior management personnel, none of whom is bound by an employment agreement. The loss of the services of one or more of the Company's key employees could have a material adverse effect on the Company's business, financial condition and results of operations. The Company's future success also depends on its continuing ability to attract, train and retain highly qualified technical, sales and managerial personnel. Competition for such personnel is intense, and

there can be no assurance that the Company can retain its key technical, sales and managerial personnel in the future. The Company has not experienced any work stoppages and considers it relations with its employees to be good.

## *Facilities*

The Company's principal administrative, sales, marketing, support and product development facilities are located in two facilities of approximately 41,000 square feet and 13,000 square feet of space in Corvallis, Oregon and Mountain View, California, respectively. The leases on these facilities expire in 2001 and 1999, respectively. The Company currently leases other domestic sales and support offices in Colorado, Georgia, Illinois, New York, North Carolina and Oregon. The Company also maintains an international office in Germany. The Company believes that its existing facilities are adequate for its current needs and that suitable additional or alternative space will be available in the future on commercially reasonable terms as needed.

## *Management*

## *Directors, Executive Officers and Certain Key Employees*

The directors, executive officers and certain key employees of the Company, and their ages as of September 30, 1996 are as follows:

## *Name Age Position*

| | | |
|---|---|---|
| Thomas Keffer, Ph.D. (1)..... | 44 | President, Chief Executive Officer and Chairman of the Board |
| Dan Whitaker..... | 42 | Executive Vice President, Marketing and Director |
| Michael Scally..... | 45 | Chief Operating Officer |
| Robert M. Holburn, Jr..... | 50 | Chief Financial Officer and Secretary |
| Thomas B. Brookes..... | 33 | Vice President, Corporate Counsel |
| Michael A. Foreman..... | 45 | Vice President, Development |
| Allan Vermeulen, Ph.D..... | 31 | Chief Technical Officer |
| Thomas M. Atwood..... | 47 | Director |
| Howard M. Love, Jr..... | 36 | Director |
| Richard P. Magnuson (1)(2)..... | 40 | Director |
| Thomas H. Peterson (1)(2)..... | 40 | Director |

(1) Member of the Compensation Committee.

(2) Member of the Audit Committee.

THOMAS KEFFER, PH.D., Founder, President, Chief Executive Officer and Chairman of the Board of Directors, has been with the Company since its inception in 1989. Prior to 1989, Dr. Keffer was an Assistant Professor of Oceanography at the University of Washington. Dr. Keffer received his Ph.D. in Physical Oceanography from Oregon State University and his B.A. from Cornell University.

DAN WHITAKER, Executive Vice President, Marketing and a director, has been with the Company since January 1992. From June 1990 until January 1992, Mr. Whitaker was the Vice President of Marketing for Evergreen Technologies, a computer hardware company. Mr. Whitaker was a founder of the Software Association of Oregon and served as its Director from 1989 to 1990. Mr. Whitaker received his B.A. from Oregon State University.

MICHAEL SCALLY has served as the Chief Operating Officer of the Company since June 1996. From May 1994 until June 1996, he served as Vice President, National Telesales of Intersolv, a software company. From November 1988 until April 1994, he was the Vice President, General Manager of Carnegie Group Inc., a computer consulting company. Mr. Scally received his B.S. from Michigan Technological University.

ROBERT M. HOLBURN, JR., the Chief Financial Officer and Secretary of the Company, has been with the Company since October 1994. Between March 1994 and October 1994, he served as the Chief Financial Officer for MacSema, Inc., a manufacturer of electronic data storage systems. From August 1993 until March 1994, he served as an independent financial consultant. From August 1992 until August 1993, he served as the Chief Financial Officer for Pacific Coast Technologies, an electronics company. From 1987 until August 1992, Mr. Holburn served as Vice President of Administration, Chief Financial Officer and Secretary of Advanced Power Technology, a semiconductor manufacturer. Prior to 1987, he was employed for 13 years with Texas Instruments, Inc., an electronics company, where he last served as Controller for its world-wide MOS memory operations. Mr. Holburn holds an M.B.A. from the College of William and Mary and a B.S. from the University of Rhode Island.

THOMAS B. BROOKES has served as the Company's Vice President, Corporate Counsel since June 1996 and has been employed as legal counsel by the Company since March 1994. From May 1993 to March 1994, Mr. Brookes was a practicing attorney. From July 1992 to December 1992, Mr. Brookes served as the Vice President of Text-Tel, Inc., a developer and designer of products for the hearing impaired. From October 1989 to July 1992, Mr. Brookes was an attorney with the law firm Wood Tatum Wonnacot & Landis. Mr. Brookes earned his B.A. from the University of Oregon and his J.D. from the University of Washington.

MICHAEL A. FOREMAN has served as Vice President, Development of the Company since September 1996. From March 1995 to June 1996, he served as Vice President of Research and Development for Eyesis Technologies, a medical device company. Between May 1992 and March 1995, he was Senior Manager, Software Development at Informix Software, a software company. Prior to joining Informix, he was employed for eight years with Hewlett-Packard, a computer hardware company, where he last served as Research and Development Project Manager, Software Engineering Systems Division. Mr. Foreman received his M.B.A. from the University of Maryland and his B.S. from Virginia Polytechnic Institute.

ALLAN VERMEULEN, PH.D. has served in a variety of positions with the Company since January 1993, serving as Chief Technical Officer since October 1995. From November 1994 to October 1995, Dr. Vermeulen served as Senior Software Engineer. Prior to that he served as a Technical Manager and Software Engineer. Mr. Vermeulen was enrolled in a doctoral program at the University of Waterloo, Canada prior to joining the Company. Dr. Vermeulen earned his Ph.D. in Systems Design Engineering and his B.S. from the University of Waterloo, Canada.

THOMAS M. ATWOOD has been a director of the Company since October 1994. Mr. Atwood is currently Chief Executive Officer of Cinebase Software, a software company. Prior to that, he founded Object Design, Inc., a software company, in 1988 and served as its Chairman through December 1995.

HOWARD M. LOVE, JR. has been a director of the Company since October 1995. Since May 1996, Mr. Love has been General Partner of Love Capital Partners, L.P., an investment fund. From June 1984 until October 1995, Mr. Love served as President and Chairman of the Board of Inmark.

RICHARD P. MAGNUSON has served as a director of the Company since November 1995. Mr. Magnuson has served as a partner of Menlo Ventures, a venture capital firm, since 1984. Mr. Magnuson also serves as a director of OrCAD, Inc., a software company, California Water Service Company, a water utility, and several privately held companies.

THOMAS H. PETERSON has served as a director of the Company since July 1994. Mr. Peterson has been a general partner of certain venture capital funds associated with El Dorado Ventures, a venture capital company, since May 1991. From 1986 to May 1991, Mr. Peterson was an associate with El Dorado Ventures. Mr. Peterson also serves on the Board of Directors of several privately held companies.

## *Committees*

The Audit Committee consists of Mr. Magnuson and Mr. Peterson. The Audit Committee makes recommendations to the Board of Directors regarding the selection of independent auditors, reviews the results and scope of the audit and other services provided by the Company's independent auditors and reviews and evaluates the Company's audit and control functions.

The Compensation Committee consists of Dr. Keffer, Mr. Magnuson and Mr. Peterson. The Compensation Committee makes recommendations regarding the Company's 1996 Equity Incentive Plan and Employee Stock Purchase Plan and makes decisions concerning salaries and incentive compensation for employees and consultants of the Company.

## *Directors' Compensation*

The Company's directors do not currently receive any cash compensation for service on the Board or any committee thereof, but directors may be reimbursed for certain expenses in connection with attendance at Board and committee meetings. Upon the completion of this offering, non-employee

directors will be eligible to participate in the Equity Incentive Plan. See "--Equity Incentive Plans."

## *Compensation Committee Interlocks and Insider Participation*

No member of the Compensation Committee of the Company serves as a member of the board of directors or compensation committee of any entity that has one or more executive officers serving as a member of the Company's Board of Directors or Compensation Committee. See "Certain Transactions" for a description of transactions between the Company and entities affiliated with members of the Compensation Committee.

## *Executive Compensation*

The following table sets forth the compensation earned by the Company's Chief Executive Officer and the two other most highly compensated executive officers (collectively, the "Named Executive Officers") whose salary and bonus for the fiscal year ended September 30, 1996 were in excess of $100,000 for services rendered in all capacities to the Company for that fiscal year:

## *Summary Compensation Table*

| | ANNUAL COMPENSATION | LONG-TERM COMPENSATION AWARDS | |
|---|---|---|---|
| NAME AND PRINCIPAL POSITION (1) | SALARY ($) | SECURITIES UNDERLYING OPTIONS | ALL OTHER COMPENSATION ($) |
| Thomas Keffer..... President, Chief Executive Officer and Chairman of the Board | $ 145,000 | -- | -- |
| Dan Whitaker..... Executive Vice President, Marketing and Director | 120,000 | -- | -- |
| Robert M. Holburn, Jr..... Chief Financial Officer and Secretary | 105,000 | 26,666 | -- |
| Thomas A. Nora (2)..... Vice President of Sales | 98,440 | -- | $ 58,499(3) |

(1) Michael Scally, who joined the Company in June 1996 as Chief Operating Officer, is paid an annual salary of $175,000 and would have been a Named Executive Officer had he served during the entire fiscal 1996.

(2) Mr. Nora served as the Company's Vice President of Sales from March 1994 until July 1996.

(3) Represents commissions paid.

# *Equity Incentive Plans*

1996 EQUITY INCENTIVE PLAN. The Company's 1996 Equity Incentive Plan (the "Equity Incentive Plan") was adopted by the Board of Directors in June 1996 and is expected to be approved by the stockholders in October 1996. The Equity Incentive Plan replaced the Company's 1994 Stock Option Plan and the Inmark Stock Option Plan. The Company has reserved a total of 2,500,000 shares of Common Stock for issuance under the Equity Incentive Plan. The Equity Incentive Plan provides for the following types of stock-based awards: incentive stock options for employees (including officers and employee directors); nonstatutory stock options for employees (including officers and employee directors), directors and consultants; and restricted stock purchase awards, stock bonuses and stock appreciation rights to employees (including officers and employee directors) and consultants. The Equity Incentive Plan is administered by the Board of Directors or a committee appointed by the Board, which determines recipients and types of awards to be granted, including the exercise price, number of shares subject to the award and the exercisability thereof, provided that the terms of options granted to non-employee directors are specified in the Equity Incentive Plan.

Non-employee directors are eligible only for nonstatutory option grants. Each of the Company's existing non-employee directors (Messrs. Atwood, Love, Magnuson and Peterson) will be granted an option to purchase 10,000 shares of Common Stock on the date of this offering. In addition, each person who becomes a non-employee director after the date of this offering will automatically be granted an option to purchase 10,000 shares of Common Stock on the date of his or her election to the Board. Such options will vest in 36 equal monthly installments. On the last day of each fiscal year of the Company, commencing with September 30, 1997, each non-employee director who has continuously served as a non-employee director since the last annual meeting will be granted an option to purchase 3,500 shares of Common Stock, and each other person who is then a non-employee director will be granted an option to purchase a prorated number of shares of Common Stock based on the number of days such person has continuously served as a non-employee director since the last annual meeting. These options will be fully vested when granted.

The term of a stock option granted under the Equity Incentive Plan generally may not exceed 10 years. The exercise price of options granted under the Equity Incentive Plan is determined by the Board of Directors, but, in the case of an incentive stock option, cannot be less than 100% of the fair market value of the Common Stock on the date of grant. Options granted under the Equity Incentive Plan vest at the rate specified in the option agreement. No stock option may be transferred by the optionee other than by will or the laws of descent or distribution or, in certain limited instances, pursuant to a domestic relations order, provided that an optionee may designate a beneficiary who may exercise the option following the optionee's death. An optionee whose relationship with the Company or any related corporation ceases for any reason (other than by death or permanent and total disability) may exercise options in the three-month period following such cessation (unless such options terminate sooner or later by their terms). Options may be exercised for up to twelve months after an optionee's relationship with the Company and related corporations ceases due to death or disability (unless such options terminate sooner or later by their terms).

No incentive stock option may be granted to any person who, at the time of the grant, owns (or is deemed to own) stock possessing more than 10% of the total combined voting power of the Company or any affiliate of the Company, unless the option exercise price is at least 110% of the fair market value of the stock subject to the option on the date of grant, and the term of the option does not exceed five years from the date of grant. The aggregate fair market value, determined at the time of grant, of the shares of Common Stock with respect to which incentive stock options are exercisable for the first time by an optionee during any calendar year (under all such plans of the Company and its affiliates) may not exceed $100,000.

Shares subject to stock awards that have expired or otherwise terminated without having been exercised in full again become available for the grant of awards under the Equity Incentive Plan. Shares subject to exercised stock appreciation rights shall not again become available for the grant of new awards.

The Board of Directors has the authority to reprice outstanding options and stock appreciation rights and to offer optionees and holders of stock appreciation rights the opportunity to replace outstanding options and stock appreciation rights with new options or stock appreciation rights for the same or a different number of shares.

Restricted stock purchase awards granted under the Equity Incentive Plan may be granted pursuant to a repurchase option in favor of the Company in accordance with a vesting schedule and at a price determined by the Board of Directors. Restricted stock purchases must be at a price equal to at least 85% of the stock's fair market value on the award date, but stock bonuses may be awarded in consideration of past services without a purchase payment. Rights under a stock bonus or restricted stock bonus agreement may not be transferred other than by will, the laws of descent and distribution or a qualified domestic relations order while the stock awarded pursuant to such an agreement remains subject to the agreement. Stock appreciation rights granted under the Equity Incentive Plan may be tandem rights, concurrent rights or independent rights.

Upon certain changes in control of the Company, all outstanding awards under the Equity Incentive Plan shall either be assumed or substituted by the surviving entity. If the surviving entity determines not to assume or substitute such awards, and with respect to persons then performing services as employees, directors or consultants, the time during which such awards may be exercised shall be accelerated and the awards terminated if not exercised prior to such change in control.

As of September 30, 1996, 231,196 shares of Common Stock had been issued upon the exercise of options granted under the 1994 Plan and the Inmark Plan, options to purchase 1,456,827 shares of Common Stock at a weighted average exercise price of $2.37 were outstanding and 811,977 shares remained available for future grant. The Equity Incentive Plan will terminate in June 2006 unless sooner terminated by the Board of Directors. As of September 30, 1996, no stock bonuses or restricted stock had been granted under the Equity Incentive Plan.

EMPLOYEE STOCK PURCHASE PLAN. The Company's Employee Stock Purchase Plan (the "Purchase Plan") was adopted by the Board of Directors in June 1996 and is expected to be approved by the stockholders in October 1996. The Company has reserved a total of 350,000 shares of Common

Stock for issuance under the Purchase Plan. The Purchase Plan is intended to qualify as an employee stock purchase plan within the meaning of Section 423 of the Internal Revenue Code. Under the Purchase Plan, the Board of Directors may authorize participation by eligible employees, including officers, in periodic offerings following the adoption of the Purchase Plan. The offering period for any offering will be no more than 27 months.

Employees are eligible to participate if they are employed by the Company or an affiliate of the Company designated by the Board of Directors. Employees who participate in an offering can have up to 15% (as determined by the Board for each offering) of their earnings withheld pursuant to the Purchase Plan and applied, on specified dates determined by the Board of Directors, to the purchase of shares of Common Stock. The price of Common Stock purchased under the Purchase Plan will be equal to 85% of the lower of the fair market value of the Common Stock on the commencement date of each offering period or the relevant purchase date. Employees may end their participation in the offering at any time during the offering period, and participation ends automatically on termination of employment with the Company.

In the event of certain changes of control, the Company and the Board of Directors has discretion to provide that each right to purchase Common Stock will be assumed or an equivalent right substituted by the successor corporation, or the Board may shorten the offering period and provide for all sums collected by payroll deductions to be applied to purchase stock immediately prior to the change in control. The Purchase Plan will terminate at the Board's direction.

OPTION GRANTS IN LAST FISCAL YEAR The following table sets forth each grant of stock options made during the fiscal year ended September 30, 1996 to each of the Named Executive Officers:

| | INDIVIDUAL GRANTS | | | | POTENTIAL REALIZABLE VALUE AT ASSUMED RATES OF STOCK APPRECIATION FOR TERM ($)(4) | |
|---|---|---|---|---|---|---|
| NAME (1) | NUMBER OF SECURITIES UNDERLYING OPTIONS GRANTED (2) | PERCENTAGE OF TOTAL OPTIONS GRANTED IN FISCAL 1996 (3) | EXERCISE PRICE ($/SH) | EXPIRATION DATE | ANNUAL PRICE OPTION 5% | 10% |
| Thomas Keffer..... | -- | -- | -- | -- | -- | -- |
| Dan Whitaker..... | -- | -- | -- | -- | -- | -- |
| Robert M. Holburn, Jr..... | 26,666 | 4.8% | $ 6.75 | 6/6/2006 | $ 113,198 | $ 286,866 |
| Thomas A. Nora..... | -- | -- | -- | -- | -- | -- |

(1) Mr. Scally was granted an option to purchase 200,000 shares at an exercise price of $6.75 per share in June 1996. The options have a term of 10 years.

(2) 25% of these options vest on the first anniversary of the date of grant and an additional 2.083% vest each month thereafter. These options have a term of 10 years.

(3) Based on an aggregate of 555,066 shares subject to options granted to employees of the Company under the 1994 Stock Option Plan in fiscal 1996, including the Named Executive Officer.

(4) The potential realizable value is calculated based on the term of the option at the time of grant (10 years). Stock price appreciation of 5% and 10% is assumed pursuant to rules promulgated by the Securities and Exchange Commission and does not represent the Company's prediction of its stock price performance. The potential realizable value at 5% and 10% appreciation is calculated by assuming that the exercise price on the date of grant appreciates at the indicated rate for the entire term of the option and that the option is exercised at the exercise price and sold on the last day of its term at the appreciated price.

## *Aggregated Options Exercised in 1996 and Year-end Option Values*

The following table sets forth for each of the Named Executive Officers the shares acquired and the value realized on each exercise of stock options during the year ended September 30, 1996 and the number and value of securities underlying unexercised options held by the Named Executive Officers at September 30, 1996:

| | NUMBER OF SECURITIES UNDERLYING UNEXERCISED OPTIONS (1) | | VALUE OF UNEXERCISED IN-THE-MONEY OPTIONS (2) |
|---|---|---|---|
| NAME | EXERCISABLE | UNEXERCISABLE | EXERCISABLE |
| Thomas Keffer..... | -- | -- | -- |
| Dan Whitaker..... | 150,493 | 127,340 | $ 1,106,123 |
| Robert M. Holburn, Jr.... | 17,361 | 65,971 | 125,727 |
| Thomas A. Nora..... | 12,842 | 83,060 | 93,348 |

## *Name Unexercisable*

| | |
|---|---|
| Thomas Keffer..... | -- |
| Dan Whitaker..... | $ 935,950 |
| Robert M. Holburn, Jr.... | 303,268 |
| Thomas A. Nora..... | 603,563 |

(1) These options vest monthly over four years and have a term of 10 years.

(2) Based on the difference between the deemed fair market value as determined by the Board of Directors on September 30, 1996 ($7.50 per share) and the exercise price.

## *401(K) Plan*

In January 1993, the Board adopted an employee savings and retirement plan (the "401(k) Plan") covering certain of the Company's employees who have at least 90 days of service with the Company and have attained the age of 21. Pursuant to the 401(k) Plan, eligible employees may elect to reduce their current compensation by up to the lesser of 20% of such compensation or the statutorily prescribed annual limit ($9,500 in 1996) and have the amount of such reduction contributed to the 401(k) Plan. The Company matches all employee contributions up to 3% of earnings and half of employee contributions from 3% to 5% of earnings. In addition, eligible employees may make roll-over contributions to the 401(k) Plan from a tax-qualified retirement plan. Employees become 20% vested in these Company contributions after two years of service, and increase their vested percentages by an additional 20% for each year of service thereafter. The 401(k) Plan is intended to qualify under Section 401 of the Internal Revenue Code of 1986, as amended, so that contributions by employees or by the Company to the 401(k) Plan, and income earned on the 401(k) Plan contributions, are not taxable to employees until withdrawn from the 401(k) Plan, and so that contributions by the Company, if any, will be deductible by the Company when made. The trustee under the 401(k) Plan, at the direction of each participant, invests the 401(k) Plan employee salary deferrals in selected investment options.

## *Limitation of Liability and Indemnification Matters*

The Company's Bylaws provide that the Company will indemnify its directors and officers and may indemnify its other employees and agents to the fullest extent permitted by Delaware law. The Company is also empowered under its Bylaws to enter into indemnification contracts with its directors and officers and to purchase insurance on behalf of any person it is required or permitted to indemnify. Pursuant to this provision, the Company has entered into indemnity agreements with each of its directors and executive officers.

In addition, the Company's Certificate of Incorporation provides that, to the fullest extent permitted by Delaware law, the Company's directors will not be liable for monetary damages for breach of the directors' fiduciary duty of care to the Company and its stockholders. This provision in the Certificate of Incorporation does not eliminate the duty of care, and in appropriate circumstances equitable remedies such as an injunction or other forms of non-monetary relief would remain available under Delaware law. Each director will continue to be subject to liability for breach of the director's duty of loyalty to the Company, for acts or omissions not in good faith or involving intentional misconduct, for knowing violations of law, for any transaction from which the director derived an improper personal benefit, for improper transactions between the director and the Company and for improper distributions to stockholders and loans to directors and officers. This provision also does not affect a director's responsibilities under any other laws, such as the federal securities laws or state or federal environmental laws.

The Registrant expects to enter into agreements with its directors and officers that require the Registrant to indemnify such persons against expenses, judgments, fines, settlements and other amounts actually and reasonably incurred (including expenses of a derivative action) in connection with any proceeding, whether actual or threatened, to which any such person may be made a party by reason of the fact that such person is or was a director or officer of the Registrant or any of its affiliated enterprises, provided such person acted in good faith and in a manner such person reasonably believed to be in or not opposed to the best interests of the Registrant and, with respect to any criminal proceeding, had no reasonable cause to believe his or her conduct was unlawful. The indemnification agreements also set forth certain procedures that will apply in the event of a claim for indemnification thereunder.

Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers and controlling persons of the Company pursuant to the provisions described above or otherwise, the Company has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Act and is, therefore, unenforceable.

## *Certain Transactions*

In July 1994, the Company issued an aggregate of 666,666 shares of Series A Preferred Stock for an aggregate consideration of $1.0 million to entities affiliated with El Dorado Ventures III, L.P. ("El Dorado III").

In December 1994, the Company issued an aggregate of 133,333 shares of Series A Preferred Stock for an aggregate consideration of $200,000 to entities affiliated with El Dorado III.

In November 1995, the Company issued an aggregate of 742,533 shares of Series B Preferred Stock for an aggregate consideration of approximately $3.5 million. In connection with such financing, the Company issued (i) 247,225 shares of Series B Preferred Stock to entities affiliated with El Dorado III for cash and (ii) 453,248 shares of Series B Preferred Stock to entities affiliated with Menlo Ventures VI, L.P. ("Menlo Ventures VI") for cash.

Thomas Peterson, a director of the Company, is a general partner of El Dorado Venture Partners III, the general partner of El Dorado Ventures III, L.P., El Dorado Technology IV, L.P. and El Dorado C&L Fund, L.P. Richard Magnuson, a director of the Company, is a partner of MV Management VI, L.P., the general partner of Menlo Ventures VI, L.P.

As part of the Inmark Merger, Howard M. Love, Jr., a director of the Company, exchanged all of his outstanding shares of Common Stock of Inmark for 284,233 shares of Common Stock of the Company. In addition, the Company entered into an employment agreement with Mr. Love which provided for Mr. Love to remain with the Company until January 1, 1996. The terms of the agreement provided for a payment of $55,500 for back wages and a severance payment upon his termination of employment of $16,667. Mr. Love terminated his employment in January 1996.

In June 1996, the Board of Directors amended the terms of the stock options held by Mr. Holburn, Mr. Brookes and Mr. Nora to provide that, upon a change in control of the Company, 50% of the unvested options of each such officer would become immediately vested.

The Company believes that all of the transactions set forth above were made on terms no less favorable to the Company than could have been otherwise obtained from unaffiliated third parties.

# *Principal and Selling Stockholders*

The following table sets forth certain information with respect to the beneficial ownership of the Company's outstanding Common Stock as of September 30, 1996, and as adjusted to reflect the sale of the Common Stock being offered hereby by (i) each person (or group of affiliated persons) who is known by the Company to own beneficially more than 5% of the Common Stock, (ii) each of the Company's directors, (iii) each of the Named Executive Officers, (iv) each of the Selling Stockholders, and (v) all directors and officers of the Company as a group. The table assumes the conversion of all outstanding Preferred Stock into Common Stock upon the completion of this offering. Unless otherwise specified, the address of the stockholder is the address of the Company set forth herein.

| | SHARES BENEFICIALLY OWNED PRIOR TO OFFERING (1) | | | SHARES BENEFICIALLY OWNED AFTER OFFERING (1)(2) | |
|---|---|---|---|---|---|
| BENEFICIAL OWNER | NUMBER | PERCENT | NUMBER OF SHARES BEING OFFERED | NUMBER | PERCENT |
| Thomas Keffer, Ph.D. | 1,591,199 | 30.6% | -- | 1,591,199 | 22.1% |
| Entities affiliated with El Dorado Ventures III, L.P. (3)<br>20300 Stevens Creek Blvd., Suite 395<br>Cupertino, CA 95014 | 1,130,984 | 21.8 | -- | 1,130,984 | 15.7 |
| Entities affiliated with Menlo Ventures VI, L.P. (4)<br>3000 Sand Hill Road<br>Building 4, Suite 100<br>Menlo Park, CA 94025 | 606,809 | 11.7 | -- | 606,809 | 8.4 |
| Dan Whitaker (5) | 550,902 | 10.3 | -- | 550,902 | 7.5 |
| Thomas A. Nora (6) | 61,106 | 1.2 | -- | 61,106 | * |
| Mary F. Rabe (7) | 34,999 | * | 13,000 | 21,999 | * |
| Robert M. Holburn, Jr. (8) | 30,139 | * | | 30,139 | * |
| Thomas H. Peterson (3) | 1,130,984 | 21.8 | -- | 1,130,984 | 15.7 |
| Richard P. Magnuson (9) | 613,475 | 11.8 | -- | 613,475 | 8.5 |
| Howard M. Love, Jr. | 303,725 | 5.8 | -- | 303,725 | 4.2 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Thomas M. Atwood (10) | 6,111 | * | -- | 6,111 | * |
| Peter Handsman (11) | 52,465 | 1.0 | 7,000 | 45,465 | * |
| Mark Richards (12) | 13,427 | * | 5,000 | 8,427 | * |
| All directors and officers as a group (12 persons) (13) | 4,502,942 | 81.8 | 13,000 | 4,489,942 | 59.8 |

* Represents beneficial ownership of less than 1%.

(1) Beneficial ownership is determined in accordance with the rules of the Securities and Exchange Commission and generally includes voting or investment power with respect to securities. Except as indicated by footnote, and subject to community property laws where applicable, the persons named in the table above have sole voting and investment power with respect to all shares of Common Stock shown as beneficially owned by them. Percentage of beneficial ownership is based on 5,196,259 shares of Common Stock outstanding as of September 30, 1996 and 7,196,259 shares of Common Stock outstanding after completion of this offering.

(2) Assumes no exercise of the Underwriters' over-allotment option. See "Underwriting." If the Underwriters' over-allotment option is exercised in full, the Company and certain stockholders will sell up to an aggregate of 303,750 shares of Common Stock of the Company, and 7,200,009 shares of Common Stock will be outstanding after the completion of this offering. Specifically, (i) the Company will sell 3,750 shares, (ii) entities affiliated with El Dorado Ventures will sell an aggregate of up to 136,000 shares and will beneficially own 994,984 shares, or 13.8% of the Company's Common Stock, after completion of this offering, (iii) entities affiliated with Menlo Ventures VI, L.P. will sell an aggregate of up to 72,000 shares and will beneficially own 534,809 shares, or 7.4% of the Company's Common Stock, after completion of this offering, (iv) Thomas Keffer will sell 40,000 shares and will beneficially own 1,551,199 shares, or 21.5% of the Company's Common Stock, after completion of this offering, (v) Howard M. Love, Jr. will sell 15,000 shares and will beneficially own 288,725 shares, or 4.0% of the Company's Common Stock, after completion of this offering, (vi) Allan Vermeulen will sell 16,000 shares and will beneficially own 121,156 shares or 1.7% of the Company's Common Stock, after completion of this offering, (vii) Kevin Gartner, an employee of the Company, will sell 16,000 shares and will beneficially own 226,969 shares, or 3.1% of the Company's Common Stock, after completion of this offering, and (viii) Michael Scally will sell 5,000 shares and will beneficially own 42,222 shares (less than 1% of the Company's Common Stock) after completion of this offering.

(3) Represents 1,075,019 shares held by El Dorado Ventures III, L.P., 36,059 shares held by El Dorado Technology IV, L.P., and 19,906 shares held by El Dorado C&L Fund, L.P. Mr. Peterson, a director of the Company, is a general partner of El Dorado Venture Partners III, the general partner of the entities affiliated with El Dorado Ventures III, L.P. Mr. Peterson disclaims beneficial ownership of such shares except to the extent of his partnership interest therein.

(4) Represents 597,708 shares held by Menlo Ventures VI, L.P. and 9,101 shares held by Menlo Entrepreneurs Fund VI, L.P. Mr. Magnuson, a director of the Company, is a partner of MV Management VI, L.P., general partner of the entities affiliated with Menlo Ventures VI, L.P. Mr.

Magnuson disclaims beneficial ownership of such shares except to the extent of his partnership interest therein.

(5) Includes 162,069 shares subject to stock options exercisable within 60 days of September 30, 1996.

(6) Includes 12,842 shares subject to stock options exercisable within 60 days of September 30, 1996.

(7) Includes 28,333 shares subject to stock options exercisable within 60 days of September 30, 1996.

(8) Includes 20,139 shares subject to stock options exercisable within 60 days of September 30, 1996.

(9) Includes 597,708 shares held by Menlo Ventures VI, L.P. and 9,101 shares held by Menlo Entrepreneurs Fund VI, L.P. Mr. Magnuson, a director of the Company, is a partner of MV Management VI, L.P., general partner of the entities affiliated with Menlo Ventures VI, L.P. Mr. Magnuson disclaims beneficial ownership of such shares except to the extent of his partnership interest therein. Also includes 6,666 shares held by Richard P. and Amy C. Magnuson, Trustees of the Magnuson Revocable Trust dated 1/14/94.

(10) Represents 6,111 shares subject to stock options exercisable within 60 days of September 30, 1996.

(11) Includes 39,783 shares subject to stock options exerciable within 60 days of September 30, 1996.

(12) Includes 3,031 shares subject to stock options exercisable within 60 days of September 30, 1996.

(13) Includes 309,236 shares subject to stock options exercisable within 60 days of September 30, 1996.

# *Description of Capital Stock*

The following description of the capital stock of the Company and certain provisions of the Company's Certificate of Incorporation and Bylaws is a summary and is qualified in its entirety by the provisions of the Certificate of Incorporation and Bylaws, which have been filed as exhibits to the Company's Registration Statement, of which this Prospectus is a part.

Upon the closing of this offering, the authorized capital stock of the Company, after giving effect to the conversion of all outstanding Preferred Stock into Common Stock, and the amendment of the Company's Certificate of Incorporation, will consist of 35,000,000 shares of Common Stock, $.0015 par value. As of September 30, 1996, there were approximately 71 holders of record of the Company's Common and Preferred Stock.

# *Common Stock*

The holders of Common Stock are entitled to one vote for each share held of record on all matters submitted to a vote of the stockholders. The holders of Common Stock are not entitled to cumulative voting rights with respect to the election of directors, and as a consequence, minority stockholders will

not be able to elect directors on the basis of their votes alone. Subject to preferences that may be applicable to any then outstanding shares of Preferred Stock, holders of Common Stock are entitled to receive ratably such dividends as may be declared by the Board of Directors out of funds legally available therefor. See "Dividend Policy." In the event of a liquidation, dissolution or winding up of the Company, holders of the Common Stock are entitled to share ratably in all assets remaining after payment of liabilities and the liquidation preference of any then outstanding Preferred Stock. Holders of Common Stock have no preemptive rights and no right to convert their Common Stock into any other securities. There are no redemption or sinking fund provisions applicable to the Common Stock. All outstanding shares of Common Stock are, and all shares of Common Stock to be outstanding upon completion of this offering will be, fully paid and nonassessable.

## *Preferred Stock*

Upon the closing of this offering, all outstanding shares of Preferred Stock will be converted into 1,542,532 shares of Common Stock. See Notes 7 and 12 of Notes to Consolidated Financial Statements for a description of the currently outstanding Preferred Stock. Following the conversion, the Company's Certificate of Incorporation will be restated to delete all references to the prior series of Preferred Stock. The Board of Directors has the authority, without further action by the stockholders, to issue any undesignated shares of Preferred Stock in one or more series and to fix the rights, preferences, privileges and restrictions thereof, including dividend rights, conversion rights, voting rights, terms of redemption, liquidation preferences, sinking fund terms and the number of shares constituting any series or the designation of such series, without any further vote or action by stockholders. The issuance of Preferred Stock could adversely affect the voting power of holders of Common Stock and the likelihood that such holders will receive dividend payments and payments upon liquidation and could have the effect of delaying, deferring or preventing a change in control of the Company. The Company has no present plan to issue any shares of Preferred Stock.

## *Registration Rights*

After this offering, the holders of approximately 4,150,651 shares of Common Stock will be entitled to certain rights with respect to the registration of such shares under the Securities Act, pursuant to the Amended and Restated Investors' Rights Agreement among such holders and the Company, dated November 10, 1995 as amended June 27, 1996 (the "Investors' Rights Agreement"). Under the terms of the Investors' Rights Agreement, if the Company proposes to register any of its securities under the Securities Act, either for its own account or for the account of other security holders exercising registration rights, such holders are entitled to notice of such registration and are entitled, subject to certain limitations, to include shares therein. The holders may also require the Company to file a registration statement under the Securities Act with respect to their shares, and the Company is required to use its best efforts to effect two such registrations. Furthermore, the holders may require the Company to register their shares on Form S-3 when such form becomes available to the Company. Generally, the Company is required to bear all registration and selling expenses incurred in connection

with any such registrations. These rights are subject to certain conditions and limitations, among them the right of the underwriters of an offering to limit the number of shares included in such registration. Such registration rights terminate seven years from the date of this offering.

## *Delaware Anti-takeover Law and Certain Charter Provisions*

The Company is subject to the provisions of Section 203 of the Delaware General Corporation Law, an anti-takeover law. In general, the statute prohibits a publicly held Delaware corporation from engaging in a "business combination" with an "interested stockholder" for a period of three years after the date of the transaction in which the person became an interested stockholder, unless the business combination is approved in a prescribed manner. For purposes of Section 203, a "business combination" includes a merger, asset sale or other transaction resulting in a financial benefit to the interested stockholder, and an "interested stockholder" is a person who, together with affiliates and associates, owns (or within three years prior, did own) 15% or more of the corporation's voting stock.

The Company's Certificate of Incorporation also requires that, effective upon the closing of this offering, any action required or permitted to be taken by stockholders of the Company must be effected at a duly called annual or special meeting of the stockholders and may not be effected by a consent in writing. In addition, special meetings of the stockholders of the Company may be called only by the Board of Directors, the Chairman of the Board or the Chief Executive Officer. These provisions may have the effect of delaying, deferring or preventing a change in control of the Company.

## *Transfer Agent and Registrar*

Chase Mellon Shareholder Services L.L.C. has been appointed as the transfer agent and registrar for the Company's Common Stock. Its telephone number is (415) 954-9512.

## *Shares Eligible for Future Sale*

Prior to this offering, there has been no market for the Common Stock of the Company. Future sales of substantial amounts of Common Stock in the public market could adversely affect market prices prevailing from time to time. Furthermore, since only a limited number of shares will be available for sale shortly after this offering because of certain contractual and legal restrictions on resale described below, sales of substantial amounts of Common Stock of the Company in the public market after the restrictions lapse could adversely affect the prevailing market price and the ability of the Company to raise equity capital in the future.

Upon completion of the offering, the Company will have outstanding an aggregate of 7,196,259 shares of Common Stock, assuming no exercise of the Underwriters' over-allotment option and no exercise of outstanding options and warrants and based upon the number of shares outstanding as of September 30, 1996. Of these shares, all of the shares sold in this offering will be freely tradable without

restriction or further registration under the Securities Act, unless such shares are purchased by "affiliates" of the Company, as that term is defined in Rule 144 under the Securities Act ("Affiliates"). In addition, 586,387 shares issued in connection with the Inmark Merger will be freely tradeable without restriction upon the expiration of the lock-up period described below. The remaining 4,584,872 shares of Common Stock held by existing stockholders are "restricted securities" as that term is defined in Rule 144 under the Securities Act (the "Restricted Shares"). Restricted Shares may be sold in the public market only if registered or if they qualify for an exemption from registration under Rules 144, 144(k) or 701 promulgated under the Securities Act, which rules are summarized below.

Upon completion of this offering, the holders of 4,150,651 shares of Common Stock, or their transferees, will be entitled to certain rights with respect to the registration of such shares under the Securities Act. Registration of such shares under the Securities Act would result in such shares becoming freely tradeable without restriction under the Securities Act (except for shares purchased by Affiliates) immediately upon the effectiveness of such registration. See "Description of Capital Stock--Registration Rights."

The Company, the Selling Stockholders and certain other stockholders of the Company, including the executive officers and directors, who will own in the aggregate 4,857,526 shares of Common Stock after the offering, have agreed that they will not, without the prior written consent of Hambrecht & Quist LLC, directly or indirectly, sell, offer, contract to sell, transfer the economic risk of ownership in, make any short sale, pledge or otherwise dispose of any shares of Common Stock or any securities convertible into or exchangeable or exercisable for or any other rights to purchase or acquire shares of Common Stock owned by them during the 180-day period commencing on the date of this Prospectus. The Company may, however, issue shares of Common Stock upon the exercise of stock options that are currently outstanding, and may grant additional options under its stock option plans, provided that, without the prior written consent of Hambrecht & Quist LLC, such additional options shall not be exercisable during such period.

In general, under Rule 144 as currently in effect, beginning 90 days after the date of this Prospectus, an Affiliate of the Company, or person (or persons whose shares are aggregated) who has beneficially owned Restricted Shares for at least two years, will be entitled to sell in any three-month period a number of shares that does not exceed the greater of (i) one percent of the then outstanding shares of the Company's Common Stock or (ii) the average weekly trading volume of the Company's Common Stock in the Nasdaq National Market during the four calendar weeks immediately preceding the date on which notice of the sale is filed with the Securities and Exchange Commission. Sales pursuant to Rule 144 are subject to certain requirements relating to manner of sale, notice and availability of current public information about the Company. A person (or person whose shares are aggregated) who is not deemed to have been an Affiliate of the Company at any time during the 90 days immediately preceding the sale and who has beneficially owned Restricted Shares for at least three years is entitled to sell such shares pursuant to Rule 144(k) without regard to the limitations described above.

The Securities and Exchange Commission has proposed certain amendments to Rule 144 that would reduce by one year the holding periods required for shares subject to Rule 144 and Rule 144(k) to become eligible for resale in the public market. This proposal, if adopted, would substantially increase the number of shares of Common Stock eligible for immediate resale following the expiration of the lock-up agreements described above. No assurance can be given concerning whether or when the proposal will be adopted by the Securities and Exchange Commission.

An employee, officer or director of or consultant to the Company who purchased or was awarded shares or options to purchase shares pursuant to a written compensatory plan or contract is entitled to rely on the resale provisions of Rule 701 under the Securities Act, which permits Affiliates and non-Affiliates to sell their Rule 701 shares without having to comply with Rule 144's holding period restrictions, in each case commencing 90 days after the date of this Prospectus. In addition, non-Affiliates may sell Rule 701 shares without complying with the public information, volume and notice provisions of Rule 144.

The Company intends to file a registration statement under the Securities Act covering shares of Common Stock reserved for issuance under the Company's Equity Incentive Plan and the Purchase Plan. Based on the number of options outstanding and options and shares reserved for issuance at September 30, 1996, such registration statement would cover approximately 2,618,804 shares. Such registration statement is expected to be filed and to become effective as soon as practicable after the date hereof. Shares registered under such registration statement will, subject to Rule 144 volume limitations applicable to Affiliates, be available for sale in the open market, unless such shares are subject to vesting restrictions with the Company or the lock-up agreements described above. See "Management."

# *Underwriting*

Subject to the terms and conditions of the Underwriting Agreement, the Underwriters named below, through their Representatives, Hambrecht & Quist LLC and Wessels, Arnold & Henderson, L.L.C., have severally agreed to purchase from the Company and the Selling Stockholders the following respective number of shares of Common Stock.

NUMBER OF NAME SHARES Hambrecht & Quist LLC..... Wessels, Arnold & Henderson, L.L.C.....

Total..... 2,025,000 The Underwriting Agreement provides that the obligations of the Underwriters are subject to certain conditions precedent, including the absence of any material adverse change in the Company's business and the receipt of certain certificates, opinions and letters from the Company and its counsel and independent auditors. The nature of the Underwriters' obligations is such that they are committed to purchase all shares of Common Stock offered hereby if any of such shares are purchased.

The Underwriters propose to offer the shares of Common Stock directly to the public at the initial public offering price set forth on the cover page of this Prospectus and to certain dealers at such price less a concession not in excess of $ per share. The Underwriters may allow and such dealers may

reallow a concession not in excess of $ per share to certain other dealers. After the initial public offering of the shares, the offering price and other selling terms may be changed by the Representatives of the Underwriters.

The Company and certain stockholders have granted to the Underwriters an option, exercisable no later than 30 days after the date of this Prospectus, to purchase up to 303,750 additional shares of Common Stock at the initial public offering price, less the underwriting discount, set forth on the cover page of this Prospectus. To the extent that the Underwriters exercise this option, each of the Underwriters will have a firm commitment to purchase approximately the same percentage thereof which the number of shares of Common Stock to be purchased by it shown in the above table bears to the total number of shares of Common Stock offered hereby. The Company and such stockholders will be obligated, pursuant to the option, to sell shares to the Underwriters to the extent the option is exercised. The Underwriters may exercise such option only to cover over-allotments made in connection with the sale of shares of Common Stock offered hereby.

The offering of the shares is made for delivery when, as and if accepted by the Underwriters and subject to prior sale and to withdrawal, cancellation or modification of the offering without notice. The Underwriters reserve the right to reject an order for the purchase of shares in whole or in part.

The Company and the Selling Stockholders have agreed to indemnify the Underwriters against certain liabilities, including liabilities under the Securities Act, and to contribute to payments the Underwriters may be required to make in respect thereof.

The Company, the Selling Stockholders and certain other stockholders of the Company, including the executive officers and directors, who will own in the aggregate 4,857,526 shares of Common Stock after the offering, have agreed that they will not, without the prior written consent of Hambrecht & Quist LLC, directly or indirectly, sell, offer, contract to sell, transfer the economic risk of ownership in, make any short sale, pledge or otherwise dispose of any shares of Common Stock or any securities convertible into or exchangeable or exercisable for or any other rights to purchase or acquire shares of Common Stock owned by them during the 180-day period commencing on the date of this Prospectus. The Company may, however, issue shares of Common Stock upon the exercise of stock options that are currently outstanding, and may grant additional options under its stock option plans, provided that, without the prior written consent of Hambrecht & Quist LLC, such additional options shall not be exercisable during such period.

Prior to the offering, there has been no public market for the Common Stock. The initial public offering price for the Common Stock will be determined by negotiation among the Company, the Selling Stockholders and the Representatives. Among the factors to be considered in determining the initial public offering price are prevailing market and economic conditions, revenue and earnings of the Company, market valuations of other companies engaged in activities similar to the Company, estimates of the business potential and prospects of the Company, the present state of the Company's business operations, the Company's management and other factors deemed relevant. The estimated initial public offering price range set forth on the cover of this preliminary prospectus is subject to change as a result of market conditions and other factors.

## *Legal Matters*

The validity of the shares of Common Stock offered hereby will be passed upon for the Company by Cooley Godward LLP, Menlo Park, California. Certain legal matters in connection with this offering will be passed upon for the Underwriters by Fenwick & West LLP, Palo Alto, California.

## *Experts*

The consolidated financial statements of the Company as of September 30, 1994 and 1995 and for each of the years in the three-year period ended September 30, 1995 have been included in this Prospectus and elsewhere in the Registration Statement in reliance upon the report of KPMG Peat Marwick LLP, independent certified public accountants, appearing elsewhere herein and upon the authority of said firm as experts in accounting and auditing.

## *Legal Proceedings*

On December 15, 1995, the Company filed suit in the Circuit Court of Benton County (Oregon) against former Vice President of Marketing Eugene O. Cho, seeking a declaration of the rights of the parties in connection with 162,483 shares of Common Stock of the Company. The shares were the subject of two Stock Restriction Agreements dated as of July 1, 1994 (the "Restriction Agreements"), the meaning of the second of which is in dispute. The Company and Mr. Cho had entered into a Separation Agreement on July 17, 1995 (the "Separation Agreement") granting the Company repurchase rights as to certain of the shares covered by the second Restriction Agreement and covering other issues relating to Mr. Cho's termination of employment. After Mr. Cho refused to perform the Separation Agreement that had been executed, the Company filed suit as described above. The Company claims that the formula controlling the vesting of the subject shares was inadvertently misstated in the second Restriction Agreement, and seeks reformation of that agreement to reflect the true intent of the parties, such that, effective upon the termination of Mr. Cho in May 1995, the Company was entitled to repurchase 92,763 shares of Common Stock of the Company at $0.15 per share. A First Amended Complaint was filed by the Company on March 26, 1996. On April 26, 1996, Mr. Cho filed an answer and counterclaims against the Company, denying the Company's claims and seeking damages in connection with the alleged breach by the Company of the Restriction Agreements and the Separation Agreement. Mr. Cho also asserts a claim for rescission of the second Restriction Agreement. The Company has denied the material allegations of the counterclaims. The Company filed a Second Amended Complaint on August 23, 1996 adding a claim for breach of contract in connection with the Separation Agreement. On September 16, 1996, Mr. Cho filed an answer denying the Company's claims and asserting the same counterclaims as previously set forth. The case is currently in the discovery stage. Trial is set for December 2, 1996.

On January 23, 1996, Matthew Steinauer, a former employee of the Company, filed suit against Thomas Nora, the Company's former Vice President of Sales and Kevin Gartner, an employee of the Company, for intentional interference with a contractual relationship. Mr. Steinauer also named the Company in his complaint, alleging breach of contract. Mr. Steinauer is seeking $150,000 in damages against Messrs. Nora and Gartner and $56,242 in damages against the Company. As a former officer of the Company, Mr. Nora may have a claim for indemnification with the Company. The Company and Messrs. Nora and Gartner filed an answer on March 12, 1996, denying Mr. Steinauer's claims. The case is currently in the discovery stage.

The Company has received a letter, dated October 1, 1996, from legal counsel for Thomas Nora asserting various claims against the Company relating to the termination of Mr. Nora's employment with the Company. The letter asserts Mr. Nora's ownership of 140,000 shares of the Company's Common Stock and seeks to have the Company repurchase such shares at a deemed fair value and to reimburse Mr. Nora for specified expenses and unpaid wages. The Company believes that Mr. Nora rightfully owns 48,264 shares of Common Stock and has the right to purchase an additional 12,842 shares pursuant to stock options that expire on October 23, 1996.

## *Additional Information*

A Registration Statement on Form SB-2, including amendments thereto, relating to the Common Stock offered hereby has been filed by the Company with the Securities and Exchange Commission. This Prospectus, which constitutes a part of the Registration Statement, does not contain all of the information set forth in the Registration Statement and the exhibits and schedules thereto. Statements contained in this Prospectus as to the contents of any contract or other document referred to are not necessarily complete and in each instance reference is made to the copy of such contract or other document filed as an exhibit to the Registration Statement, each such statement being qualified in all respects by such reference. For further information with respect to the Company and the Common Stock offered hereby, reference is made to such Registration Statement, exhibits and schedules. A copy of the Registration Statement may be inspected by anyone without charge at the public reference facilities maintained by the Commission at 450 Fifth Street, N.W., Judiciary Plaza, Washington, D.C. 20549, and copies of all or any part thereof may be obtained from the Commission upon the payment of certain fees prescribed by the Commission.

# *Rogue Wave Software, Inc. and Subsidiary*

# *Index to Consolidated Financial Statements*

# *Page*

Report of KPMG Peat Marwick LLP..... F-2 Consolidated Balance Sheets..... F-3 Consolidated Statements of Operations..... F-4 Consolidated Statements of Stockholders' Equity..... F-5 Consolidated Statements of Cash Flows..... F-6 Notes to Consolidated Financial Statements..... F-7

# *Independent Auditors' Report*

The Board of Directors Rogue Wave Software, Inc. and Subsidiary:

We have audited the accompanying consolidated balance sheets of Rogue Wave Software, Inc. and subsidiary as of September 30, 1994 and 1995, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the years in the three-year period ended September 30, 1995. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Rogue Wave Software, Inc. and subsidiary as of September 30, 1994 and 1995, and the results of their operations and their cash flows for each of the years in the three-year period ended September 30, 1995 in conformity with generally accepted accounting principles.

# *Kpmg Peat Marwick Llp*

Portland, Oregon June 14, 1996 except Note 12 which is as of October 3, 1996

# *Rogue Wave Software, Inc. and Subsidiary*

# *Consolidated Balance Sheets*

# *(In Thousands, Except Per Share Data)*

| ASSETS | SEPTEMBER 30, 1994 | SEPTEMBER 30, 1995 | JUNE 30, 1996 (UNAUDITED) | JUNE 30, 1996 (UNAUDITED) (PRO FORMA) |
|---|---|---|---|---|
| Current assets: | | | | |
| Cash and cash equivalents | $ 609 | $ 1,010 | $ 2,611 | |
| Short-term investments | 344 | -- | -- | |
| Accounts receivable, net | 1,049 | 2,164 | 3,325 | |
| Prepaid expenses and other current assets | 158 | 212 | 617 | |
| Deferred income taxes | -- | 80 | 156 | |
| Total current assets | 2,160 | 3,466 | 6,709 | |
| Furniture, fixtures and equipment, net | 530 | 889 | 2,443 | |
| Other noncurrent assets, net | 611 | 403 | 385 | |
| Total assets | $ 3,301 | $ 4,758 | $ 9,537 | |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | | | |
| Current liabilities: | | | | |
| Accounts payable | 357 | 520 | 606 | |
| Accrued expenses | 391 | 668 | 816 | |
| Deferred revenue | 649 | 1,351 | 2,209 | |
| Current portion of long-term debt and lease obligations | 261 | 230 | 338 | |
| Total current liabilities | 1,658 | 2,769 | 3,969 | |
| Long-term debt and lease obligations, less current portion | 166 | 230 | 377 | |
| Total liabilities | 1,824 | 2,999 | 4,346 | |
| Commitments and contingencies | | | | |
| Mandatorily redeemable preferred stock, $.0015 par value. Authorized 1,000, 1,200 and 2,350 shares at September 30, 1994 and 1995 and June 30, 1996, respectively; issued and outstanding 667, 800 and 1,543 shares at September 30, 1994 and 1995 and June 30, 1996, respectively ($1,200 and $4,731 aggregate liquidation and redemption preference at September 30, 1995 and June 30, 1996, respectively); pro forma no shares issued and outstanding | 941 | 1,140 | 4,664 | $ -- |
| Stockholders' equity: | | | | |
| Common stock, $.0015 par value. Authorized 7,200 shares; issued and outstanding 3,425, 3,425 and 3,652 shares at September 30, 1994 and 1995 and June 30, 1996, respectively; pro forma 5,195 shares issued and outstanding | 5 | 5 | 5 | 7 |
| Additional paid-in capital | 634 | 638 | 670 | 5,332 |
| Stockholder note receivable | (13) | (13) | (13) | (13) |
| Retained deficit | (90) | (11) | (125) | (125) |
| Cumulative translation adjustment | -- | -- | (10) | (10) |
| Total stockholders' equity | 536 | 619 | 527 | $ 5,191 |
| Total liabilities and stockholders' equity | $ 3,301 | $ 4,758 | $ 9,537 | |

See accompanying notes to consolidated financial statements.

# *Rogue Wave Software, Inc. and Subsidiary*

# *Consolidated Statements of Operations*

# *(In Thousands, Except Per Share Data)*

| | YEAR ENDED SEPTEMBER 30, | | | NINE MONTHS ENDED JUNE 30, (UNAUDITED) | |
|---|---|---|---|---|---|
| | 1993 | 1994 | 1995 | 1995 | 1996 |
| Revenue: | | | | | |
| License revenue | $ 2,949 | $ 6,652 | $ 10,417 | $ 7,566 | $ 10,605 |
| Service and maintenance revenue | 263 | 557 | 1,520 | 963 | 2,587 |
| Total revenue | 3,212 | 7,209 | 11,937 | 8,529 | 13,192 |
| Cost of revenue: | | | | | |
| Cost of license revenue | 301 | 693 | 1,048 | 787 | 873 |
| Cost of service and maintenance revenue | 166 | 331 | 1,123 | 775 | 1,025 |
| Total cost of revenue | 467 | 1,024 | 2,171 | 1,562 | 1,898 |
| Gross profit | 2,745 | 6,185 | 9,766 | 6,967 | 11,294 |
| Operating expenses: | | | | | |
| Product development | 893 | 2,109 | 3,204 | 2,302 | 3,984 |
| Sales and marketing | 1,330 | 2,652 | 4,880 | 3,336 | 5,969 |
| General and administrative | 342 | 780 | 1,487 | 984 | 1,596 |
| Total operating expenses | 2,565 | 5,541 | 9,571 | 6,622 | 11,549 |
| Income (loss) from operations | 180 | 644 | 195 | 345 | (255) |
| Other income (expense), net | (5) | 4 | (10) | (19) | 68 |
| Income (loss) before income taxes | 175 | 648 | 185 | 326 | (187) |
| Income tax expense (benefit) | -- | 80 | 106 | 186 | (73) |
| Net income (loss) | $ 175 | $ 568 | $ 79 | $ 140 | $ (114) |
| Net income (loss) per common share | $ 0.05 | $ 0.14 | $ 0.02 | $ 0.03 | $ (0.03) |
| Shares used in per share calculation | 3,878 | 4,118 | 4,973 | 4,784 | 4,052 |
| Pro forma net income data (unaudited): | | | | | |
| Income before income taxes, as reported | $ 175 | $ 648 | | | |
| Pro forma income tax expense | 32 | 142 | | | |
| Pro forma net income | $ 143 | $ 506 | | | |
| Pro forma net income per common share (unaudited) | $ 0.04 | $ 0.12 | | | |

See accompanying notes to consolidated financial statements.

ROGUE WAVE SOFTWARE, INC. AND SUBSIDIARY CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (IN THOUSANDS)

| | COMMON STOCK | | ADDITIONAL | STOCKHOLDER | | CUMULATIVE | TOTAL |
|---|---|---|---|---|---|---|---|
| | SHARES | AMOUNT | PAID-IN CAPITAL | NOTE RECEIVABLE | RETAINED DEFICIT | TRANSLATION ADJUSTMENT | STOCKHOLDERS' EQUITY |
| Balance at September 30, 1992 | 3,224 | $ 5 | $ 557 | $ -- | $ (333) | $ -- | $ 229 |
| Issuance of common stock | 118 | -- | 53 | -- | -- | -- | 53 |
| Net income | -- | -- | -- | -- | 175 | -- | 175 |
| Balance at September 30, 1993 | 3,342 | 5 | 610 | -- | (158) | | |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| -- | 457 | | | | | | | | |
| Issuance of common stock..... | 83 | -- | 24 | (13) | -- | -- | 11 | | |
| Dividends paid..... | -- | -- | -- | -- | (500) | -- | (500) | | |
| Net income..... | -- | -- | -- | -- | 568 | -- | 568 | | |
| Balance at September 30, 1994..... | 3,425 | 5 | 634 | (13) | (90) | -- | 536 | | |
| Issuance of common stock..... | -- | -- | 4 | -- | -- | -- | 4 | | |
| Net income..... | -- | -- | -- | -- | 79 | -- | 79 | | |
| Balance at September 30, 1995..... | 3,425 | 5 | 638 | (13) | (11) | -- | 619 | | |
| Net income (unaudited)..... | -- | -- | -- | -- | (114) | -- | (114) | | |
| Exercise of stock options (unaudited)... | 227 | -- | 32 | -- | -- | -- | 32 | | |
| Foreign currency translation adjustment (unaudited)..... | -- | -- | -- | -- | -- | (10) | (10) | | |
| Balance at June 30, 1996 (unaudited).... | 3,652 | $ 5 | $ 670 | $ (13) | $ (125) | $ (10) | $ 527 | | |

See accompanying notes to consolidated financial statements.

# *Rogue Wave Software, Inc. and Subsidiary*

# *Consolidated Statements of Cash Flows*

# *(In Thousands)*

| | | | | | |
|---|---|---|---|---|---|
| | | | | NINE MONTHS ENDED | |
| | YEAR ENDED SEPTEMBER 30, | | | JUNE 30, | |
| (UNAUDITED) | | | | | |
| | 1993 | 1994 | 1995 | 1995 | 1996 |
| Cash flows from operating activities: | | | | | |
| Net income (loss)..... | $ 175 | $ 568 | $ 79 | $ 140 | $ (114) |
| Adjustments to reconcile net income (loss) to net cash from operating activities: | | | | | |
| Depreciation and amortization..... | 79 | 266 | 514 | 379 | 511 |
| Loss on disposal of equipment..... | -- | -- | 23 | -- | -- |
| Changes in assets and liabilities: | | | | | |
| Accounts receivable..... | (271) | (618) | (1,115) | (718) | (1,161) |
| Prepaid expenses and other current assets..... | (23) | (105) | (54) | (224) | (405) |
| Deferred income taxes..... | -- | -- | (80) | -- | |

| | | | | | |
|---|---|---|---|---|---|
| (76) | | | | | |
| Other noncurrent assets | 18 | (54) | (16) | (7) | |
| (150) | | | | | |
| Accounts payable and accrued expenses | 87 | 610 | 440 | 138 | |
| 234 | | | | | |
| Deferred revenue | 153 | 462 | 702 | 395 | |
| 858 | | | | | |
| Net cash from operating activities | 218 | 1,129 | 493 | 103 | |
| (303) | | | | | |
| Cash flows from investing activities: | | | | | |
| Purchase of furniture, fixtures and equipment | (228) | (368) | (326) | (205) | |
| (1,529) | | | | | |
| (Purchase) maturity of short-term investments | -- | (344) | 344 | 344 | |
| -- | | | | | |
| Payments for software rights | (50) | (174) | -- | -- | |
| -- | | | | | |
| Net cash from investing activities | (278) | (886) | 18 | 139 | |
| (1,529) | | | | | |
| Cash flows from financing activities: | | | | | |
| Payments on long-term debt and capital lease obligations | -- | (162) | (313) | (69) | |
| (120) | | | | | |
| Proceeds from long-term debt | 75 | -- | -- | -- | |
| -- | | | | | |
| Dividends paid | -- | (500) | -- | -- | |
| -- | | | | | |
| Net proceeds from issuance of mandatorily redeemable preferred stock | -- | 941 | 199 | 200 | |
| 3,524 | | | | | |
| Proceeds from issuance of common stock | 53 | 11 | 4 | -- | |
| -- | | | | | |
| Proceeds from exercise of stock options | -- | -- | -- | -- | |
| 32 | | | | | |
| Net cash from financing activities | 128 | 290 | (110) | 131 | |
| 3,436 | | | | | |
| Effect of exchange rate changes on cash and cash equivalents | -- | -- | -- | -- | |
| (3) | | | | | |
| Net change in cash and cash equivalents | 68 | 533 | 401 | 373 | |
| 1,601 | | | | | |
| Cash and cash equivalents at beginning of period | 8 | 76 | 609 | 609 | |
| 1,010 | | | | | |
| Cash and cash equivalents at end of period | $ 76 | $ 609 | $ 1,010 | $ 982 | $ |
| 2,611 | | | | | |
| Supplemental disclosure of cash flow information: | | | | | |
| Cash paid for interest | $ 7 | $ 9 | $ 53 | $ 32 | $ |
| 35 | | | | | |
| Cash paid for taxes | 1 | 18 | 258 | 146 | |
| 106 | | | | | |
| Supplemental disclosure of non-cash investing and financing activities: | | | | | |
| Acquisition of equipment financed by capital lease obligations | -- | 46 | 346 | 292 | |
| 368 | | | | | |
| Purchase of software rights financed by long-term debt | -- | 445 | -- | -- | |
| -- | | | | | |

See accompanying notes to consolidated financial statements.

# *Rogue Wave Software, Inc. and Subsidiary*

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (IN THOUSANDS, EXCEPT PER SHARE AMOUNTS) (INFORMATION AS OF JUNE 30, 1996 AND FOR THE NINE-MONTH PERIOD THEN ENDED IS UNAUDITED)

## *(1) Description of Business and Summary of Significant Accounting Policies*

### *Description of Business*

Rogue Wave Software, Inc. (the Company) was founded in 1989 and is primarily engaged in the development, sale and support of object-oriented software parts and related tools. As more fully discussed in note 2, the Company acquired Inmark Development Corporation (Inmark) in a transaction accounted for as a pooling of interests effective October 27, 1995. Accounts for the periods prior to the merger have been restated to reflect the combined amounts for the Company and Inmark.

### *Principles of Consolidation*

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, Rogue Wave Software GmbH (incorporated January 1996). The Company translates the accounts of its foreign subsidiary using the local foreign currency as the functional currency. All significant intercompany balances and transactions have been eliminated in consolidation.

### *Unaudited Interim Consolidated Financial Statements*

The financial statements for the nine months ended June 30, 1995 and 1996 are unaudited. In the opinion of management, all adjustments consisting of normal recurring items considered necessary for a fair presentation have been included.

### *Cash Equivalents*

Cash equivalents consist of investments in highly liquid investment instruments with original maturities of three months or less to the Company.

### *Short-term Investments*

Short-term investments consist of commercial paper. The investments are stated at cost which approximates fair market value.

## *Accounts Receivable*

Accounts receivable are shown net of allowance for doubtful accounts of $34, $151 and $113 at September 30, 1994 and 1995 and June 30, 1996, respectively.

## *Furniture, Fixtures and Equipment*

Furniture, fixtures and equipment are stated at cost. Maintenance and repairs are expensed as incurred. Equipment under capital leases is stated at the present value of future minimum lease payments at the inception of the lease.

Depreciation of furniture, fixtures and equipment is calculated on the straight-line method over the estimated useful lives of the assets ranging from three to seven years. Equipment held under capital leases are amortized straight-line over the shorter of the lease term or estimated useful lives of the assets.

## *Intangible Assets*

Other noncurrent assets include purchased software rights and a covenant not to compete, which are amortized over three years using the straight-line method. Original cost of these intangibles was $670, $670 and $670 at September 30, 1994 and 1995 and June 30, 1996, respectively. Accumulated amortization at September 30, 1994 and 1995 and June 30, 1996 was $117, $341 and $509, respectively. Amortization charged to expense was $11, $106, $224 and $168 for the years ended September 30, 1993, 1994 and 1995 and for the nine-month period ended June 30, 1996, respectively.

## *Rogue Wave Software, Inc. and Subsidiary*

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) (IN THOUSANDS, EXCEPT PER SHARE AMOUNTS) (INFORMATION AS OF JUNE 30, 1996 AND FOR THE NINE-MONTH PERIOD THEN ENDED IS UNAUDITED) (1) DESCRIPTION OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED) REVENUE RECOGNITION License revenue is recognized at the time of shipment. Revenue from service contracts sold in conjunction with product sales is also recognized at the point of sale. The service contracts generally are for thirty days.

Maintenance and service revenue includes maintenance revenue which is recognized ratably over the maintenance period and revenue from training and consulting services, which is recognized as services are performed.

The Company provides a thirty-day right of return policy for software sales. The allowance for returns was $36, $111 and $111 at September 30, 1994 and 1995 and June 30, 1996, respectively.

## *Concentration of Credit Risk*

Financial instruments which potentially subject the Company to concentrations of credit risk consist principally of cash, cash equivalents and accounts receivable. Management believes the credit risk associated with cash and cash equivalents is minimal. The Company sells its products primarily to major corporations that serve a wide variety of U.S. and foreign markets and, therefore, the concentrations of credit risk are considered limited.

## *Research and Development*

Software development costs have been accounted for in accordance with Statement of Financial Accounting Standards No. 86, ACCOUNTING FOR THE COSTS OF COMPUTER SOFTWARE TO BE SOLD, LEASED OR OTHERWISE MARKETED. Under the standard, capitalization of software development costs begins upon the establishment of technological feasibility, subject to net realizable value considerations. The Company begins capitalization upon completion of a working model. To date, such capitalizable costs have not been material. Accordingly, the Company has charged all such costs to product development expense. Future capitalized costs, if any, will be amortized on a straight-line basis over the estimated life of the products or the ratio of current revenue to the total of current and anticipated future revenue, whichever expense is greater.

## *Income Taxes*

Prior to July 1, 1994, the Company was taxed under the S Corporation provisions of the Internal Revenue Code. Under those provisions, the Company did not pay federal or state corporate income taxes on its taxable income. Instead, the stockholders were liable for federal and state income taxes on the Company's taxable income.

Effective June 30, 1994, the S Corporation election was terminated. The Company's income taxes since that date, as well as unaudited pro forma and Inmark income taxes for all periods presented, have been provided for under Statement of Financial Accounting Standards No. 109, ACCOUNTING FOR INCOME TAXES (SFAS No. 109). SFAS No. 109 is an asset and liability approach that requires deferred tax assets and liabilities to be recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Under SFAS No. 109, the effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

## *Computation of Net Income Per Share*

Net income per share is computed using the weighted average number of shares of common and common equivalent shares outstanding. Common equivalent shares are excluded from the computation if their effect is

## *Rogue Wave Software, Inc. and Subsidiary*

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) (IN THOUSANDS, EXCEPT PER SHARE AMOUNTS) (INFORMATION AS OF JUNE 30, 1996 AND FOR THE NINE-MONTH PERIOD THEN ENDED IS UNAUDITED) (1) DESCRIPTION OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED) antidilutive, except that pursuant to the Securities and Exchange Staff Accounting Bulletins, common and common equivalent shares issued at prices below the public offering price during the twelve months immediately preceding the initial filing date have been included in the calculation as if they were outstanding for all periods presented using the treasury stock method and the initial public offering price. Common equivalent shares consist of the common shares issuable upon the conversion of the Series A preferred stock (using the if-converted method) and incremental shares issuable upon the exercise of stock options and upon the conversion of the Series B preferred stock (using the treasury stock method).

## *Financial Instruments*

The recorded amounts of financial instruments approximate their fair market values.

## *Use of Estimates in the Preparation of Financial Statements*

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

(2) MERGER On October 27, 1995, the Company acquired all of the common stock of Inmark in exchange for 878 shares of the Company's common stock in a transaction accounted for as a pooling of interests. Inmark was a privately held corporation specializing in the development, distribution and support of object-oriented graphical user interface library software. The Company's consolidated financial statements and notes to consolidated financial statements have been restated to include the results of Inmark for all periods presented.

Separate results of operations for the periods prior to the merger are as follows:

# *The Company Inmark Combined*

| | | | |
|---|---|---|---|
| Year ended September 30, 1993: | | | |
| Total revenue | $ 1,824 | $ 1,388 | $ 3,212 |
| Net income (loss) | 176 | (1) | 175 |
| Year ended September 30, 1994: | | | |
| Total revenue | 4,570 | 2,639 | 7,209 |
| Net income | 528 | 40 | 568 |
| Year ended September 30, 1995: | | | |
| Total revenue | 8,663 | 3,274 | 11,937 |
| Net income (loss) | 349 | (270) | 79 |
| One month ended October 31, 1995: | | | |
| Total revenue | 835 | 237 | 1,072 |
| Net income (loss) | (58) | 16 | (42) |

Merger costs of $120 were incurred and charged to expense in the first quarter of 1996 for services rendered to facilitate completion of the transaction.

# *Rogue Wave Software, Inc. and Subsidiary*

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) (IN THOUSANDS, EXCEPT PER SHARE AMOUNTS) (INFORMATION AS OF JUNE 30, 1996 AND FOR THE NINE-MONTH PERIOD THEN ENDED IS UNAUDITED)

# *(3) Balance Sheet Components*

# *Furniture, Fixtures and Equipment*

Furniture, fixtures and equipment consist of the following:

| | SEPTEMBER 30, | | |
|---|---|---|---|
| | 1994 | 1995 | JUNE 30, 1996 |
| Computer equipment | $750 | $1,213 | $2,758 |
| Furniture, fixtures and equipment | 141 | 179 | 531 |
| | 891 | 1,392 | 3,289 |
| Less accumulated depreciation and amortization | 361 | 503 | 846 |
| Furniture, fixtures and equipment, net | $530 | $ 889 | $2,443 |

Depreciation expense for the years ended September 30, 1993, 1994, and 1995 and for the nine-month period ended June 30, 1996 was $62, $160, $262 and $343, respectively.

# *Accrued Expenses*

The Company's accrued expenses include the following:

| | SEPTEMBER 30, | |
|---|---|---|
| | | JUNE 30, |

| | 1994 | 1995 | 1996 |
|---|---|---|---|
| Accrued payroll and related liabilities | $228 | $316 | $456 |
| Other accrued expenses | 163 | 352 | 360 |
| Accrued expenses | $391 | $668 | $816 |

(4) LEASES The Company leases certain of its office space through noncancelable operating lease arrangements. The leases expire 1996 through 1999 and are net leases with the Company paying all executory costs, including insurance, utilities and maintenance. Rent expense for operating leases during the years ended September 30, 1993, 1994 and 1995 and for the nine-month period ended June 30, 1996 was approximately $95, $157, $210 and $220, respectively.

Property under capital leases at September 30, 1994 and 1995 is as follows:

1994 1995

| | | |
|---|---|---|
| Computer equipment | $50 | $388 |
| Office furniture and equipment | 18 | 26 |
| Total | 68 | 414 |
| Less accumulated amortization | 23 | 112 |
| Property under capital leases, net | $45 | $302 |

Amortization expense is included in depreciation expense for furniture, fixtures and equipment.

# *Rogue Wave Software, Inc. and Subsidiary*

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) (IN THOUSANDS, EXCEPT PER SHARE AMOUNTS) (INFORMATION AS OF JUNE 30, 1996 AND FOR THE NINE-MONTH PERIOD THEN ENDED IS UNAUDITED) (4) LEASES (CONTINUED) Future minimum lease payments under capital and operating leases (with initial or remaining lease terms in excess of one year) and the present value of future minimum capital lease payments are as follows:

| | CAPITAL LEASES | OPERATING LEASES |
|---|---|---|
| Year ending September 30: | | |
| 1996 | $133 | $ 212 |
| 1997 | 129 | 321 |
| 1998 | 99 | 316 |
| 1999 | 24 | 310 |
| 2000 | 2 | -- |
| Total minimum lease payments | 387 | $1,159 |
| Less amounts representing interest | 50 | |
| Present value of future minimum lease payments | 337 | |
| Less current portion | 107 | |
| Obligations under capital leases, less current portion | $230 | |

(5) LONG-TERM DEBT Long-term debt consists of the following:

| SEPTEMBER 30, | | JUNE 30, |
|---|---|---|
| 1994 | 1995 | 1996 |

Note payable to bank, secured by all accounts receivable, inventory and equipment, payable in monthly installments of $3, including interest at 9.5%, due February 1996, guaranteed by certain stockholders..... $ 47 $ 17 $ -- Notes payable in installments of $150 and $125, due July 1, 1995 and July 1, 1996, respectively, noninterest bearing (less unamortized discount of $19 at September 30, 1995, based on imputed interest rate of 8.75%)..... 244 106 121 Note payable, noninterest bearing..... 75 -- -- 366 123 121 Less current portion of long-term debt..... 246 123 121 Long-term debt, less current portion..... $ 120 $ -- $ -- (6) INCOME TAXES As described in note 1, the Company was taxed as an S Corporation through June 30, 1994. Pro forma figures for 1993 and 1994 are presented to show the impact as if the Company's earnings from continuing

# *Rogue Wave Software, Inc. and Subsidiary*

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) (IN THOUSANDS, EXCEPT PER SHARE AMOUNTS) (INFORMATION AS OF JUNE 30, 1996 AND FOR THE NINE-MONTH PERIOD THEN ENDED IS UNAUDITED) (6) INCOME TAXES (CONTINUED) operations had been subject to federal and state income taxes as a C Corporation in those years. Actual figures for 1993, 1994 and all remaining periods presented reflect the Company's taxes as a C Corporation effective July 1, 1994 and Inmark's taxes as a C Corporation.

| | YEAR ENDED SEPTEMBER 30, | | | | | NINE MONTHS ENDED JUNE 30, |
|---|---|---|---|---|---|---|
| | 1993 | 1993 (UNAUDITED) (PRO FORMA) | 1994 | 1994 (UNAUDITED) (PRO FORMA) | 1995 | 1996 |
| Current: | | | | | | |
| Federal | $ -- | $ 4 | $ 62 | $154 | $142 | $ 2 |
| State and local | -- | 1 | 18 | 42 | 44 | 1 |
| | -- | 5 | 80 | 196 | 186 | 3 |
| Deferred: | | | | | | |
| Federal | -- | 16 | -- | (37) | (49) | (62) |
| State and local | -- | 11 | -- | (17) | (31) | (14) |
| | -- | 27 | -- | (54) | (80) | (76) |
| Total | $ -- | $32 | $ 80 | $142 | $106 | $(73) |

Income tax expense differs from the expected tax expense (computed by applying the U.S. federal corporate income tax rate of 34% to net income before income taxes) as follows:

| | YEAR ENDED SEPTEMBER 30, | | | | | NINE MONTHS ENDED JUNE 30, |
|---|---|---|---|---|---|---|
| | 1993 | 1993 (UNAUDITED) (PRO FORMA) | 1994 | 1994 (UNAUDITED) (PRO FORMA) | 1995 | 1996 |
| Computed expected income tax expense | $ 60 | $60 | $ 220 | $220 | $ 63 | $(64) |
| Increase (reduction) in income tax expense resulting from: | | | | | | |
| State income tax expense | 1 | 11 | 14 | 32 | 1 | (11) |

| | | | | | | |
|---|---|---|---|---|---|---|
| Research and experimentation credit... | (15) | (41) | (57) | (152) | (110) | -- |
| Change in valuation allowance..... | 13 | 13 | 16 | 16 | 120 | 12 |
| Rate differential..... | -- | (10) | -- | -- | 14 | -- |
| Exclusion of earnings for period that S Corporation election was valid..... | (60) | -- | (121) | -- | -- | -- |
| Other, net..... | 1 | (1) | 8 | 26 | 18 | (10) |
| Income tax expense..... | $ -- | $32 | $ 80 | $142 | $106 | $(73) |

# *Rogue Wave Software, Inc. and Subsidiary*

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) (IN THOUSANDS, EXCEPT PER SHARE AMOUNTS) (INFORMATION AS OF JUNE 30, 1996 AND FOR THE NINE-MONTH PERIOD THEN ENDED IS UNAUDITED) (6) INCOME TAXES (CONTINUED) The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities are presented below:

| | SEPTEMBER 30, | | JUNE 30, |
|---|---|---|---|
| | 1994 | 1995 | 1996 (UNAUDITED) |
| Deferred tax assets: | | | |
| Intangible assets..... | $ -- | $ 25 | $ 37 |
| Accrued expenses..... | 37 | 142 | 159 |
| Cash to accrual adjustment..... | 61 | -- | -- |
| Net operating loss carryforwards..... | 15 | 171 | 183 |
| Research and experimentation credit carryforward..... | 86 | 120 | 120 |
| Other..... | 18 | 3 | 17 |
| Total gross deferred tax assets..... | 217 | 461 | 516 |
| Valuation allowance..... | (194) | (314) | (326) |
| Net deferred tax assets..... | 23 | 147 | 190 |
| Deferred tax liabilities: | | | |
| Cash to accrual adjustment..... | -- | 27 | 20 |
| Property and equipment, due to differences in depreciation..... | 23 | 40 | 14 |
| Total gross deferred tax liabilities..... | 23 | 67 | 34 |
| Net deferred taxes..... | $ -- | $ 80 | $ 156 |

At September 30, 1995, the Company had net operating loss carryforwards for federal and state income tax purposes of $430 and $200, respectively, that expire 2007 to 2010. The Company also had $120 of tax credit carryforwards that expire 2003 to 2010. The net operating loss and tax credit carryforwards were generated by Inmark prior to Inmark's merger with the Company on October 27, 1995. As a result, utilization of all such amounts are limited by the future taxable income of Inmark.

(7) PREFERRED STOCK The Company has 1,200 shares of preferred stock authorized at September 30, 1995. The stock has a par value of $.0015 and was issued in mandatorily redeemable Series A (Series A). As discussed in note 12, the Company authorized the issuance of 766 shares of Series B preferred stock in October 1995. The terms of the Series A preferred stock are:

- Each share of Series A preferred stock is voting and convertible into common stock using formulas specified in the Series A Preferred Stock Purchase Agreement. Series A preferred stockholders have non-cumulative dividend rights at the rate of $.09 per share payable in preference and priority to common stock. Upon liquidation, Series A preferred stockholders are entitled to be paid out of the

assets of the Company which are available for distribution to its stockholders before any payment is made to common stockholders. Series A preferred stockholders will receive an amount equal to $1.50 per share plus all related declared and unpaid dividends.

- There is an automatic conversion of Series A preferred stock into shares of common stock upon the affirmative vote of the holders of at least a majority of the outstanding shares of the Series A preferred stock, or immediately upon the closing of a firmly underwritten public offering pursuant to an effective

# *Rogue Wave Software, Inc. and Subsidiary*

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) (IN THOUSANDS, EXCEPT PER SHARE AMOUNTS) (INFORMATION AS OF JUNE 30, 1996 AND FOR THE NINE-MONTH PERIOD THEN ENDED IS UNAUDITED) (7) PREFERRED STOCK (CONTINUED) registration statement under the Securities Act of 1933, as amended, covering the offer and sale of the Company's common stock that results in gross cash proceeds of at least $10,000 and that has a public offering price of at least $9.51 per share (as adjusted for stock splits, recapitalizations and the like) (see note 12).

Other rights and restrictions of Series A preferred stockholders are as follows:

- Redemption rights upon demand of at least a majority of the then outstanding shares of Series A preferred stock in three equal annual installments beginning on May 15, 1999 and ending on May 15, 2001. The redemption rights provide for redemption rates identical to the liquidation rates described above.

- Shares are subject to an Investors' Rights Agreement which provides for the registration of the shares under the Securities Act of 1933 under certain circumstances.

- Shares are subject to a Co-Sale and Voting Agreement which obligates the Series A preferred stockholders to vote in a certain manner with regard to the election of the Board members and which grants to preferred stockholders and common "key stockholders" the opportunity to participate on a pro-rata basis in subsequent sales of the common or preferred stock of the Company made by each stockholder subject to this Agreement.

(8) STOCK OPTION PLAN In July 1994, stockholders approved the 1994 Stock Option Plan (the Plan), which currently authorizes the issuance of up to 1,541 shares of common stock. The Plan authorizes the issuance of incentive options and nonqualified stock options to advisors, agents, consultants, directors, independent contractors, employees and officers. Subsequent to the year ended September 30, 1995, the Company's Board of Directors adopted and the stockholders approved the 1996 Equity Incentive Plan which will replace the Plan (see note 12).

Incentive stock options and nonqualified stock options allow for the purchase of common stock at prices determined by the Plan Administrator but which generally must be purchased at prices not less than fair market value at the date of grant. The term of each option is established by the Plan

Administrator and, if not established, will be ten years from the date it is granted and is exercisable over four years.

For incentive stock options granted under the Plan to any employee who owns more than 10% of all classes of stock outstanding of the Company, the term of the incentive stock option will not exceed five years and the exercise price will not be less than 110% of the fair market value of the shares at the time the incentive stock option is granted.

## *Rogue Wave Software, Inc. and Subsidiary*

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) (IN THOUSANDS, EXCEPT PER SHARE AMOUNTS) (INFORMATION AS OF JUNE 30, 1996 AND FOR THE NINE-MONTH PERIOD THEN ENDED IS UNAUDITED) (8) STOCK OPTION PLAN (CONTINUED) The following table summarizes stock option activity through June 30, 1996:

| | NUMBER OF SHARES | | | |
|---|---|---|---|---|
| | QUALIFIED INCENTIVE OPTIONS | NONQUALIFIED STOCK OPTIONS | TOTAL | PRICE PER SHARE |
| Outstanding options at September 30, 1993.... | 103 | -- | 103 | $ .39-1.94 |
| Granted..... | 1,085 | -- | 1,085 | .15-1.94 |
| Exercised..... | -- | -- | -- | -- |
| Canceled..... | -- | -- | -- | -- |
| Outstanding options at September 30, 1994.... | 1,188 | -- | 1,188 | .15-194 |
| Granted..... | 447 | 13 | 460 | .15-194 |
| Exercised..... | -- | -- | -- | -- |
| Canceled..... | (267) | -- | (267) | .15 |
| Outstanding options at September 30, 1995.... | 1,368 | 13 | 1,381 | .15-1.94 |
| Granted..... | 379 | 111 | 490 | .53-6.75 |
| Exercised..... | (227) | -- | (227) | .15-1.94 |
| Canceled..... | (105) | -- | (105) | .15-1.98 |
| Outstanding options at June 30, 1996..... | 1,415 | 124 | 1,539 | $ .15-6.75 |

Of the 1,539 options outstanding, 340 options were vested and exercisable as of June 30, 1996 (unaudited).

(9) STOCK RESTRICTION AGREEMENTS The Company has entered into stock restriction agreements with certain stockholders which restrict the sale or transfer of "unvested shares" (shares vest 50% on or after July 1, 1994, plus an additional 1.388% on or after the first day of each full month thereafter; shares are 100% vested on or after July 1, 1997).

These agreements also give the Company the option to purchase stockholders' unvested shares under certain conditions at prices determined according to terms specified in the agreements.

These stock restriction agreements terminate upon the earlier to occur of the following events:

- Consummation of the Company's sale of its common stock in a firm commitment underwritten public offering pursuant to a registration statement filed under the Securities Act of 1933, as amended, which results in aggregate offering proceeds paid to the Company of at least $7,500 and a public

offering price of at least $11.25 per share (as adjusted for subsequent stock dividends, stock splits and recapitalizations) (see note 12); or - The stockholder no longer holds any unvested shares.

(10) QUALIFIED PROFIT SHARING PLAN The Company adopted a 401(k) profit sharing plan in January 1993. The plan is offered to eligible employees and calls for a discretionary employer match of employee contributions which is approved by the Board of Directors. To participate in the plan, employees must be 21 years of age, have been employed for 90

## *Rogue Wave Software, Inc. and Subsidiary*

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) (IN THOUSANDS, EXCEPT PER SHARE AMOUNTS) (INFORMATION AS OF JUNE 30, 1996 AND FOR THE NINE-MONTH PERIOD THEN ENDED IS UNAUDITED) (10) QUALIFIED PROFIT SHARING PLAN (CONTINUED) days, and work a minimum of 1,000 hours during the plan year. The Company matches all employee contributions up to 3 percent of earnings and half of employee contributions from 3 percent to 5 percent. Company contributions paid in the years ended September 30, 1994 and 1995 and in the nine-month period ended June 30, 1996, were $49, $31 and $0, respectively.

(11) CONTINGENCIES The Company is involved in various claims and legal actions arising in the ordinary course of business. In the opinion of management, the ultimate disposition of these matters will not have a material adverse effect on the Company's financial position, results of operations or liquidity.

## *(12) Subsequent Events*

## *Public Offering*

In June 1996, the Company's Board of Directors authorized management of the Company to file a registration statement with the Securities and Exchange Commission permitting the Company to sell shares of its common stock.

## *Equity Incentive Plan*

In June 1996, the Company's Board of Directors adopted and the stockholders are expected to approve the 1996 Equity Incentive Plan (the Equity Incentive Plan). The Company has reserved 2,500 shares of common stock for issuance under the Equity Incentive Plan. The Equity Incentive Plan replaces the Company's 1994 Stock Option Plan and the Inmark Stock Option Plan.

The Equity Incentive Plan provides for grants of stock options to employees (including officers and employee directors) and nonstatutory stock options to employees (including officers and employee directors), directors and consultants of the Company. The Equity Incentive Plan is administered by the

Board of Directors of a committee appointed by the Board, which determines recipients and types of awards to be granted, including the exercise price, number of shares subject to the award and the exercisability thereof.

The terms of a stock option granted under the Equity Incentive Plan generally may not exceed ten years (five years in the case of holders of more than 10% of the Company's capital stock). The exercise price of options granted under the Equity Incentive Plan is determined by the Board of Directors but, in the case of an incentive stock option, cannot be less than 100% of the fair market value of the common stock on the date of grant. Options granted under the Equity Incentive Plan vest at the rate specified in the option agreement.

## *Employee Stock Purchase Plan*

In June 1996, the Board adopted the Employee Stock Purchase Plan (the Purchase Plan) covering an aggregate of 350 shares of common stock. The Purchase Plan is intended to qualify as an employee stock purchase plan within the meaning of Section 423 of the Internal Revenue Code. Under the Purchase Plan, the Board of Directors may authorize participation by eligible employees, including officers, in periodic offerings following the adoption of the Purchase Plan. The offering period for any offering will be no more than 27 months.

Employees are eligible to participate if they are employed by the Company or an affiliate of the Company designated by the Board of Directors. Employees who participate in an offering can have up to 15% of their earnings withheld pursuant to the Purchase Plan and applied, on specified dates determined by the Board of Directors, to the purchase of shares of common stock. The price of common stock purchased under the Purchase

## *Rogue Wave Software, Inc. and Subsidiary*

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) (IN THOUSANDS, EXCEPT PER SHARE AMOUNTS) (INFORMATION AS OF JUNE 30, 1996 AND FOR THE NINE-MONTH PERIOD THEN ENDED IS UNAUDITED) (12) SUBSEQUENT EVENTS (CONTINUED) Plan will be equal to 85% of the lower of the fair market value of the common stock on the commencement date of each offering period or the relevant purchase date. Employees may end their participation in the offering at any time during the offering period, and participation ends automatically on termination of employment with the Company.

## *Preferred Stock*

The Company authorized the issuance of 766 shares of Series B preferred stock in October 1995. The stock has terms identical to those of Series A preferred stock (see note 7). The Company sold 743 shares of Series B preferred stock in November 1995 at a price of $4.76 per share.

## *Stock Split*

The Company effected a 2 for 3 reverse stock split in October 1996. All share and per share amounts have been restated to reflect the reverse split.

## *The Software Parts Company [Company Logo] Visual Builders for C++ and Java Applications*

[GRAPHIC DEPICTING SCREENS FROM THE COMPANY'S ZAPP FACTORY, DBFACTORY AND JFACTORY PRODUCTS, INCLUDING TEXT NEXT TO THE DBFACTORY SCREEN 'GENERATE C++ CLASSES THAT MAP TO DATA IN AN RDBMS.'] NO DEALER, SALES REPRESENTATIVE OR OTHER PERSON HAS BEEN AUTHORIZED TO GIVE ANY INFORMATION OR TO MAKE ANY REPRESENTATIONS OTHER THAN THOSE CONTAINED IN THIS PROSPECTUS AND, IF GIVEN OR MADE, SUCH INFORMATION OR REPRESENTATIONS MUST NOT BE RELIED UPON AS HAVING BEEN AUTHORIZED BY THE COMPANY, ANY SELLING STOCKHOLDER OR THE UNDERWRITERS. THIS PROSPECTUS DOES NOT CONSTITUTE AN OFFER TO SELL OR A SOLICITATION OF AN OFFER TO BUY TO ANY PERSON IN ANY JURISDICTION IN WHICH SUCH OFFER OR SOLICITATION WOULD BE UNLAWFUL OR TO ANY PERSON TO WHOM IT IS UNLAWFUL. NEITHER THE DELIVERY OF THIS PROSPECTUS NOR ANY OFFER OR SALE MADE HEREUNDER SHALL, UNDER ANY CIRCUMSTANCES, CREATE ANY IMPLICATION THAT THERE HAS BEEN NO CHANGE IN THE AFFAIRS OF THE COMPANY OR THAT THE INFORMATION CONTAINED HEREIN IS CORRECT AS OF ANY TIME SUBSEQUENT TO THE DATE HEREOF.

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UNTIL , 1996 (25 DAYS AFTER THE DATE OF THIS PROSPECTUS), ALL DEALERS EFFECTING TRANSACTIONS IN THE COMMON STOCK, WHETHER OR NOT PARTICIPATING IN THIS DISTRIBUTION, MAY BE REQUIRED TO DELIVER A PROSPECTUS. THIS IS IN ADDITION TO THE OBLIGATION OF DEALERS TO DELIVER A PROSPECTUS WHEN ACTING AS UNDERWRITERS AND WITH RESPECT TO THEIR UNSOLD ALLOTMENTS OR SUBSCRIPTIONS.

*2,025,000 Shares*

*[Logo]*

*Common Stock*

*Prospectus*

*Hambrecht & Quist*

*Wessels, Arnold & Henderson*

, 1996

## *Part Ii Information Not Required in Prospectus*

## *Item 24. Indemnification of Officers and Directors.*

Under Section 145 of the Delaware General Corporation Law, the Registrant has broad powers to indemnify its directors and officers against liabilities they may incur in such capacities, including liabilities under the Securities Act of 1933, as amended (the "Securities Act").

The Registrant's Certificate of Incorporation provides for the elimination of liability for monetary damages for breach of the directors' fiduciary duty of care to the Registrant and its stockholders. These provisions do not eliminate the directors' duty of care and, in appropriate circumstances, equitable remedies such as injunctive or other forms of non-monetary relief will remain available under Delaware law. In addition, each director will continue to be subject to liability for breach of the

director's duty of loyalty to the Registrant, for acts or omissions not in good faith or involving intentional misconduct, for knowing violations of law, for any transaction from which the director derived an improper personal benefit, and for payment of dividends or approval of stock repurchases or redemptions that are unlawful under Delaware law. The provision does not affect a director's responsibilities under any other laws, such as the federal securities laws or state or federal environmental laws.

The Registrant expects to enter into agreements with its directors and officers that require the Registrant to indemnify such persons against expenses, judgments, fines, settlements and other amounts actually and reasonably incurred (including expenses of a derivative action) in connection with any proceeding, whether actual or threatened, to which any such person may be made a party by reason of the fact that such person is or was a director or officer of the Registrant or any of its affiliated enterprises, provided such person acted in good faith and in a manner such person reasonably believed to be in or not opposed to the best interests of the Registrant and, with respect to any criminal proceeding, had no reasonable cause to believe his or her conduct was unlawful. The indemnification agreements also set forth certain procedures that will apply in the event of a claim for indemnification thereunder.

The Underwriting Agreement filed as Exhibit 1.1 to this Registration Statement provides for indemnification by the Underwriters of the Registrant and its officers and directors for certain liabilities arising under the Securities Act or otherwise.

# *Item 25. Other Expenses of Issuance and Distribution.*

The following table sets forth all expenses, other than the underwriting discounts and commissions, payable by the Registration in connection with the sale of the Common Stock being registered. All the amounts shown are estimates except for the registration fee and the NASD filing fee.

| | |
|---|---|
| Registration fee | $ 7,763 |
| NASD filing fee | 3,062 |
| Nasdaq application fee | 50,000 |
| Blue sky qualification fee and expenses | 12,000 |
| Printing and engraving expenses | 135,000 |
| Legal fees and expenses | 325,000 |
| Accounting fees and expenses | 250,000 |
| Directors' and officers' insurance | 150,000 |
| Transfer agent and registrar fees | 30,000 |
| Miscellaneous | 37,175 |
| Total | $1,000,000 |

# *Item 26. Recent Sales of Unregistered Securities.*

Since September 30, 1993, the Registrant has sold and issued the following unregistered securities:

(1) In July 1994, the Company issued an aggregate of 666,666 shares of Series A Preferred Stock for an aggregate consideration of $1.0 million to entities affiliated with El Dorado Ventures III, L.P. ("El Dorado III").

(2) In December, 1994, the Company issued an aggregate of 333,333 shares of Series A Preferred Stock for an aggregate consideration of $200,000 to entities affiliated with El Dorado III.

(3) In November 1995, the Company issued an aggregate of 742,533 shares of Series B Preferred Stock for an aggregate consideration of $3,530,762. In connection with such financing, the Company issued (i) 247,225 shares of Series B Preferred Stock to entities affiliated with El Dorado III for cash and (ii) 453,248 shares of Series B Preferred Stock to entities affiliated with Menlo Ventures VI, L.P. ("Menlo Ventures VI") for cash.

(4) On October 27, 1995, the Company merged with Inmark Development Company ("Inmark") and acquired all of the outstanding common stock of Inmark in exchange for 877,620 shares of the Company's Common Stock.

(5) The Registrant sold an aggregate of 231,196 shares of its Common Stock to employees, directors and consultants of the Registrant for consideration in the aggregate amount of $57,423 pursuant to the exercise of stock options granted under the 1994 Stock Option Plan and Inmark Stock Option Plan.

The sales and issuances of securities in the transactions described in paragraphs (1) through (3) above were deemed to be exempt from registration under the Securities Act by virtue of Section 4(2) and/or Regulation D promulgated under the Securities Act. The purchasers in each case represented their intention to acquire the securities for investment only and not with a view to the distribution thereof. Appropriate legends are affixed to the stock certificates issued in such transactions. Similar legends were imposed in connection with any subsequent sales of any such securities. All recipients either received adequate information about the Registrant or had access, through employment or other relationships, to such information.

The sales and issuances of securities in the transaction described in paragraph (4) above were deemed to be exempt from registration under the Securities Act by virtue of Section 3(a)(10) promulgated under the Securities Act.

The sales and issuance of securities in the transaction described in paragraph (5) above were deemed to be exempt from registration under the Securities Act by virtue of Rule 701 promulgated thereunder in that they were offered and sold either pursuant to written compensatory benefit plans or pursuant to a written contract relating to compensation, as provided by Rule 701.

# *Item 27. Exhibits.*

# *Exhibit Number Description of Document*

```
     *1.1   Form of Underwriting Agreement.
      2.1   Agreement and Plan of Reorganization between Registrant, Inmark Development Corporation and
RW
             Acquisition, Inc., dated as of September 19, 1995.
     *2.2   Agreement and Plan of Merger between the Registrant and Rogue Wave Software, Inc., an Oregon
             corporation, dated as of      , 1996.
```

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     *3.1   Certificate of Incorporation of Rogue Wave Software, Inc., a Delaware corporation, as
currently in
             effect.
     *3.2   Amended and Restated Certificate of Incorporation of Rogue Wave Software, Inc., a Delaware
corporation,
             as in effect immediately following the closing of the offering.
     *3.3   Bylaws of Rogue Wave Software, Inc., a Delaware corporation.
      4.1   Reference is made to Exhibits 3.1, 3.2 and 3.3.
     *4.2   Specimen Stock Certificate.
      4.3   Amended and Restated Investors' Rights Agreement between the Registrant and certain
investors, dated
             November 10, 1995, as amended June 27, 1996.
     *5.1   Opinion of Cooley Godward LLP.
    *10.1   Registrant's 1996 Equity Incentive Plan and related documents.
    *10.2   Registrant's Employee Stock Purchase Plan and related documents.
     10.3   Form of Indemnity Agreement to be entered into between the Registrant and its officers and
directors.
     10.4   Lease Agreement between Registrant and the State of Oregon, dated May 1, 1996.
     10.5   Lease Agreement between the Registrant and the Landmark, dated April 22, 1996.
     11.1   Statement Regarding Computation of Net Income Per Share.
     21.1   List of Subsidiaries of Registrant.
     23.1   Consent of KPMG Peat Marwick LLP. Reference is made to page II-6.
     23.2   Consent of Cooley Godward LLP. Reference is made to Exhibit 5.1.
     24.1   Power of Attorney. Reference is made to the Signature page II-5.
```

* To be filed by amendment.

## *Item 28. Undertakings.*

The Registrant hereby undertakes to provide the Underwriters at the closing specified in the Underwriting Agreement certificates in such denominations and registered in such names as required by the Underwriters to permit prompt delivery to each purchaser.

Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers and controlling persons of the Registrant pursuant to the provisions described in Item 24 or otherwise, the Registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable.

In the event that a claim for indemnification against such liabilities (other than the payment by the Registrant of expenses incurred or paid by a director, officer or controlling person of the Registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the Registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.

The undersigned Registrant undertakes that: (1) for determining any liability under the Securities Act, the information omitted from the form of prospectus filed as part of this registration statement in reliance upon Rule 430A and contained in the form of prospectus filed by the Registrant under to Rule 424(b)(1) or (4) or 497(h) under the Securities Act shall be deemed to be part of the registration statement as of the time the Commission declared it effective, and (2) for determining any liability

under the Securities Act, each post-effective amendment that contains a form of prospectus shall be deemed to be a new registration statement relating to the securities offered in the registration statement, and that offering of such securities at that time shall be deemed to be the initial BONA FIDE offering of those securites.

## *Signatures*

In accordance with the requirements of the Securities Act of 1933, the Registrant certifies that it has reasonable grounds to believe that it meets all of the requirements for filing on Form SB-2 and authorized this Registration Statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Corvallis, State of Oregon, on the 4th day of October, 1996.

## *Rogue Wave Software, Inc.*

By:_____/s/_THOMAS KEFFER_____ Thomas Keffer President and Chief Executive Officer

## *Power of Attorney*

Each person whose signature appears below constitutes and appoints Thomas Keffer and Robert M. Holburn, Jr., his true and lawful attorney-in-fact and agent, each acting alone, with full power of substitution and resubstitution, for him and in his name, place and stead, in any and all capacities, to sign any or all amendments (including post-effective amendments) to the Registration Statement on Form SB-2, and to any registration statement filed under Securities and Exchange Commission Rule 462, and to file the same, with all exhibits thereto, and all documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorney-in-fact and agent, full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises, as fully to all intents and purposes as he or she might or could do in person, hereby ratifying and confirming all that said attorney-in-fact and agent, or his substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

In accordance with the requirements of the Securities Act of 1933, this Registration Statement has been signed below by the following persons in the capacities and on the dates stated.

## *Signature Title Date*

| | | |
|---|---|---|
| /s/THOMAS KEFFER<br>Thomas Keffer | President, Chief Executive Officer and Chairman of the Board<br>(PRINCIPAL EXECUTIVE OFFICER) | October 4, 1996 |
| /s/DAN WHITAKER<br>Dan Whitaker | Executive Vice President, Marketing and Director | October 4, 1996 |

/s/ROBERT M. HOLBURN, JR. Chief Financial Officer and Secretary
---------- (PRINCIPAL FINANCIAL AND ACCOUNTING October 4, 1996
Robert M. Holburn, Jr. OFFICER)

/s/THOMAS M. ATWOOD ---------- Director October 4, 1996 Thomas M. Atwood
/s/HOWARD M. LOVE, JR. ---------- Director October 4, 1996 Howard M. Love, Jr.

/s/RICHARD P. MAGNUSON ---------- Director October 4, 1996 Richard P. Magnuson /s/THOMAS H. PETERSON ---------- Director October 4, 1996 Thomas H. Peterson

# *Exhibit 23.1 Consent of Independent Accountants*

The Board of Directors Rogue Wave Software, Inc.:

We consent to the use of our report included herein and to the reference to our firm under the heading "Experts" and "Selected Consolidated Financial Data" in the Prospectus.

# *Kpmg Peat Marwick Llp*

Portland, Oregon October 4, 1996

# *Exhibit Index*

# *Exhibit Number Description of Document*

*1.1 Form of Underwriting Agreement.
2.1 Agreement and Plan of Reorganization between Registrant, Inmark Development Corporation and RW Acquisition, Inc., dated as of September 19, 1995.
*2.2 Agreement and Plan of Merger between the Registrant and Rogue Wave Software, Inc., an Oregon corporation, dated as of , 1996.
*3.1 Certificate of Incorporation of Rogue Wave Software, Inc., a Delaware corporation, as currently in effect.
*3.2 Amended and Restated Certificate of Incorporation of Rogue Wave Software, Inc., a Delaware corporation, as in effect immediately following the offering.
*3.3 Bylaws of Rogue Wave Software, Inc., a Delaware corporation.
4.1 Reference is made to Exhibits 3.1, 3.2 and 3.3.
*4.2 Specimen Stock Certificate.
4.3 Amended and Restated Investors' Rights Agreement between the Registrant and certain investors, dated June , 1996, as amended June 27, 1996.
*5.1 Opinion of Cooley Godward LLP.
*10.1 Registrant's 1996 Equity Incentive Plan, and related documents.
*10.2 Registrant's Employee Stock Purchase Plan, and related documents.
10.3 Form of Indemnity Agreement to be entered into between the Registrant and its officers and directors.
10.4 Lease Agreement between Registrant and the State of Oregon, dated May 1, 1996.
10.5 Lease Agreement between the Registrant and the Landmark, dated April 22, 1996.

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11.1   Statement Regarding Computation of Net Income Per Share.
21.1   List of Subsidiaries of Registrant.
23.1   Consent of KPMG Peat Marwick LLP. Reference is made to page II-6.
23.2   Consent of Cooley Godward LLP. Reference is made to Exhibit 5.1.
24.1   Power of Attorney. Reference is made to the Signature page II-5.
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* To be filed by amendment. </TEXT>