

# SECURITIES AND EXCHANGE COMMISSION

## FORM 10KSB

Annual and transition reports of small business issuers [Section 13 or 15(d), not S-B Item 405]

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### FILER

#### **RINGER CORP /MN/**

CIK: **866752** | IRS No.: **410848688** | State of Incorporation: **MN** | Fiscal Year End: **0930**  
Type: **10KSB** | Act: **34** | File No.: **000-18921** | Film No.: **96687745**  
SIC: **2870** Agricultural chemicals

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U. S. SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-KSB

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE  
ACT OF 1934 [FEE REQUIRED]

For the fiscal year ended September 30, 1996  
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TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934 [NO FEE REQUIRED]

For the transition period from to  
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Commission file number 0-18921  
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RINGER CORPORATION

-----  
(Name of small business issuer in its charter)

Minnesota

41-0848688

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(State of incorporation or organization) (I.R.S. Employer Identification No.)

9555 James Avenue South, Suite 200, Bloomington, Minnesota 55431  
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(Address of principal executive offices) (Zip Code)

Issuer's telephone number, including area code (612) 703-3300  
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Securities registered pursuant to Section 12(b) of the Act: None

Securities registered pursuant to Section 12(g) of the Act:

Common Stock, \$.01 par value per share  
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(Title of class)

Check whether the issuer (1) has filed all reports required to be filed by  
Section 13 or 15(d) of the Exchange Act during the preceding 12 months, and (2)  
has been subject to such filing requirements for the past 90 days.

Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405  
of Regulation S-B is not contained herein, and will not be contained, to the  
best of registrant's knowledge, in definitive proxy or information statements  
incorporated by reference in Part III of this Form 10-KSB or any amendment to  
this Form 10-KSB.

Revenues for the fiscal year ended September 30, 1996 totaled \$14,672,784.

As of December 12, 1996, the Company had 10,921,930 shares of Common Stock  
outstanding. The aggregate market value of the 10,126,033 shares of Common  
Stock held by non-affiliates of the Company was \$15,189,050, based on the  
closing share price on December 12, 1996 on the Nasdaq National Market.

Documents incorporated by reference: Certain responses to Part III are  
incorporated herein by reference to information contained in the Company's  
definitive proxy statement for its 1997 annual meeting of stockholders to be  
filed with the Securities and Exchange Commission on or before January 28,  
1997.

Transitional small business disclosure format:  Yes  No

PART I

Item 1. BUSINESS.

GENERAL

Ringer Corporation is a developer and leading marketer of  
premium-performance, environmentally-oriented lawn, garden and turf products  
for consumers and for specialty commercial and professional markets. The  
Company's product lines include proprietary microbially-driven fertilizer  
systems, oxygen-releasing water soluble fertilizer systems and biological and  
botanical pest controls, which are offered as products of choice over

traditional fertilizers and pesticides. The Company also offers a line of composting products.

The Company was incorporated in 1961 as a regionally-based, closely-held business founded by C. Judd Ringer. In 1986, Mr. Ringer sold a majority interest in the Company to new investors and retired from active management. Subsequently, the Company reorganized, with new management in most areas during the periods from 1986 through 1988 and again from 1992 through the summer of 1993. During these years, the Company increased its product offerings and expanded its distribution channels into national lawn, garden and turf care markets.

Since 1986, the Company has raised approximately \$27 million in capital through private equity offerings to venture capital organizations and individuals, and through public offerings of common stock in 1990 and 1992. The capital raised was used by the Company to acquire a pest control product line, to fund programs for product packaging redesign, advertising, promotion and product development and to increase working capital. The Company's pest control product line is sold under the Safer(R) brand name through Safer, Inc., a wholly owned subsidiary of the Company acquired in 1991.

The Company's products are sold in the consumer lawn and garden and the commercial golf course turf management markets. Product lines are composed of granular fertilizers, water soluble fertilizers, pesticides and composting products.

The Company's granular fertilizer products use proprietary microbially-based delivery systems that control release of nutrients for extended uniform plant feeding and are marketed under the Restore(R), Supreme Garden Fertilizer(TM) and Safer(R) Lawn Fertilizer brand names.

The Company's water soluble fertilizer products use proprietary oxygen releasing compounds that enhance root growth and function to promote more vigorous and healthy plants. Water soluble fertilizers were added to the Company's product lines in December 1994 through the acquisition of the assets of Plant Research Laboratories (See "Plant Research Laboratories" below). These products were marketed by the Company under the Oxygen Plus(R) brand name for fiscal 1995 and under the Safer(R) brand name in fiscal 1996.

The Company's Safer(R) brand pest control products use microbial, botanical and mechanical technologies to effectively control insects, weeds and fungal diseases. Safer(R) brand biological and botanical pest control products are designed to work on targeted pests without harming beneficial insect populations or leaving harmful residues on turf and garden plants.

The Company's composting products also use a microbially-based delivery system and are sold under the Ringer(R) brand name. The microbially-based composting products accelerate and enhance the process of decomposing yard waste into humus, a valuable organic amendment that can be added back to lawn or garden soil.

The Company's products are developed to provide premium performance using available technologies with the lowest environment impact. The Company's products are directed toward wholesale consumer fertilizer

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and pesticide markets which exceed \$1 billion according to the 1991 Kline & Company industry survey report. The Company believes that environmental considerations are playing an increasingly important role in consumer choice of lawn care and gardening products and further believes that this trend will provide increasing opportunities for the Company to market premium performance environmentally conscious lawn and garden products.

The Company anticipates that its future growth will be derived from increased sales of its existing products, from sales of future products developed by the Company or licensed from others, and from the acquisition of additional product lines or companies with additional product lines.

#### PLANT RESEARCH LABORATORIES

In December 1994, the Company acquired substantially all of the assets of Plant Research Laboratories ("PRL"), a California based developer and marketer of water soluble fertilizers for the indoor houseplant and outdoor lawn and garden markets with annual sales of less than \$1 million generated principally in the western United States. The water soluble fertilizer products acquired utilize oxygen releasing compounds which are patented technologies under exclusive license to the Company for use in the lawn, garden, turf management and agricultural industries.

## SALES AND MARKETING

The Company's focus is primarily sales and marketing. The Company's products are marketed in the United States through both retail and commercial distribution channels. Retail channels consist principally of specialty lawn and garden stores, hardware cooperatives and mass merchants. Commercial channels consist of primarily of specialty distributors who sell products to golf course turf management professionals. In fiscal 1996, U.S. retail and commercial markets accounted for 79% and 5%, respectively, of the Company's sales. The remaining 16% is attributable to foreign retail and commercial market sales, primarily in Canada.

Retail sales in the United States are conducted through a variety of retail outlets in all fifty states. These outlets consist of mass merchandisers and several lawn and garden wholesale distributors who, in turn, resell to retail garden centers, nurseries, hardware and home center stores. National retailers selling the Company's products include The Home Depot, Target, Cotter True Value Stores and Frank's Nursery & Crafts, although some of these retailers currently carry only limited selections of the Company's products or only carry them in certain regions of the country.

The Company's retail sales efforts in the United States are managed by a vice president of sales located in the Company's main office, and by four regional sales managers located in Maryland, Georgia, Indiana and Washington. The Company uses a combination of direct sales personnel and independent manufacturers' representatives to market its products. The direct sales personnel and independent representatives, who report to the regional managers, are assigned territories that cover all 50 states. In addition, Ringer uses its wholesalers' sales and merchandising personnel and other merchandising service organizations to contact and service some of the larger retail outlets who sell the Company's products.

Most of the Company's distribution and marketing activities are concentrated in the United States and Canada, however, a level of international over-seas business has been maintained for a number of years. The Company currently sells certain pest control products to foreign manufacturers and distributors and has sold products to customers in Germany, Switzerland and other European markets for over ten years. International sales are currently managed by Safer, Ltd., the Company's subsidiary in Toronto, Ontario, Canada. Safer, Ltd. maintains its own sales and marketing organization, its own product development operation and most of its own sources of supply and manufacturing. Although management believes there are significant future international market opportunities, management expects to concentrate the Company's marketing efforts in the United States

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and Canada for the foreseeable future while the Company focuses on establishing profitable operations in these primary market areas.

The Company's commercial sales are supervised by the manager of commercial sales. Approximately 30 professional turf distributors, with several locations throughout the U.S. and Canada, buy products from the Company for sale primarily to golf courses with some sales going to lawn service operators, specialty landscapers and government landscape services. The commercial product line includes several microbial fertilizer formulations specifically designed for the needs of professional turf managers.

Over the past several years the Company has used various forms of advertising and promotion to market its products. These forms include television, radio and print advertising, cooperative advertising programs and point-of-purchase marketing materials.

In fiscal 1996, 1995 and 1994, the Company spent approximately \$3.3 million, \$4.8 million and \$4.6 million, respectively, on sales and marketing expenses.

## DISTRIBUTION AND TRANSPORTATION

The Company relies primarily on common carrier transportation, leased warehouse facilities and public warehouse services to distribute its products nationwide. The Company's distribution and freight costs tend to be significant as a percentage of sales. This is due to the relatively heavy weight and bulky nature of the Company's products and the substantial shipping distances from distribution locations to some of the Company's major market areas.

Some of the Company's fertilizer competitors are located in closer proximity to some of the Company's major market areas and, as a result, incur

relatively lower freight costs. Lower freight costs can be an element of advantage to local or regional competitors when competing against the Company's fertilizer products shipped from distant distribution points. Consequently, the Company's relatively high distribution and freight costs can hinder fertilizer sales growth in some markets.

In fiscal years 1996, 1995 and 1994, the Company spent approximately \$1.6 million, \$1.9 million and \$1.9 million, respectively, on product transportation and warehousing costs.

#### COMPANY TECHNOLOGIES

The Company's experience in biological systems has been applied to the development or acquisition of technologies in four product areas. First, two types of granular microbially-activated fertilizer systems have been developed for specific lawn, garden and commercial turf uses. Second, two types of oxygen-releasing water soluble fertilizers have been added to the Company's product offerings for use on indoor plants, outdoor container plants, and other lawn and garden uses. Third, a line of biological and botanical pest control products have been developed which focus on a broad spectrum of plant pests which include insects, weeds and fungal diseases. Fourth, a line of microbial composting inoculant systems has been developed to enhance and accelerate decomposition of organic yard and garden waste materials.

The Company's granular fertilizer technologies are based on the use of naturally occurring soil microbes in combination with plant nutrients and high energy carbohydrate sources to produce a superior controlled release fertilizer system. These fertilizer technologies are focused on the "rhizosphere", which is the biologically dynamic zone in the upper six inches of topsoil where plant roots and soil interact. The microbial activity in the rhizosphere is essential to the health and vigor of plants and soil. Active microbial populations help to make nutrients available to plants and are essential in developing good soil structure. They also play an important role in regulating plant diseases.

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The Company's water soluble fertilizer technologies use a patented oxygen releasing compound ("ORC") in combination with high quality plant nutrients. This fertilizer technology is focused on providing a reliable supply of oxygen and nutrients to plant roots. Research has shown that an adequate supply of oxygen at the root level is essential to maintaining a healthy balance of chemical and microbial activity which promotes growth and vitality in most plants. Certain unfavorable soil conditions resulting from physical compaction, heavy clay content, over watering, flooding, and other causes, can result in oxygen deficiency in the soil and, consequently, a less healthy plant environment. Through the use of ORC, the Company's water soluble fertilizers help to reduce oxygen deficient conditions and promote a healthy growing environment by providing a reliable supply of timed-release oxygen and other beneficial plant nutrients directly to the plant root system.

The Company's pest control technologies are based primarily on fatty-acid compounds, naturally occurring plant extracts and microorganisms, and mechanical traps to control unwanted pests. The Company holds numerous patents for fatty-acid based pest control products and products using fatty-acids as synergists in combination with both natural and synthetic pesticides.

The Company performs extensive product performance tests through contract research and development facilities, as well as at its field lab in Minneapolis, Minnesota.

To assist the process of investigating new product opportunities, the Company consults, from time to time, with knowledgeable scientists and other experts regarding trends and technologies in fertilizers, pesticides and turf management.

#### PRODUCTS

The Company's four major product categories are microbial fertilizers, water soluble fertilizers, pest control products and composting products.

##### MICROBIAL FERTILIZERS

The Company offers three types of proprietary microbial fertilizer products. These include all-natural fertilizers, marketed under the Restore(R) brand name, hybrid fertilizers using the B.A.S.E. (TM) (or "Biologically-Active Soil Enrichment") system, marketed under the Supreme Garden Fertilizers(TM) brand name and Low Phosphate Lawn Fertilizers using a natural nutrient

component marketed under the Safer(R) brand name. Each type is discussed below. These microbial fertilizers provide high performance, non-burning, slow-release fertilization programs for improved plant growth and extended feeding. From 1989 through 1994, product performance tests were conducted on the Company's microbial fertilizers at North Carolina State University, Iowa State University, the University of Florida, Michigan State University, Penn State University, Rhode Island University, the University of Nebraska, Texas A&M University, Washington State University, the University of Georgia, and Cornell University. Tests were conducted on various types of turf comparing turf color, turf quality, disease suppression characteristics and thatch reduction characteristics between Company's microbial fertilizers and common synthetic nitrogen fertilizer sources used in most competitors' products. In each study, the Company's microbial fertilizers were found to perform equal to or superior to the competing synthetic nitrogen fertilizer sources tested. Microbial fertilizer products accounted for 26%, 31% and 39% of the Company's sales in fiscal 1996, 1995 and 1994, respectively.

ALL NATURAL RESTORE(R) FERTILIZERS - The Company's Restore(R) brand fertilizer is an all natural two-part fertilizer system that combines selected naturally occurring soil microorganisms with selected nutrient sources. Nutrient sources are designed to meet specific plant growth requirements while promoting improved soil quality. The sources include a balance of high-quality, feed-grade proteins and carbohydrates. The microorganisms use the carbohydrates as an energy source to convert the proteins and other materials into the nitrogen, phosphorous and potassium required for plant growth. The microbial fertilization system releases its nutrients slowly so that

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the potential for nutrient losses due to leaching, run-off and evaporation is reduced. All natural Restore(R) fertilizers are ideally suited for diseased or problem lawns.

LOW PHOSPHATE SAFER(R) BRAND LAWN FERTILIZERS- The Company's Safer(R) brand fertilizers use low phosphate formulations, designed to be used around environmentally sensitive areas where water quality is an issue. Safer(R) Brand fertilizers use an exclusive blend of nitrogen sources that provide four-way greening. This process greens up treated lawns quickly and provides extended feeding for up to 12 weeks. The natural nutrient component in Safer(R) Brand fertilizers provides slow release non-burning nitrogen and enhanced microbial activity for a more vital soil.

B.A.S.E(TM) TECHNOLOGY - SUPREME GARDEN FERTILIZERS(TM) - B.A.S.E.(TM) (or "Biologically-Active Soil Enrichment") technology is a unique fertilizing system developed by Ringer Corporation. In 1995, the Company introduced Supreme Garden Fertilizers(TM) to the garden market. The B.A.S.E.(TM) system combines three different nitrogen sources that vary in water solubility. These three nitrogen sources are blended with high energy natural carbohydrates, derived from molasses, and selected soil microorganisms to form a pelleted matrix. This matrix is bound together by a water absorbent natural gum that maintains pellet integrity and regulates water movement into the pellet. The result is a nitrogen fertilizer system that provides a quick release water soluble component for fast initial plant response followed by a controlled slow-release nitrogen component for extended feeding. When the B.A.S.E.(TM) system is applied to the soil and watered, the pellet slowly absorbs moisture into the fertilizer matrix by way of the absorbent gum binders. The soil microorganisms present are activated by the moisture and start using the high energy carbohydrates and soluble nitrogen as food sources promoting growth of microbial cell bio-mass. A portion of the water soluble nitrogen is solubilized and released from the pellet to be available immediately for uptake by the plant. This provides the quick initial response. A fraction of the soluble nitrogen that is used by the microbes for food is also eventually released to be available for uptake by the plant. The remaining fraction is water insoluble natural organic nitrogen bound up in proteins. The proteins are slowly broken down by soil microorganisms to provide extended feeding to the plant.

#### WATER SOLUBLE FERTILIZERS

The Company offered water soluble fertilizers for the first time in fiscal 1995 which were acquired from Plant Research Laboratories in December 1994. (See "Plant Research Laboratories" above.) The Company's water soluble fertilizers are marketed in both liquid and powdered formulas under the Oxygen Plus(R) brand name. Oxygen Plus(R) water soluble fertilizers utilize, in combination with macro nutrients, a patented ingredient called Oxygen Releasing Compound ("ORC"). ORC was developed to overcome plant growth problems caused by oxygen deficient soil. Soil can become oxygen deficient due to many causes including heavy clay content, physical compaction, over watering and flooding to name a few. Oxygen deficiency in the soil has been shown to cause a number of chemical and microbial imbalances that interfere with plant growth and

health. In most plants, an adequate supply of oxygen in the soil is essential for healthy growth and function of the plant roots. Oxygen assists the chemical process that allows plant roots to absorb and metabolize nutrients from the soil that are essential for healthy plant respiration and photosynthesis. ORC utilizes the plant's own soil as an organic catalyst to provide the plant time-released oxygen, activated by water, for an optimal balance of soil, water, air and nutrients. Sales of water soluble fertilizers accounted for approximately 3% and 4% of the Company's sales in fiscal 1996 and 1995, respectively. The Company had no water soluble fertilizer sales prior to fiscal 1995.

#### ENVIRONMENTALLY ORIENTED PEST CONTROLS

The Company first introduced pest control products in 1989. The Company's pest control business was greatly expanded in 1991 with the acquisition of its Safer(R) brand pest control product line.

The active ingredients in the Company's pest control products are naturally occurring microbial and botanical derivatives and synthesized versions of naturally occurring botanical derivatives. These active ingredients have been developed to control specific insects, weeds and fungal diseases. The Company's biological

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and botanical pest controls biodegrade more rapidly and have a lower mammalian toxicity rating than most traditional pesticides.

The Company's pest control products accounted for 70%, 63% and 58% of sales in fiscal 1996, 1995 and 1994, respectively.

The pest control products sold by the Company fall into eight categories:

**Pyrethrums Plus Fatty Acids ("SAP").** SAP is a proprietary technology that uses fatty acids as a synergist for pyrethrum. This patented combination allows the Company to market a fast acting, highly effective, environmentally focused pest control product. The Company believes this protected technology allows it to maintain a unique position in the market for pyrethrum based pest controls. Products currently formulated using SAP technology include Safer(R) Tomato and Vegetable Insect Killer, and Safer(R) Yard and Garden Insect Killer. Pyrethrums are non-proprietary botanical insect controls of low toxicity. Liquid spray application of a pyrethrum solution kills certain insects rapidly by attacking their nervous systems. Pyrethrums are derived from certain chrysanthemum flowers grown in certain climatic regions of the world. In past years, production of pyrethrum was limited and, at times, pyrethrums were available only in controlled amounts. The production of pyrethrums has expanded into other areas of the world in recent years resulting in a more reliable supply of this ingredient. Management believes that pyrethrums are now readily available in adequate amounts to meet the Company's needs for the foreseeable future.

**Synthetic Pyrethroids.** Synthetic pyrethroids are man-made variations of the natural insecticide pyrethrum. (See Pyrethrums Plus Fatty Acids above). Synthetic pyrethroids are highly effective insecticides with low mammalian toxicity profiles, comparable to or better than pyrethrum, with the added advantages of being lower in price and more readily available. The Company has a non-exclusive license to use certain synthetic pyrethroid technologies included in some of the Company's pest control products. These products include Safer(R) Wasp and Hornet Killer, Safer(R) Indoor Insect Fogger and Safer(R) Outdoor Insect Fogger, Safer(R) Home Patrol(TM) Insect Killer, and Safer(R) Superstop(TM) Ant, Roach and Insect Killer.

**Insecticidal Soaps.** Insecticidal soap pest controls are based on potassium salts of fatty acids which, upon spray application, kill small soft-bodied insects by disrupting the cell membranes. Many of the Company's insecticidal soaps contain citrus aromatics which enhance the products' odor. Insecticidal soaps are of low mammalian toxicity and are used to control insects such as aphids, mites, mealy bugs, whitefly and others. The Company believes that the raw materials and manufacturing capacity for insecticidal soaps are readily available. The Company markets insecticidal soap products for specific types of plants such as house plants, roses and flowers, and lawns, trees and shrubs.

**Herbicidal Soaps.** This patented technology employs short chain fatty acids to kill unwanted vegetation on a non-selective basis. The Company believes it is the only marketer of a naturally derived technology employed to control plant material. Superfast(R) Brand Weed and Grass Killer, Safer(R) Lawn Moss Killer and Safer(R) Home, Deck & Patio Moss & Algae Killer products are

based on the Company's proprietary herbicidal soap technology.

Fungicides. Products such as Safer(R) Flower, Fruit & Vegetable Garden Fungicide use elemental sulfur in an easy-to-use formulation to control fungal diseases on plant foliage. The Company believes it is the only marketer to sell a ready-to-use sulfur based fungicide.

Traps. The Company sells mechanical traps, such as Safer(R) Beetle Trap for Japanese Beetles which attracts and catches Japanese beetles. Mechanical traps attract by means of sex lures, floral lures and/or color. Once lured to the trap, the insect falls into a container from which it cannot escape, and eventually the insect dies.

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Bacillus thuringiensis ("Bt"). Bt is a bacterium that contains a protein crystal toxin. When ingested by certain insects, this toxin disrupts the stomach lining and causes paralysis or death in the insect. Various strains of Bt may be insect-specific and are marketed by the Company for insect-specific control such as Safer(R) Tree, Shrub & Vegetable Caterpillar Killer. Food crops may be treated with Bt and harvested the same day. The Company holds no proprietary rights to Bt technology, which has been widely available for many years and is used by many of the Company's competitors. The Company believes sources for Bt will be readily available at competitive prices.

Neem. The Company markets a broad spectrum organic insecticide and insect repellent called "Neem". Ringer markets Neem insecticide and repellent under the brand name Safer(R) BioNEEM(R). BioNEEM(R) insecticide was first introduced by the Company to retail distribution in the spring of 1993. BioNEEM(R) was introduced as a Japanese Beetle repellent for the 1995 season. The active ingredient in Neem is Azadirachtin. Azadirachtin is obtained from the Neem tree, a tropical evergreen mahogany that grows in Asia, Africa and Central America, and is extracted from the Neem seed which is harvested as a renewable resource. Neem insecticide is currently labeled for over thirty insects. Additional insects may be added in the future. According to the National Research Council, Neem materials have been shown to affect more than 200 species of insects. When insects come in contact with Neem insecticide, through ingestion or contact, the normal developmental cycle of the insect is disrupted preventing it from molting or maturing. When sprayed on plant foliage, Neem acts as a strong repellent to many insects that will either avoid the sprayed plant or land on it but not feed. Beneficial insects generally do not feed on plants and, therefore, are typically not affected by Neem. Azadirachtin has a residual effect lasting up to seven days, a unique characteristic when compared to other organic pesticide technologies. Home owners can use Neem products in place of traditional synthetic pesticides, such as diazinon and carbaryl. The Company believes that the supply of Azadirachtin will be adequate to satisfy the Company's needs for the foreseeable future.

#### COMPOSTING PRODUCTS

Composting is the process by which yard, garden and certain kitchen wastes may be broken down into humus, the organic part of soil. During this process, a variety of naturally occurring microorganisms and enzymes break down the carbohydrates and woody cell walls of plants into simple forms of the basic nutrients - nitrogen, phosphorus and potassium - required for lawn and plant growth. Finished compost may be used as a fertilizer and may also be applied to the soil surface as a mulch or soil amendment which can insulate plant roots from extreme temperatures, reduce erosion, control weeds and improve moisture retention. The Company's composting products are designed to enhance and accelerate the composting process.

The Company has applied its expertise in formulating microorganisms with enzymes and nutrient sources to the development of a line of compost inoculants specifically designed for the materials to be composted. The nutrient sources are specially designed to balance the carbon/nitrogen ratio in the compost pile to allow for a more rapid breakdown of the organic material. The microorganisms used in these composting inoculants have been specifically selected to work at the elevated temperatures that occur in a compost environment and to successfully compete with indigenous microorganisms for available nutrient sources. The microbes are also selected for their ability to produce enzymes which will accelerate the breakdown of complex organic materials. The Company believes that its composting products are unique in that they combine a microbial load with a balanced nutrient package to promote the initial growth of the organisms which accelerates the rate of decomposition of yard debris such as leaves and grass clippings.

The Company's composting products accounted for 1%, 2% and 3% of the Company's sales in fiscal 1996, 1995 and 1994, respectively.

#### PRODUCT DEVELOPMENT

The Company conducts ongoing product development efforts to enhance existing products and develop new products. Most of the Company's product development, research and testing is conducted by university and government researchers unaffiliated with the Company.

Since the acquisition of Safer, Inc. ("Safer") in 1991, the Company has maintained an exclusive right-of-first refusal option to manufacture and market in North America certain products developed by Eco-Care Technologies, Inc. ("Eco-Care"), a research company located in Vancouver, British Columbia, which was formed by scientists formerly employed by Safer. In return for these rights, the Company granted to Eco-Care a non-exclusive license to use certain Safer(R) brand technologies.

In fiscal 1996, 1995 and 1994, the Company spent \$748,932, \$981,495 and \$1,212,263, respectively, on research and development expenditures.

#### MANUFACTURING

The Company uses outside subcontract manufacturers to produce its products. This provides the Company flexibility to react quickly and economically to seasonal production demands and new product introductions and to control fixed costs.

The Company's Restore(R) brand Safer(R) brand and Supreme Lawn(TM) brand microbial fertilizers and its composting products are produced pursuant to short-term manufacturing agreements with two subcontractors. The Company believes that these subcontractors have sufficient available manufacturing capacity to satisfy the Company's needs for the foreseeable future.

The Company's pest control products are manufactured by two subcontract companies located in Minnesota and Missouri. The Company believes that these subcontractors have sufficient available manufacturing capacity to satisfy the Company's needs for the foreseeable future. Products for Canada and overseas markets are manufactured by subcontractors in Canada, Europe and the United States.

The manufacture of the Company's microbial fertilizers, compost inoculants and certain pest control products involves formulation and granulation processes for which the Company must obtain large supplies of microorganisms. These microorganisms are generally available from several suppliers. The Company believes that sufficient industry capacity exists to satisfy the Company's microbial needs for the foreseeable future.

The Company believes that its fertilizers and composting products and its non-microbial pest control products are manufactured using generally available raw materials and processes common to the industry. The Company does not anticipate any shortages of such raw materials or manufacturing capacity which would materially affect the supply of finished goods, although price fluctuations may affect total product costs.

#### GOVERNMENT REGULATION AND PRODUCT REGISTRATION

Government regulation in the United States and other countries is a significant factor in the research, development, production and marketing of pesticides and, to a lesser extent, fertilizers. To develop and sell a pesticide product, federal and state product registration must be obtained for each pest and plant for which the product is used. In the United States, pesticides are regulated by the Environmental Protection Agency ("EPA") under the Federal Insecticide, Fungicide and Rodenticide Act, as amended ("FIFRA"), which requires extensive efficacy, toxicology and environmental testing to substantiate product performance and safety prior to registration. In addition, many states have additional registration requirements that go beyond FIFRA.

Under FIFRA, field efficacy testing may be conducted on a small scale in certain instances. To conduct large-scale field tests, a company must

obtain an experimental use permit ("EUP"), which generally requires satisfactory completion of certain toxicology and environmental studies. Initial EPA registration for a new pesticide may therefore be a lengthy and expensive process. In addition, the U.S. Congress has mandated that the EPA require that all pesticide products registered prior to 1984 be re-registered by 1997 using today's stricter testing protocols. Registration applicants also must submit their proposed labeling for EPA approval. FIFRA creates a complex and detailed scheme for pesticide labeling. After a pesticide is registered, it must be sold with labeling and claims exactly as approved by the EPA.

To regulate the development and use of biological pest controls, including those based on naturally occurring microorganisms, the EPA established special guidelines for their registration which are set forth in Subdivision M of the EPA's Pesticide Assessment Guidelines. Biological pest controls currently are subject to a three-tier toxicology testing procedure and a four-tier environmental testing procedure. A biological pest control product that satisfactorily completes both the toxicology and environmental Tier I tests is not required to go through the tests specified in subsequent tiers. Should questions arise during any tier of testing, additional tests may be required. The cost of registering biological pest control products is generally substantially lower than that for chemical pesticides. Most of the Company's products have only required Tier I testing. Stricter registration requirements apply to products based on genetically engineered organisms. The Company does not currently use any genetically modified organisms. Based on current EPA regulations, management believes that biological pest control product registrations can be obtained at a reasonable cost to the Company.

The fertilizer products produced and marketed by the Company are currently regulated by individual state departments of agriculture. Requirements for obtaining registrations to sell fertilizers vary from state to state. Every fertilizer product must be registered and licensed in each state where it is sold, and a registration or license fee to maintain this registration must be paid on an annual basis.

The Company's product performance claims for its fertilizers are more extensive than those typical of traditional fertilizers, and include claims that the products improve soil and minimize conditions that promote certain diseases. As part of the registration process, research data in support of these claims must be submitted to the appropriate state agencies. This research must be independently generated, preferably at the university level. The Company's fertilizer products have been tested at several state universities across the country, as well as in a leading independent turf research facility in Europe.

The Company's fertilizer products are currently registered in most states under a national label which makes certain performance claims. Several states object to certain claims made on the packaging or require claims specific to a state. The Company, where possible, has designed special packaging, citing limited claims, to permit as wide of registration and sale as possible. The Company continues to work with all states to improve registration status nationwide, and to substantiate the performance claims through studies conducted at universities.

The Company's products will also be subject to regulation by agencies of foreign countries in which the products are tested, sold or used. The Company's activities may be subject to regulation under various other federal and international laws, regulations and guidelines, and state and local regulatory requirements, including approvals prior to shipping the products into a country, state or locality for either experimental or commercial purposes. The Company currently maintains product registrations in 11 foreign countries and has registrations pending in three additional foreign countries. The Company cannot predict the effect of future legislation and regulation on the Company's operations.

There can be no assurance that any testing approvals or registrations will be granted on a timely basis, if at all, or that the Company's resources will be adequate to meet the costs of regulatory compliance. Any or all of those approvals may be the subject of disputes that could postpone or prevent research, development, production and/or marketing of the Company's products.

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Some states have laws imposing liability on certain parties for the release of pesticides and/or fertilizers into the environment in a manner or in concentrations not permitted by law. Such liability could include, among other things, responsibility for cleaning up the damage resulting from such a release. In addition, the Comprehensive Environment Response, Compensation and Liability Act, commonly known as the federal Superfund law, imposes liability on certain parties for the release into the environment of hazardous

substances, which might include fertilizers and pesticides under certain circumstances. The federal Superfund law has been interpreted to impose liability on a producer of pesticides for cleaning up environmental damage resulting from the release of its products into the environment during their manufacture. The Company has not been subject to any claims for responsibility relating to impermissible releases of pesticides under such federal or state statutes. However, there can be no assurance that the Company will not be subject to claims under such statutes at some time in the future. The Company believes that it does not need, and it does not maintain, insurance for any environmental claims which might result from the release of its products into the environment in a manner or in concentrations not permitted by law.

#### COMPETITION

The Company faces significant competition in the fertilizer and pesticide industries from numerous manufacturers and suppliers, several of which significantly dominate their respective markets and many of which have substantially greater financial, technical, marketing and other resources than the Company. The principal competitive factors in the Company's markets are efficacy, ease of application, price, health and environmental compatibility and name recognition. The Company's products generally cost more than those of their conventional chemical counterparts, and therefore the Company is generally not able to compete on pricing alone.

The Company believes that it has three categories of competitors in the pesticides market: large chemical pesticide companies, companies with existing bio-pesticide product lines, and companies developing new bio-pesticide products. The pesticide industry is dominated by large chemical companies located in the United States and Europe. These companies generally operate throughout the world and have the capability to manufacture chemical pesticides very efficiently.

The Company's principal competitors in the consumer chemical pesticide market are Solaris (Ortho) and Spectracide. There are several companies which manufacture and market bio-pesticides for agricultural use, including Abbott Laboratories and Sandoz AG. Many of the large chemical pesticide companies are currently conducting research on biological pest control technology. In addition, the Company is aware that at least one dominant chemical pesticide manufacturer has introduced a limited line of alternative pest control products. There are also small biotechnology companies which are conducting research in the biological pest control area. These companies may represent significant competition in the future.

The Company's principal competitor in the consumer fertilizer market is The Scotts-Miracle Grow Company. Other significant competitors include Lebanon (Greenview), Milwaukee Sewer Improvement District (Milorganite) and Estech (Vigoro). Freight cost involved in shipping bulk fertilizer products across the country are a significant factor in national competition. In addition to national competitors, the Company has many regional and local competitors who incur lower freight costs and are therefore more price competitive in regional and local markets. The Company estimates that approximately 35% of the market share is held by smaller regional and local fertilizer manufacturers.

The Company's principal competitor in the compost inoculant market is Sudbury. A number of relatively small competitors also participate in the market. The composting product market is very competitive and has been declining over the past few years. Management believes that competition will remain aggressive and that the market may continue to decline, which, together, may contribute to further decreases in the Company's composting product sales.

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Products developed by the Company may also be subject to competition from products developed by companies using other technologies. One potential source of competition in the future may come from plant science technology, including development of pest-resistant plants by genetic engineering and other methods.

#### SEASONALITY

Sales of the Company's products are highly seasonal, with Company shipments of fertilizers and pest controls being heavily concentrated in the winter (second fiscal quarter) and spring (third fiscal quarter). See Item 6, Management's Discussion and Analysis - Quarterly Performance.

#### PATENTS AND PROPRIETARY TECHNOLOGIES

The Company seeks to protect its product technologies through a

variety of means including patents, trade secrets, proprietary know-how, technological innovation and customer education.

The Company relies on the use of proprietary processes in the formulation of its microbial fertilizer products to protect them against duplication by competitors. The Company acknowledges that there can be no assurance that such proprietary processes will provide sufficient protection.

The Company owns patents covering the herbicidal soap and the soap synergized pyrethrum (SAP) technology. These patents expire in the years 2008 and 2007, respectively. Also, in connection with the December 1994 acquisition from Plant Research Laboratories (see "Plant Resource Laboratories" above) of a water soluble fertilizer product line, marketed under the Oxygen Plus(R) brand name, the Company acquired an exclusive worldwide license to practice patents relating to oxygen releasing technology in the horticultural, agricultural and lawn and garden markets. The license covers currently existing patents and any further patents on the technology that may be issued in the future. The current patents on oxygen releasing technology expire in the year 2011.

As of December 1996, the Company owned 31 patents, including 20 U.S. patents, and licensed two additional U.S. patents, which expire at various times during the year from 2006 through 2012. The Company acknowledges that there can be no assurances that its owned or licensed patents will provide sufficient protection for its products or be of commercial benefit to the Company.

The Company obtains confidentiality agreements from current Company employees, scientific consultants and potential strategic corporate partners prior to disclosing Company trade secrets and know-how. There can be no assurance that these confidentiality agreements will be honored or that such proprietary know-how or trade secrets will not be independently created by third parties.

#### EMPLOYEES

As of December 12, 1996, the Company had 36 employees, all of whom are full-time, located in the U.S. and Canada. Of these employees, 3 were engaged in product development, 13 in sales and marketing, 12 in distribution and material control and 8 in general administration. The Company plans to hire additional personnel as required by the needs of its business. The Company does not currently anticipate difficulties in attracting sufficient numbers of qualified employees. None of the employees are covered by collective bargaining agreements, and the Company has experienced no work stoppages. The Company believes that its employee relations are good.

#### Item 2. DESCRIPTION OF PROPERTY.

The Company leases approximately 6,000 square feet of office facilities located in Bloomington, Minnesota. In addition, the Company leases approximately 26,000 square feet of warehouse and office space in

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Eagan, Minnesota. The Company's corporate office lease and its warehouse lease expire in September 1999 and December 2001, respectively. A subsidiary of the Company leases approximately 13,600 square feet of office and warehouse space in a suburb of Toronto, Canada. The lease for the subsidiary's office and warehouse space expires in fiscal 2000. The Company anticipates that it will be able to renew such leases or enter into new leases on substantially similar terms. See Note 5 of Notes to Consolidated Financial Statements for annual rental commitments. The Company believes that the properties are adequately covered by insurance.

#### Item 3. LEGAL PROCEEDINGS.

The Company is not a party to any legal proceedings.

#### Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

No matters were submitted to a vote of stockholders during the quarter ended September 30, 1996.

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## Part II

## Item 5. MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS.

The Company's Common Stock trades on the Nasdaq National Market tier of The Nasdaq Stock Market under the symbol: RING. The following table sets forth the high and low sales prices of the Company's common stock for the last two fiscal years as reported by Nasdaq.

## QUARTERLY STOCK PRICES - FISCAL 1995 AND 1996

	Sale Prices	
	High	Low
<S>	<C>	<C>
Quarter of 1995:		
First . . . . .	\$2 1/8	\$1 3/8
Second . . . . .	\$2 1/2	\$1 1/2
Third . . . . .	\$2 3/8	\$1 3/8
Fourth . . . . .	\$1 21/32	\$1 1/4
Quarter of 1996:		
First . . . . .	\$2 1/8	\$1 3/8
Second . . . . .	\$2	\$1 5/8
Third . . . . .	\$2 3/4	\$1 3/8
Fourth . . . . .	\$2 3/8	\$1 3/8

## HOLDERS.

As of December 12, 1996, there were 264 holders of record of the Company's common stock, and the Company estimates there were approximately 2,300 beneficial holders at such date.

## DIVIDENDS.

The Company has not paid or declared any cash dividends in the past five years.

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## ITEM 6. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

## ACQUISITION ACTIVITIES

On May 30, 1996, the Company entered into a letter of intent to acquire all outstanding stock of The Chas. H. Lilly Company ("Lilly"), a regional provider of lawn and garden fertilizers, pesticides and packet seeds headquartered in Portland, Oregon. On December 12, 1996, the Company announced that it elected to discontinue efforts to acquire Lilly. Accordingly, the costs associated with this acquisition attempt, which amounted to \$312,771, have been charged to expense in the accompanying fiscal 1996 Consolidated Statement of Operations.

In December 1994, the Company acquired substantially all of the assets of Plant Research Laboratories ("PRL"), a California based developer and marketer of water soluble fertilizers for the indoor houseplant and outdoor lawn and garden care markets with annual sales of less than \$1 million. The water soluble fertilizer products acquired use a proprietary oxygen releasing technology. These products were sold by PRL prior to the acquisition and have been sold by the Company thereafter, primarily in the western United States, under the Oxygen Plus(R) brand name. The Company introduced these products into national markets in fiscal 1996 and plans to utilize the acquired technology in the development of future products.

Management believes that new product introductions are essential to the future growth and profitability of the Company. The Company is actively seeking additional new product opportunities through a number of internal and external means including the possibility of licensing arrangements with other companies and further acquisitions. It should be noted, however, that the successful culmination of these efforts or the profitable introduction of new products cannot be assured.

RESULTS OF OPERATIONS

The following table sets forth selected information derived from the Company's Consolidated Statements of Operations:

<TABLE>  
<CAPTION>

	Percentage of Net Sales For Years Ended September 30,		
	1996	1995	1994
<S>	<C>	<C>	<C>
Net sales . . . . .	100.0%	100.0%	100.0%
Cost of sales . . . . .	52.1	49.2	47.4
Gross margin . . . . .	47.9	50.8	52.6
Operating expenses:			
Distribution and warehousing . . . . .	10.6	13.3	12.9
Sales and marketing . . . . .	22.7	33.9	31.6
General and administrative . . . . .	9.1	10.2	10.7
Research and development . . . . .	5.1	6.9	8.3
Amortization of intangibles . . . . .	2.7	2.7	2.5
Total operating expenses . . . . .	50.2	67.0	66.0
Loss before other income (expense) . . . . .	(2.3)	(16.2)	(13.4)
Other income (expense) . . . . .	(1.6)	.9	11.7
Net loss . . . . .	(3.9)%	(15.3)%	(1.7)%

</TABLE>

The following table sets forth the percentage of net sales represented by each of the Company's major product categories:

<TABLE>  
<CAPTION>

	Year Ended September 30,		
	1996	1995	1994
<S>	<C>	<C>	<C>
Pest control . . . . .	70%	63%	58%
Fertilizer & Composting . . . . .	30	37	42

</TABLE>

FISCAL YEAR ENDED SEPTEMBER 30, 1996 COMPARED TO FISCAL YEAR ENDED SEPTEMBER 30, 1995

Net Sales

Net sales for the fiscal year ended September 30, 1996 increased by \$478,886, or 3.4%, to \$14,672,784 from \$14,193,898 for the previous fiscal year ended September 30, 1995. The sales increase for fiscal 1996 was primarily due to increased sales of Safer(R) brand pesticide products which were partially offset by lower sales of fertilizer products. Increased pesticide sales was partially due to increased retail distribution and to new product sales. Decreased fertilizer sales were largely due to lower second year sales of Ringer(R) Supreme Lawn Fertilizers(TM). The Company plans to discontinue Supreme Lawn Fertilizers(TM) for the fiscal 1997 season and to introduce a new fertilizer under the Safer(R) brand name in an effort to compete more effectively in the broader consumer lawn fertilizer market.

Gross Margin

Gross margins as a percent of sales decreased to 47.9% in fiscal 1996 compared to 50.8% in fiscal 1995. The decline in gross margin as a percent of sales was caused primarily by a continuing change in product mix to a higher proportion of newer products and new promotional combination packs which carry lower average gross margins.

The Company is dependent on certain raw material ingredients which are traded

in agricultural and industrial commodity markets, such as feather, bone and blood meal. Price fluctuations for such commodities are common to the market and can adversely affect prices paid for these ingredients and, consequently, the Company's gross margins. Aggregate price changes on such items did not materially affect gross margins in fiscal 1996.

#### Operating Expenses

Distribution and warehousing expenses decreased \$330,873, or 17.5%, to \$1,555,897 in fiscal 1996 compared to \$1,886,770 in fiscal 1995 and decreased as a percentage of sales in fiscal 1996 to 10.6% compared to 13.3% in fiscal 1995. The decrease as a percentage of sales in fiscal 1996 compared to fiscal 1995 was primarily due to lower freight and outside distribution costs resulting from consolidation of distribution processes and reduced freight rates. Sales and marketing expenses decreased \$1,478,315, or 30.7%, to \$3,332,333 in fiscal 1996 compared to \$4,810,648 in fiscal 1995 and decreased as a percentage of sales to 22.7% in fiscal 1996 from 33.9% in fiscal 1995. The decrease in sales expenses was due largely to lower compensation, benefits and travel expenses due to staffing reductions, offset in part by increased commissions incurred from expanded utilization of manufacturer representative organizations and to lower advertising expenses. In addition, sales and marketing expenses were favorably impacted by the reversal in fiscal 1996 of approximately \$198,000 in estimated co-operative advertising expenses, which were accrued in fiscal 1995, resulting from a change in estimate based on actual utilization of co-op advertising allowances. General and administrative expenses decreased \$113,844, or 7.9%, to \$1,331,266 in fiscal 1996 compared to \$1,445,110 in fiscal 1995 and decreased as a percentage of sales to 9.1% in fiscal 1996 from 10.2% in fiscal 1995. The decrease was due largely to reduced facility rental costs resulting from the sublease of approximately half of the Company's former office facility. Research and development expenses decreased

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\$232,563, or 23.7% to \$748,932 in fiscal 1996 from \$981,495 in fiscal 1995. The decrease was largely due to lower product registration costs resulting from discontinued registrations on certain products no longer being sold. Amortization of intangible assets increased to \$402,778 in fiscal 1996 compared to \$379,358 in fiscal 1995. The increase was due primarily to multi-year foreign product registrations obtained in fiscal 1996 which are being amortized over the life of the registrations.

#### Other income and expense

Other income and expense includes a fourth quarter charge of \$312,771 for expenses associated with an election not to proceed with a previously announced acquisition. (See "Merger and Acquisition Activities" above.) Interest income decreased \$9,164, or 11.0%, to \$73,866 in fiscal 1996 compared to \$83,030 in fiscal 1995. The decrease in interest income was largely due to declining interest rates on investments. Interest expense increased to \$68,250 in fiscal 1996 from \$66,690 in fiscal 1995. The increase in interest expense was due primarily to increased average borrowings in fiscal 1996 compared to fiscal 1995. Net royalty income decreased to \$87,136 in fiscal 1996 from \$106,352 in fiscal 1995. The decrease in net royalty income was primarily caused by additional royalty expenses incurred by the Company in fiscal 1996 in connection with licensed technology used in the Company's water soluble fertilizer line. There was no license fee income in fiscal 1996 and fiscal 1995 compared to one-time license fee income of \$1,500,000 recognized in fiscal 1994.

FISCAL YEAR ENDED SEPTEMBER 30, 1995 COMPARED TO FISCAL YEAR ENDED SEPTEMBER 30, 1994

#### Net Sales

Net sales declined by \$432,656, or 3.0%, to \$14,193,898 in fiscal 1995 compared to \$14,626,554 in fiscal 1994. This overall decrease is the combined result of decreases in fertilizer and composting product sales which were partially offset by an increase in pesticide product sales. The increase in pesticide product sales was due primarily to increased sales of new or recently introduced products including Safer(R) Superfast(R) Brand Weed and Grass Killer and the Company's new aerosol pesticide product line. The decrease in fertilizer and composting product sales was partly caused by higher retail inventory carryover from the prior year.

#### Gross Margin

Gross margins as a percent of sales decreased to 50.8% in fiscal 1995 compared to 52.6% in fiscal 1994. The decline in gross margin as a percent of sales was caused primarily by a change in product mix to a higher proportion of newer

products and new promotional combination packs which carry a lower average gross margin and to increased raw material and packaging costs which the Company could not pass on to customers due to competitive pressures.

#### Operating Expenses

In fiscal 1995, principally in the fourth quarter, the Company took a number of cost control measures including personnel reductions and other operating expense reductions.

Distribution and warehousing expenses declined slightly to \$1,886,770 in fiscal 1995 compared to \$1,890,117 in fiscal 1994, but increased as a percentage of sales in fiscal 1995 to 13.3% compared to 12.9% in fiscal 1994. The increase as a percentage of sales in fiscal 1995 compared to fiscal 1994 was due primarily to a reduction in the average shipment size, which carries higher freight rates per pound shipped, and to the spread of fixed warehousing expenses over a lower sales base. Sales and marketing expenses increased \$192,436 to \$4,810,648 in fiscal 1995 compared to \$4,618,212 in fiscal 1994 and increased as a percentage of sales to 33.9% compared to 31.6% for the same prior year periods. The increase in sales expenses was due largely to increased expenditures for package design services and merchandising materials. General and

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administrative expenses decreased 7% to \$1,445,110 in fiscal 1995 compared to \$1,558,998 in fiscal 1994. The decrease was due primarily to lower compensation expenses resulting from staff reductions and lower depreciation expense resulting from a substantial increase in the amount of fully depreciated equipment and furnishings. Research and development expenses decreased 19% to \$981,495 in fiscal 1995 compared to \$1,212,263 in fiscal 1994. The decrease was primarily due to lower compensation expenses resulting from staff reductions and to reduced administrative overhead. Amortization of intangible assets increased to \$379,358 in fiscal 1995 compared to \$367,926 in fiscal 1994. The increase was due to the amortization of goodwill recorded as a result of the acquisition of the Oxygen Plus(R) product line in December 1994.

#### Other income and expense

Interest income decreased \$12,008, or 13%, to \$83,030 in fiscal 1995 compared to \$95,038 in fiscal 1993. The decrease in interest income resulted from lower average excess cash balances available for investment in fiscal 1995. Interest expense increased \$32,057 to \$66,690 in fiscal 1995 compared to \$34,633 in fiscal 1994. The increase in interest expense was caused by higher average borrowings on the Company's seasonal line of credit and on higher average interest rates on borrowings. Net royalty income decreased to \$106,352 in fiscal 1995 from \$147,788 in fiscal 1994. The decrease in net royalty income was primarily caused by the addition of royalty expenses in fiscal 1995 which was paid by the Company in connection with the license of technology used in the Company's newly acquired water soluble fertilizer line. There was no license fee income in fiscal 1995 compared to one-time license fee income of \$1,500,000 recognized in fiscal 1994.

#### INCOME TAXES

Income tax benefits of net deferred tax assets have been offset by valuation allowances for the years ended September 30, 1996, 1995 and 1994 because it is more likely than not that the tax benefits could not be carried back or realized in future periods.

At September 30, 1996, the Company has approximately \$23.2 million in combined U.S. net operating loss carryforwards for federal income tax purposes. These loss carryforwards expire between 1997 and 2011. Of the total, approximately \$3.6 million are U.S. net operating loss carryforwards of Safer, Inc., the Company's wholly owned subsidiary. The use of the unexpired net operating loss carryforwards of Ringer which were generated prior to September 1990, totaling approximately \$10.9 million, are restricted to \$2,025,000 in any one year under Internal Revenue Code Section 382 because of a significant ownership change resulting from the Company's initial public offering. The use of net operating loss carryforwards of Ringer generated after the ownership change are not restricted. The use of the net operating losses of Safer, Inc. are limited to approximately \$700,000 in any one year under Internal Revenue Code Section 382 because of a significant ownership change resulting from the Company's acquisition of Safer, Inc. in January 1991. At September 30, 1996, the Company has approximately \$986,000 of net operating loss carryforwards in Canada which expire between 1997 and 1999.

#### QUARTERLY PERFORMANCE

The following table sets forth a summary of quarterly results for the past two

fiscal years in order to show the highly seasonal pattern of the Company's business and quarterly fluctuations in sales and earnings or losses. This information is unaudited but contains all adjustments, consisting of normal recurring accruals, which the Company believes are necessary for a fair presentation.

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<TABLE>  
<CAPTION>

	Fiscal 1996 Three months ended -----				Fiscal 1995 Three months ended -----			
	Dec 31	Mar 31	June 30	Sept 30	Dec 31	Mar 31	June 30	Sept 30
	(In thousands, except earnings per share data)							
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Net sales	\$3,636	\$5,613	\$ 4,005	\$ 1,419	\$3,180	\$ 5,584	\$3,915	\$ 1,515
Gross profit	1,850	2,878	1,709	588	1,724	2,925	1,933	622
Operating expenses	1,921	2,383	1,619	1,448	2,225	2,910	2,487	1,882
Income (loss) before other income (expense)	(71)	495	90	(860)	(501)	15	(554)	(1,260)
Other income (expense)	19	12	14	(267)	83	16	(11)	39
Net income (loss)	\$ (52)	\$ 507	\$ 104	\$ (1,127)	\$ (418)	\$ 31	\$ (565)	\$ (1,221)
Income (loss) per share	\$ (.00)	\$ .05	\$ .01	\$ (.10)	\$ (.04)	\$ .00	\$ (.05)	\$ (.11)
Average common and common equivalent shares outstanding	10,922	10,923	10,931	10,922	10,827	10,928	10,922	10,922

#### SEASONAL FACTORS AFFECTING OPERATIONS

The Company's business is very seasonal which causes operations to vary dramatically from quarter to quarter. This can be significantly influenced by variations in the Company's early season marketing programs and by retail inventory carryover from year to year. Activities during the first quarter of each fiscal year are focused heavily toward order solicitation, production planning and inventory building and shipments to distributors under early order programs. Inventory balances increase substantially during this period. Normal seasonal buildup of raw material inventory begins in August and September. Heavy finished goods production usually begins in October and continues into the second quarter. Typically, the Company experiences the highest inventory balances near the end of January and its lowest balances near the end of June.

Sales during the first quarter largely occur in December under early order marketing programs offered to distributors. These programs normally offer extended seasonal payment terms common to the industry. Operating costs during the first quarter, especially sales and marketing expenses, are often higher as a percentage of sales than in other quarters. This is due to seasonal sales patterns and increased marketing and promotional expenditures which are incurred in preparation for the spring retail selling season. As a result of normal seasonal sales and expenditures patterns during this period, the Company anticipates that it will frequently incur an operating loss during the first quarter of each fiscal year. The Company's early season marketing programs which encouraged distributors to take delivery of inventory in December by offering substantially higher early season sales discounts can have a significant effect on the timing quarterly sales.

The second and third fiscal quarters is historically the Company's peak selling season which usually accounts for over 70% of yearly sales. Most of these sales occur during February through April. Second quarter sales largely consist of shipments of spring season early orders as mass merchandisers place initial stocking orders. Billings for these early order shipments during this period are normally given extended payment terms common to the industry. This contributes to a rapid increase in trade receivables during the second quarter which is substantially reduced during the third quarter when extended-term billings come due. The majority of third quarter sales are the result of spring and early summer restocking orders.

Fourth quarter sales are primarily attributed to orders of pesticides sold into the southern markets and to orders of fall fertilizer and composting products sold under fall promotional programs. Fall promotion programs

generally include extended payment terms common to the industry, though amounts involved are much smaller than those experienced earlier in the year. The fourth quarter also reflects certain marketing expenses incurred in preparation for the upcoming fiscal year's spring selling season. Also, during this period, analysis of current year peak season performance is completed and any changes in product, sales and marketing strategies are implemented. Due to this yearly pattern, fourth quarter operations may be charged from time to time with material expenses associated with the implementation of these changes. As a result of these issues, fourth quarter operations may also show a loss, the existence and size of which will vary depending on the nature and timing of sales and expenses discussed above.

#### LIQUIDITY AND CAPITAL RESOURCES

Historically the Company's cash and working capital needs have been provided through public and private equity offerings as well as seasonal bank lines of credit.

Each year the Company experiences an early season build up of accounts receivable which it normally funds with cash on hand and a revolving bank line of credit. Accounts receivable increase dramatically during the second and third quarter of each year which is the Company's peak selling season. Most of the Company's sales occur during this period and frequently are made with seasonal extended payment terms offered to customers under early season order programs common to the industry. Usually accounts receivable are highest, and bank line borrowings the greatest, around the middle to end of the third quarter of each fiscal year. In 1996, the Company's maximum borrowings were \$3,405,417 from its bank line of credit compared to maximum borrowings of \$3,123,902 in fiscal 1995. The Company's bank line of credit expires October 31, 1997. Maximum available borrowings under this line of credit total \$5,000,000. (See Note 4 of Notes to Consolidated Financial Statements.) Management believes that cash on hand and this line of credit are adequate to meet the Company's seasonal working capital requirements for fiscal 1997. There were no line of credit borrowings outstanding at September 30, 1996.

Normal seasonal build-up of raw material inventory begins in the fourth quarter of each year in preparation for production required to meet demand during the peak shipping season in February through April. Inventory purchases have been funded with cash from operations.

In fiscal 1996, cash and cash equivalents increased \$532,404 to \$3,288,781 at September 30, 1996. The increase resulted primarily from cash provided by operating activities of \$699,044, partially offset by cash used in investing activities of \$158,506. The \$699,044 provided by operating activities was primarily the result of decreased inventory and receivables of \$502,224 and \$205,861, respectively, and increased accrued expenses of \$249,746, which was partially offset by cash used to fund the net operating loss of \$568,119, less net non-cash expenses of \$511,896, and a reduction in accounts payable of \$194,464. Cash used in investing activities was primarily used to purchase property and equipment of \$60,861 and to invest in patent and trademark applications and other intangible assets of \$118,674, partially offset by proceeds from the sale of fixed assets of \$20,849.

In fiscal 1995, cash and cash equivalents decreased \$2,091,246 to \$2,756,377 at September 30, 1995. The decline resulted primarily from cash used in operating activities of \$1,640,482, cash used in investing activities of \$440,526 and cash used in financing activities of \$2,063. The \$1,640,482 used in operating activities was used primarily to fund the net loss of \$2,173,104 and increases in inventory of \$748,040, which was partially offset by decreases in accounts receivable and prepaid expenses of \$313,494 and \$90,174, respectively, and increases in accounts payable of \$331,887. Cash used in investing activities was primarily used to acquire substantially all the assets of Plant Research Laboratories (see Item 1. Business, "Plant Research Laboratories"), to purchase property and equipment of \$101,536 and to invest in patent and trademark applications and other intangible assets of \$106,288. Cash used in financing activities resulted from final payments on capital lease obligations of \$3,667 partially offset by cash of \$1,604 received from the exercise of employee incentive stock options.

In fiscal 1994, cash and cash equivalents decreased \$573,902 to \$4,847,623 at September 30, 1994. The decrease resulted primarily from cash used in operations of \$413,100 and cash used in investing activities of \$292,100 which was partially offset by cash provided from financing activities of \$117,963. The \$413,100 used in operating activities was used primarily to fund decreases in accrued expenses and accounts payable of \$928,067 and \$336,325, respectively, and increases in accounts receivable of \$174,867, which were partially offset by decreases in inventory and prepaid expenses of \$490,123 and \$114,945, respectively. Cash used in investing activities was primarily used to purchase property and equipment of \$102,302 and intangible assets consisted primarily of patents and trademark applications in progress of \$198,388. Cash provided by financing activities consisted of cash received resulting from the exercise of employee incentive stock options totaling \$130,979, which was partially offset by \$13,016 in capital lease payments.

There are no commitments for capital expenditures in fiscal 1997. The Company's bank line of credit agreement, as amended, limits the Company to capital asset purchases of not more than \$250,000 per year during the term of the credit agreement ending October 31, 1997.

The Company's line of credit contains certain provisions which require the Company to maintain certain minimum financial ratios based on net worth. In addition, there are prohibitions on payment of dividends and restrictions on the amount of fixed assets that may be purchased during a loan year.

The Company intends to renew its line of credit at the end of its term. Should the Company be unable to renew its credit line, the Company would need to find alternative seasonal financing. Should the Company need to seek alternative seasonal financing, there is no assurance that the Company would be able to obtain this financing. Management believes that working capital of \$4.40 million at September 30, 1996, together with seasonal bank lines of credit, will be sufficient to fund its operations through at least fiscal 1997. The Company has been able to obtain adequate financing in the past. However, there is no assurance that future financing will be available to the Company when needed.

#### EFFECTS OF INFLATION

The Company believes that, during the periods discussed above, inflation has not had a material impact on the Company's business.

#### ACCOUNTING PRONOUNCEMENTS

The Company adopted Statement on Financial Accounting Standards ("SFAS") No. 107, "Disclosures About Fair Value of Financial Instruments" and SFAS No. 119, "Disclosures About Derivative Financial Instruments and Fair Value of Financial Instruments" at the beginning of the fiscal year ended September 30, 1996. The adoption of these statements did not have a material impact on the Company because the Company limits its investments to cash equivalent instruments and because the Company does not invest in derivative securities.

#### NEW ACCOUNTING PRONOUNCEMENTS

The Financial Accounting Standards Board has issued Statement of Financial Accounting Standards ("SFAS") No. 123, "Accounting for Stock-Based Compensation." This Statement requires adoption of the disclosure provisions no later than fiscal years beginning after December 15, 1995. The new standard defines a fair value method of accounting for stock options and other equity instruments. Under the fair value method, compensation cost is measured at the grant date based on the fair value of the award and is recognized over the service period, which is usually the vesting period.

Pursuant to the new standard, companies are encouraged, but not required, to adopt the fair value method of accounting for employee stock-based transactions. Companies are also permitted to continue to account for such transactions under Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," but would be required to disclose in a note to the financial statements the pro forma net income and net income per common and common equivalent share as if the Company had applied the new method of accounting.

The accounting requirements of the new method are effective for all employee awards granted after the beginning of the fiscal year of adoption. The Company has not yet determined if it will elect to change to the fair value method, nor has it determined the effect the new standard will have on net income and

income per common and common equivalent share, should it elect to make such a change. Adoption of the new standard, if elected, will have no effect on cash flow.

FORWARD LOOKING INFORMATION

The information contained in this Annual Report includes forward-looking statements as defined in Section 21E of the Securities Exchange Act of 1934, as amended. These forward-looking statements involve a number of risks and uncertainties, including demand from major customers, competition, changes in product or customer mix or revenues, and changes in product costs and operating expenses, and other factors disclosed throughout this Annual Report and the Company's other filings with the Securities and Exchange Commission. The actual results that the Company achieves may differ materially from any forward-looking statements due to such risks and uncertainties. The Company undertakes no obligation to revise any forward-looking statement in order to reflect events or circumstances that may arise after the date of this report. Readers are urged to carefully review and consider the various disclosures made by the Company in this report and in the Company's other reports filed with the Securities and Exchange Commission that attempt to advise interested parties of the risks and uncertainties that may affect the Company's financial condition and results of operations.

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Item 7. FINANCIAL STATEMENTS.

The following consolidated financial statements are included as a separate section following the signature page to this Form 10-KSB:

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

<TABLE> <CAPTION>	Page
<S>	<C>
Independent Auditors' Report . . . . .	F-2
Consolidated Balance Sheets as of September 30, 1996 and 1995 . . . . .	F-3
Consolidated Statements of Operations for the years ended September 30, 1996, 1995 and 1994 . . . . .	F-4
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Item 8. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

None.

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PART III

Item 9. SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE.

The information set forth under the heading "ELECTION OF DIRECTORS", "EXECUTIVE OFFICERS" and "COMPLIANCE WITH SECTION 16(a) OF THE SECURITIES EXCHANGE ACT OF 1934" in the Company's definitive proxy statement for its 1997 Annual Meeting of Shareholders to be filed with the Securities and Exchange

Commission on or before January 28, 1997 (the "Proxy Statement") is hereby incorporated by reference.

Item 10. EXECUTIVE COMPENSATION.

The information set forth under the heading "EXECUTIVE COMPENSATION" in the Proxy Statement referred to in Item 9 above is hereby incorporated by reference.

Item 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT.

The information set forth under the heading "PRINCIPAL SHAREHOLDERS" in the Proxy Statement referred to in Item 9 above is hereby incorporated by reference.

Item 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.

The information set forth under the heading "CERTAIN TRANSACTIONS" in the Proxy Statement referred to in Item 9 above is hereby incorporated by reference.

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Item 13. EXHIBITS AND REPORTS ON FORM 8-K.

a. Listing of Exhibits

Exhibit Number	Description
<S>	<C>
3.1	Restated Articles of Incorporation of the Company, as amended to date (incorporated by reference to Exhibit 3.2 of the Company's Registration Statement on Form S-18, SEC File No. 33-36205-C).
3.2	Bylaws of the Company, as amended to date (incorporated by reference to Exhibit 3.3 of the Company's Registration Statement on Form S-18, SEC File No. 33-36205-C).
4.1	Specimen certificate of Common Stock, \$.01 par value (incorporated by reference to Exhibit 4.1 of the Company's Registration Statement on Form S-18, SEC File No. 33-36205-C).
* 10.1	1986 Employee Incentive Stock Option Plan (incorporated by reference to Exhibit 4.4 of the Company's Registration Statement on Form S-8, SEC File No. 33-37806).
* 10.2	Stock Option Plan for Non-Employee Directors (incorporated by reference to Exhibit 10.2 of the Company's Annual Report on Form 10-KSB for the fiscal year ended September 30, 1993, SEC File No. 0-18921).
10.3	Lease Agreement between the Company and 94th Street Associates, a Minnesota Partnership, dated August 15, 1996.
10.4	Lease Agreement between the Company and MEPC American Properties, Inc., a Delaware corporation, dated August 16, 1996.
* 10.5	Employment Agreement between the Company and Stanley Goldberg dated September 13, 1992 (incorporated by reference to Exhibit 10.6 of the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 1992, SEC File No. 0-18921).
10.6	Credit and Security Agreement and Supplement A to Credit and Security Agreement between the Company and FBS Business Finance Corporation relating to the Company's line of credit (incorporated by reference to Exhibit 10.7 of the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 1992, SEC File No. 0-18921).
10.7	Waiver and First Amendment to Credit and Security Agreement referred to in 10.6 above (incorporated by reference to Exhibit 10.9 of the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 1993, SEC File No. 0-18921).
10.8	Second Amendment to Credit and Security Agreement referred to in 10.6 and 10.7 above (incorporated by reference to Exhibit 10.10 of the Company's Annual Report on Form 10-KSB for the fiscal year ended September 30, 1993, SEC File No. 0-18921).
10.9	Third Amendment to Credit and Security Agreement referred to in 10.6, 10.7 and 10.8 above (incorporated by reference to Exhibit 10.10 of the Company's Annual Report on Form 10-KSB for the fiscal year ended September 20, 1994, SEC File No. 0-18921).

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<TABLE>	
<S>	
10.10	Waiver and Fourth Amendment to Credit and Security Agreement referred to in 10.6, 10.7, 10.8 and 10.9 above (incorporated by reference to Exhibit 10.10 of the Company's Annual Report on Form 10-KSB for the fiscal year ended September 30, 1995, SEC File No. 0-18921).
10.11	Stock Subscription Warrant between the Company and Robert W. Fischer Co., Inc. dated July 18, 1990 (incorporated by reference to Exhibit 10.16 of the Company's Registration Statement on Form S-18, SEC File No. 33-36205-C).
*10.12	Ringer Corporation Contingency Retention Plan, and Amendment No.1 to Ringer Corporation Contingency Retention Plan, dated October 26, 1993 (incorporated by reference to the Company's Annual Report on Form 10-KSB for the fiscal year ended September 30, 1994, SEC File No. 0-18921).
10.13	Cross-Licensing and Joint Licensing/Sale Agreement between Ringer Corporation and Mycogen Corporation, dated May 31, 1994 (incorporated by reference to Exhibit 10.1 of the Company's Quarterly Report on Form 10-QSB for the fiscal quarter ended June 30, 1994, SEC File No. 0-18921).
10.14	Patent License Agreement between Ringer Corporation, Mycogen Corporation and Monsanto Company, dated June 29, 1994 (incorporated by reference to Exhibit 10.2 of the Company's Quarterly Report on Form 10-QSB for the fiscal quarter ended June 30, 1994, SEC File No. 0-18921).
*10.15	Ringer Corporation 1996 Employee Stock Option Plan
21.1	Subsidiaries of the Registrant.
23.1	Consent of Deloitte & Touche LLP.
24.1	Power of Attorney.
27.1	Financial Data Schedule
</TABLE>	

\* Management contract or compensation plan or arrangement.

See Exhibit Index and Exhibits attached as a separate section of this report.

b. Reports on Form 8-K

No reports on Form 8-K were filed for the quarter ended September 30, 1996.

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SIGNATURES

In accordance with Section 13 or 15(d) of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

RINGER CORPORATION

By /S/ Stanley Goldberg

-----  
Stanley Goldberg  
President & CEO

Dated: December 26, 1996

In accordance with the Exchange Act, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

<TABLE>		
<CAPTION>		
Name	Title	Date
----	-----	----
<S>	<C>	
/S/ Stanley Goldberg	President, CEO and Director	December 26, 1996
-----	(principal executive officer)	
Stanley Goldberg		

/S/ Mark G. Eisenschenk  
-----  
Mark G. Eisenschenk

Chief Financial Officer  
(principal financial officer)

December 26, 1996

/S/ Joseph R. Price  
-----  
Joseph R. Price

Controller  
(principal accounting officer)

December 26, 1996

Gordon F. Stofer \* Chairman of the Board and Director  
Robert W. Fischer \* Director  
Donald E. Lovness \* Director  
Dr. Franklin Pass \* Director  
John F. Hetterick \* Director  
Frederick F. Yanni, Jr. \* Director

\* /S/ Stanley Goldberg  
-----  
Stanley Goldberg  
</TABLE>

Attorney-in-fact

December 26, 1996

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RINGER CORPORATION AND SUBSIDIARY

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</TABLE>

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INDEPENDENT AUDITORS' REPORT

Board of Directors and Stockholders  
Ringer Corporation  
Bloomington, Minnesota

We have audited the accompanying consolidated balance sheets of Ringer Corporation and subsidiary as of September 30, 1996 and 1995, and the related consolidated statements of operations, stockholders' equity and cash flows for each of the three years in the period ended September 30, 1996. 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 consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated 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 consolidated financial position of Ringer Corporation and subsidiary as of September 30, 1996 and 1995 and the results of their operations and their cash flows for each of the three years in the period ended September 30, 1996 in conformity with generally accepted accounting principles.

DELOITTE & TOUCHE LLP  
 Minneapolis, Minnesota  
 December 3, 1996 (December 12, 1996 as to Note 13)

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RINGER CORPORATION AND SUBSIDIARY

-----  
 CONSOLIDATED BALANCE SHEETS  
 -----

<TABLE>  
 <CAPTION>

	September 30	
	1996	1995
	-----	-----
<S>	<C>	<C>
ASSETS		
-----		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 3,288,781	\$ 2,756,377
Trade accounts and notes receivable, less allowance for doubtful accounts of \$126,000 and \$208,000, respectively	992,198	1,200,352
Inventories (Note 2)	1,519,692	2,026,981
Prepaid expenses	133,746	132,607
	-----	-----
Total current assets	5,934,417	6,116,317
PROPERTY AND EQUIPMENT, net (Note 3)	238,297	299,374
INTANGIBLE ASSETS, at cost, less accumulated amortization of \$2,264,349 and \$1,762,019, respectively (Note 1)	5,297,329	5,582,957
	-----	-----
	\$11,470,043	\$11,998,648
	=====	=====

LIABILITIES AND STOCKHOLDERS' EQUITY

-----		
CURRENT LIABILITIES:		
Accounts payable	\$ 651,546	\$ 847,733
Accrued expenses:		
Co-op advertising	319,691	302,925
Other accrued expenses	559,908	327,684
	-----	-----
Total current liabilities	1,531,145	1,478,342

COMMITMENTS AND CONTINGENCIES (Note 5)

STOCKHOLDERS' EQUITY (Note 6):  
 Preferred stock, undesignated, par value \$.01  
 per share, authorized 5,000,000 shares,  
 no shares issued and outstanding  
 Common stock, par value \$.01 per share, authorized

25,000,000 shares, issued and outstanding		
10,921,930 shares	109,219	109,219
Additional paid-in capital		
	32,036,675	32,036,675
Accumulated deficit	(22,067,276)	(21,499,157)
Cumulative translation adjustment	(139,720)	(126,431)
	-----	-----
	9,938,898	10,520,306
	-----	-----
	\$11,470,043	\$ 11,998,648
	=====	=====

</TABLE>

See notes to consolidated financial statements.

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RINGER CORPORATION AND SUBSIDIARY  
-----  
CONSOLIDATED STATEMENTS OF OPERATIONS  
-----

<TABLE>  
<CAPTION>

	Year Ended September 30		
	1996	1995	1994
	-----	-----	-----
<S>	<C>	<C>	<C>
NET SALES	\$ 14,672,784	\$ 14,193,898	\$14,626,554
COST OF GOODS SOLD	7,647,293	6,990,175	6,933,995
	-----	-----	-----
Gross profit	7,025,491	7,203,723	7,692,559
OPERATING EXPENSES:			
Distribution and warehousing	1,555,897	1,886,770	1,890,117
Sales and marketing	3,332,333	4,810,648	4,618,212
General and administrative	1,331,266	1,445,110	1,558,998
Research and development	748,932	981,495	1,212,263
Amortization of intangibles	402,778	379,358	367,926
	-----	-----	-----
	7,371,206	9,503,381	9,647,516
	-----	-----	-----
Loss before other income (expense)	(345,715)	(2,299,658)	(1,954,957)
OTHER INCOME (EXPENSE):			
Interest income	73,866	83,030	95,038
Interest expense	(68,250)	(66,690)	(34,633)
Royalties, net (Note 5)	87,136	106,352	147,788
License fee income (Note 10)			1,500,000
Other income (expense), net	(2,385)	3,862	4,299
Abandoned acquisition expenses (Note 13)	(312,771)		
	-----	-----	-----
	(222,404)	126,554	1,712,492
	-----	-----	-----
NET LOSS	\$ ( 568,119)	\$ (2,173,104)	\$ (242,465)
	=====	=====	=====
NET LOSS PER WEIGHTED AVERAGE COMMON SHARE	\$ (.05)	\$ (.20)	\$ (.02)
	=====	=====	=====
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING	10,921,930	10,897,704	10,769,957
	=====	=====	=====

</TABLE>

## RINGER CORPORATION AND SUBSIDIARY

## CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

&lt;TABLE&gt;

&lt;CAPTION&gt;

	Common Stock		Additional paid-in capital	Accumulated deficit	Cumulative translation adjustment	Total
	Number of shares	Amount				
<S>	<C>	<C>	<C>	<C>	<C>	<C>
BALANCE AT SEPTEMBER 30, 1993	10,716,112	\$ 107,161	\$31,693,650	\$ (19,083,588)	\$ (122,517)	\$12,594,706
Issuance of common stock upon exercise of stock options	64,901	649	130,330			130,979
Issuance of common stock as non-cash compensation to officer (Note 11)	5,000	50	11,825			11,875
Foreign currency translation adjustments					(9,102)	(9,102)
Net loss				(242,465)		(242,465)
BALANCE AT SEPTEMBER 30, 1994	10,786,013	107,860	31,835,805	(19,326,053)	(131,619)	12,485,993
Issuance of common stock in connection with the purchase of Oxygen Plus	125,000	1,250	186,250			187,500
Issuance of common stock upon exercise of stock options	917	9	1,595			1,604
Issuance of common stock as non-cash compensation to officer (Note 11)	10,000	100	13,025			13,125
Foreign currency translation adjustments					5,188	5,188
Net loss				(2,173,104)		(2,173,104)
BALANCE AT SEPTEMBER 30, 1995	10,921,930	109,219	32,036,675	(21,499,157)	(126,431)	10,520,306
Foreign currency translation adjustments					(13,289)	(13,289)
Net loss				(568,119)		(568,119)
BALANCE AT SEPTEMBER 30, 1996	10,921,930	\$109,219	\$32,036,675	\$ (22,067,276)	\$ (139,720)	\$9,938,898

&lt;/TABLE&gt;

See notes to consolidated financial statements.

## RINGER CORPORATION AND SUBSIDIARY

## CONSOLIDATED STATEMENTS OF CASH FLOWS (Note 11)

&lt;TABLE&gt;

&lt;CAPTION&gt;

	Year ended September 30		
	1996	1995	1994
<S>	<C>	<C>	<C>
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net loss	\$ (568,119)	\$ (2,173,104)	\$ (242,465)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:			
Depreciation and amortization	514,940	519,928	652,813
Write-off of intangible assets	1,312	42,564	15,216

Stock issued as compensation for services		13,125	11,875
Income from investment in joint venture	(4,356)		(9,198)
Gain on sale of property and equipment	(11,449)	(5,786)	(7,150)
(Increase) decrease in assets:			
Trade accounts receivable	205,861	313,494	(174,867)
Inventories	502,224	(748,040)	490,123
Prepaid expenses	3,349	90,174	114,945
Increase (decrease) in liabilities:			
Accounts payable	(194,464)	331,887	(336,325)
Accrued expenses	249,746	(24,724)	(928,067)
		-----	-----
Net cash provided by (used in) operating activities	699,044	(1,640,482)	(413,100)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of property and equipment	( 60,681)	(101,536)	(102,302)
Purchase of intangible assets	(118,674)	(106,288)	(198,388)
Proceeds from sale of property and equipment	20,849	24,958	8,590
Net cash paid relating to acquisition of Oxygen Plus		(257,660)	
		-----	-----
Net cash used in investing activities	(158,506)	(440,526)	(292,100)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from issuance of common stock		1,604	130,979
Principal payments on capital lease obligations		(3,667)	(13,016)
		-----	-----
Net cash (used in) provided by financing activities	0	(2,063)	117,963
Effect of exchange rate changes on cash	( 8,134)	(8,175)	13,335
		-----	-----
Increase (decrease) in cash and cash equivalents	532,404	(2,091,246)	(573,902)
CASH AND CASH EQUIVALENTS:			
BEGINNING OF PERIOD	2,756,377	4,847,623	5,421,525
	-----	-----	-----
END OF PERIOD	\$ 3,288,781	\$ 2,756,377	\$4,847,623
	=====	=====	=====

</TABLE>

See notes to consolidated financial statements.

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RINGER CORPORATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEARS ENDED SEPTEMBER 30, 1996, 1995 AND 1994

1. BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Business - The Company develops and markets a broad line of environmentally-oriented turf, lawn and garden treatments to consumer and specialty professional markets. The Company's product lines include microbially-driven fertilizers and biological and botanical pest controls which are offered as products of choice over traditional chemical fertilizers and pesticides. The Company also offers a line of composting products.

Principles of consolidation - The consolidated financial statements include the accounts of Ringer Corporation and Safer, Inc., its wholly owned subsidiary. All material intercompany accounts and transactions have been eliminated.

Revenue recognition - The Company recognizes revenue on the date of shipment for sales other than "bill and hold" sales. Revenue on infrequent "bill and hold" sales is recognized at the time that title and risk of ownership passes to purchaser.

Translation of foreign financial statements - The Company's foreign operations are translated from functional foreign currency to U.S. dollars. Assets and liabilities are translated at year end rates of exchange and the statements of operations are translated at the average rates of exchange for the applicable reporting years. Gains and losses resulting from translating foreign currency financial statements are not included in operations but are accumulated as a separate component of stockholders' equity.

Inventories - Inventories are stated at the lower of cost (first-in, first-out method) or market.

Property and equipment - Property and equipment are recorded at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the assets of three to ten years.

Acquisition of the assets of Plant Research Laboratories - On December 1, 1994, the Company issued 125,000 shares of its common stock with a fair market value of \$187,500 at December 1, 1994 and paid cash of \$257,660 to acquire substantially all of the assets of Plant Research Laboratories ("PRL"), a California based developer and marketer of water soluble fertilizers for the indoor houseplant and outdoor lawn and garden markets. The acquisition was accounted for using the purchase method using a combination of cash and the issuance of common stock. The products, marketed under the Oxygen Plus(R) brand name, have been previously sold by PRL primarily in the western United States. The historical annual sales of Oxygen Plus were less than one million dollars. The pro forma impact on net loss and net loss per share is immaterial.

Intangible assets and evaluation of potential impairment - Intangible assets consist primarily of goodwill which represents the purchase price and related acquisition costs in excess of the fair value of identifiable assets acquired. Other intangible assets include patents and trademarks. Intangible assets are amortized on a straight-line basis over estimated lives of five to twenty years. The Company regularly evaluates its intangible assets for potential permanent impairment. Such evaluations take into consideration anticipated future operating results and cash flows on an undiscounted basis. Anticipated future operating results and cash flows are estimated based on current product sales trends, expected sales from related products in development, general market trends and other market and business circumstances.

Concentration of credit risks - The percentage of consolidated net sales in fiscal 1996 to U.S. retail and commercial markets totaled 79.3% and 4.4%, respectively. The percentage of consolidated net sales in fiscal 1995 to U.S. retail and commercial markets totaled 81.0% and 5.1%, respectively. The remaining percentage of consolidated net sales in fiscal 1996 and 1995 of 16.3% and 13.9%, respectively, represent foreign sales, primarily in Canada. In fiscal 1996 and 1995, sales to one U.S. retail customer accounted for 15.3% and 14.5%, respectively, of consolidated net sales while sales during the same periods to one distributor that resells to retailers accounted for 14.8% and 12.4%, respectively, of consolidated net sales.

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Cash and cash equivalents - Cash and cash equivalents include cash on hand and in banks and money market funds with maturities of three months or less when acquired.

Fair value of financial instruments - The Financial Accounting Standards Board has issued two Financial Accounting Standards ("FAS") related to disclosures about the fair value of financial instruments. FAS 107 and 119 are effective for the fiscal year ended September 30, 1996. The estimated fair values of financial instruments approximate their carrying amounts in the consolidated balance sheets.

Income taxes - The Company accounts for income taxes as required by Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes." The Statement requires recognition of deferred assets and liabilities for the expected future tax consequences of events that have been included in the financial statements or tax returns. Under this method, deferred tax assets and liabilities are determined based on the differences between the financial statements and the tax basis of assets and liabilities using enacted tax rates in effect for the years in which the differences are expected to reverse.

Loss per share - Loss per common share is computed using the weighted average number of shares outstanding during each period. Common stock equivalents, consisting of options and warrants, have been excluded from the computation because their effect is antidilutive.

Use of estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and

expenses during the reporting period. Actual results could differ from those estimates.

Change in estimates - Fiscal 1996 includes the reversal of approximately \$198,000 in estimated co-op advertising expenses, which were accrued in fiscal 1995, resulting from a change in estimate based on actual utilization of co-op advertising allowances. Fiscal 1994 includes a reversal of approximately \$195,000 in estimated co-op advertising expenses which were accrued in fiscal 1993 and a reversal of approximately \$100,000 in estimated legal and contingency expenses accrued in prior years.

2. INVENTORIES

Inventory consists of the following:

<TABLE>  
<CAPTION>

	September 30	
	1996	1995
<S>	<C>	<C>
Raw materials	\$ 726,099	\$1,172,967
Finished goods	793,593	854,014
	-----	-----
	\$ 1,519,692	\$2,026,981
	=====	=====

</TABLE>

3. PROPERTY AND EQUIPMENT

Property and equipment consists of the following:

<TABLE>  
<CAPTION>

	September 30	
	1996	1995
<S>	<C>	<C>
Office furniture and equipment	\$ 791,464	\$1,042,375
Machinery and equipment	786,442	903,667
Leasehold improvements	8,091	89,223
Transportation equipment	6,400	24,560
	-----	-----
	1,592,397	2,059,825
Less accumulated depreciation	(1,354,100)	(1,760,451)
	-----	-----
	\$ 238,297	\$ 299,374
	=====	=====

</TABLE>

4. LINE OF CREDIT

The Company has a revolving bank line of credit agreement that expires October 31, 1997. Under the agreement, as amended, available borrowings under this line are secured by substantially all of the assets of the Company and its subsidiary and are limited to the lesser of \$5,000,000 or a borrowing base of 70% of eligible receivables, as defined in the credit agreement. Interest is at prime plus 1 3/4% (10.0% at September 30, 1996). The Company is required to pay a commitment fee of 1/2% on any unused portion of the line in addition to credit management fees of \$3,000 per month over the term of the agreement. Management believes that this line of credit will meet the Company's seasonal working capital requirements for fiscal 1997. There are no outstanding borrowings under the line of credit as of September 30, 1996.

The Company's line of credit contains certain provisions which require the Company to maintain certain minimum financial ratios based on net worth. In addition, there are prohibitions on payment of dividends and restrictions on the amount of fixed assets that may be purchased during a loan year.

5. COMMITMENTS AND CONTINGENCIES

Leases - The Company leases office and warehouse space and various vehicles and equipment under noncancelable operating leases. In addition to minimum

lease payments, these leases require the Company to pay its proportionate share of real estate taxes, special assessments and maintenance costs. The lease on the Company's corporate offices expires in September 1999. The lease on the Company's warehouse facility expires in December 2001. The Company is also required to carry liability insurance on the premises.

Costs incurred under operating leases are recorded as rent expense and totaled \$220,176, \$290,343 and \$313,381 for the years ended September 30, 1996, 1995 and 1994, respectively.

The future minimum lease payments due under operating leases are as follows:

<TABLE>  
<CAPTION>

<S>	Operating Leases -----	<C>
Year ending September 30:		
1997	\$151,024	
1998	160,536	
1999	159,206	
2000	116,359	
2001	116,240	
Thereafter	29,060	
	-----	
Total minimum obligation	\$732,425	=====

</TABLE>

Royalty agreements - The Company has paid royalties for the use of technologies licensed under two agreements entered into in connection with the acquisition of a water soluble fertilizer product line on December 1, 1994. The licenses calls for royalty payments of from 2% to 5% of the net selling price of applicable water soluble fertilizers. Payments under the agreements terminate in 1999 and 2011. Royalty expense incurred under these agreements totaled \$18,197 and \$23,786 for the years ended September 30, 1996 and 1995, respectively.

Royalty income of \$105,333, \$130,138 and \$147,788 for the fiscal years ended September 30, 1996, 1995 and 1994, respectively, was generated by the Company through licensing pesticide technologies to certain foreign and commercial pesticide distributors for a royalty fee.

Contingencies

The Company has a Contingency Retention Plan which provides for payment to certain key employees of the Company, including all of the officers, of a lump sum termination benefit plus continuation of life insurance, health insurance and dental benefits for a period of time in the event the employment of such employees is terminated within two years after a "change of control," as defined. The amount of the lump sum termination benefit varies from the equivalent of three months to two years of salary and bonus at the time of termination. The period during which health and welfare benefits continue after termination varies from three months to two years, but is terminated if the employee obtains other employment with similar benefits. The Contingency Retention Plan continues in effect

unless terminated, prior to a change in control, by a resolution approved by at least two-thirds of the Board of Directors.

6. STOCKHOLDERS' EQUITY

Preferred stock - The Board of Directors of the Company is authorized to issue preferred stock or other senior equity securities in one or more series, and with certain limitations, to determine preferences as to dividends, liquidation, conversion and redemption.

Stock warrants - As of September 30, 1996, a total of 1,000 shares of common stock were reserved for currently exercisable outstanding warrants described below.

<TABLE>  
<CAPTION>

Expiration -----	Warrant Shares -----	Exercise Price -----
---------------------	----------------------------	-------------------------



<S>	<C>	<C>
Balance, September 30, 1993	20,000	\$1.81
Granted	35,000	2.13
	-----	
Balance, September 30, 1994	55,000	2.01
Granted	30,000	2.13
	-----	
Balance, September 30, 1995	85,000	2.05
Granted	30,000	2.13
	-----	
Balance, September 30, 1996	115,000	\$2.07
	=====	

</TABLE>

Recent Accounting Pronouncement - The Financial Accounting Standards Board has issued Statement of Financial Accounting Standards ("SFAS") No. 123, "Accounting for Stock-Based Compensation." This Statement requires adoption of the disclosure provisions no later than fiscal years beginning after December 15, 1995. The new standard defines a fair value method of accounting for stock options and other equity instruments. Under the fair value method, compensation cost is measured at the grant date based on the fair value of the award and is recognized over the service period, which is usually the vesting period.

Pursuant to the new standard, companies are encouraged, but not required, to adopt the fair value method of accounting for employee stock-based transactions. Companies are also permitted to continue to account for such transactions under Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," but would be required to disclose in a note to the financial statements the pro forma net income and net income per common and common equivalent share as if the Company had applied the new method of accounting.

The accounting requirements of the new method are effective for all employee awards granted after the beginning of the fiscal year of adoption. The Company has not yet determined if it will elect to change to the fair value method, nor has it determined the effect the new standard will have on net income and income per common and common equivalent share, should it elect to make such a change. Adoption of the new standard, if elected, will have no effect on cash flow.

#### 7. PROFIT SHARING PLAN

The Company has a defined contribution plan which conforms to IRS provisions for 401(k) plans. Employees are eligible to participate in the plan providing they have attained the age of twenty-one and have completed thirty days of service. Participants may contribute up to 10% of their earnings. The Company can also make matching contributions, as determined by the Board of Directors. The Company may also make discretionary profit sharing contributions to the Plan as determined by the Board of Directors. The Company made employer 401(k) matching contributions of \$37,607, none and \$41,927 for the years ended September 30, 1996, 1995 and 1994, respectively. There were no employer discretionary profit sharing contributions for the years ended September 30, 1996, 1995 and 1994.

#### 8. INCOME TAXES

The Company accounts for income taxes as required by Statement of Financial Standards No. 109, "Accounting for Income Taxes". The Statement requires recognition of deferred assets and liabilities for the expected future tax consequences of events that have been included in the financial statements or tax returns. Under this method, deferred tax assets and liabilities are determined based on the differences between the financial statements and the tax basis of assets and liabilities using enacted tax rates in effect for the years in which the differences are expected to reverse. Net deferred tax assets have been offset by valuation allowances for the years ended September 30, 1996, 1995 and 1994 because it is more likely than not that the tax benefits could not be carried back or realized in future years.

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Net deferred tax assets at September 30 are comprised of the following:

<TABLE>  
<CAPTION>

Current:	1996	1995
<S>	<C>	<C>
Prepaid expenses	\$ (9,000)	\$ (16,000)
Accrued expenses	185,000	128,000
Reserves for doubtful accounts	50,000	82,000
Inventory valuation reserves	55,000	124,000
Expenses capitalized to inventory for tax purposes	274,000	329,000
Sales returns and allowance reserves	69,000	69,000
Less valuation allowance	(624,000)	(716,000)
	\$ -0-	\$ -0-
	=====	=====
Noncurrent:		
Excess of tax over book depreciation	\$ (11,000)	\$ (26,000)
Packaging design costs	152,000	
U.S. net operating loss carryforwards	8,398,000	8,623,000
Foreign net operating loss carryforwards	394,000	298,000
U.S. and foreign tax credit carryforwards	704,000	706,000
Less valuation allowances	(9,637,000)	(9,601,000)
	\$ -0-	\$ -0-
	=====	=====

</TABLE>

At September 30, 1996, the Company has approximately \$23,200,000 in combined U.S. net operating loss carryforwards for federal income tax purposes. These loss carryforwards expire between 1997 and 2011. Of the total, approximately \$3,600,000 are U.S. net operating loss carryforwards of Safer, Inc., the Company's wholly owned subsidiary.

The use of the unexpired net operating loss carryforwards of Ringer which were generated prior to September 30, 1990, totaling approximately \$10,900,000 as of September 30, 1996, are limited to \$2,025,000 in any one year under Internal Revenue Code Section 382 because of a significant ownership change resulting from the Company's initial public offering. The use of net operating loss carryforwards of Ringer generated after the ownership change are not limited.

The use of the net operating losses of Safer, Inc. are limited to approximately \$700,000 in any one year under Internal Revenue Code Section 382 because of a significant ownership change resulting from the Company's acquisition of Safer, Inc. in January 1991.

At September 30, 1996, the Company has approximately \$986,000 net operating loss carryforwards in Canada which expire between 1997 and 2002.

#### 10. LICENSE FEE INCOME

During the fiscal year ended September 30, 1994, the Company recognized \$1,500,000 in one-time license fee income as a result of entering into a license agreement with a major chemical company. The Company does not expect to receive any further payments as a result of entering into this license agreement.

#### 11. SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

The Company paid and received cash for the following items:

<TABLE>  
<CAPTION>

	Year ended September 30		
	1996	1995	1994
<S>	<C>	<C>	<C>
Interest paid	\$ 68,106	\$ 66,690	\$ 34,633
Interest received	69,908	82,064	92,582

</TABLE>

Investing and financing transactions not affecting cash during the years ended September 30, 1996, 1995 and 1994 are described below:

- In 1995, the Company issued 125,000 shares of its common stock as a portion of the total consideration paid for the acquisition of substantially all of the assets of Plant Research Laboratories. In connection with this issuance of common stock, the Company recorded \$187,500 to common stock and additional paid-in capital, which represented the fair market value of the common stock on the date of issuance. Additional acquisition costs included \$257,660 in cash consideration and direct acquisition expenses.
- In 1995, the Company issued 10,000 shares of restricted common stock to an officer in lieu of cash compensation and recorded a \$13,125 increase to compensation expense and to common stock and additional paid-in capital which was the fair market value of the restricted stock on the date of issuance.
- In 1994, the Company issued 5,000 shares of restricted common stock to an officer in lieu of cash compensation and recorded an \$11,875 increase to compensation expense and to common stock and additional paid-in capital which was the fair market value of the restricted stock on the date of issuance.

## 12. FOREIGN OPERATIONS

International sales activity, consisting of sales outside the United States, primarily in Canada, accounted for approximately 16%, 14% and 11% of total sales for the years ended September 30, 1996, 1995 and 1994, respectively. A reconciliation of fiscal 1996, 1995 and 1994 domestic and foreign activity for net sales, net income (loss) and identifiable assets is as follows:

<TABLE>  
<CAPTION>

Fiscal 1996: -----	Domestic -----	Foreign -----	Total -----
<S>	<C>	<C>	<C>
Net Sales	\$12,274,927	\$2,397,857	\$14,672,784
Net Income (Loss)	(743,106)	174,987	(568,119)
Identifiable Assets	\$10,488,502	\$ 981,541	\$11,470,043
Fiscal 1995: -----	Domestic -----	Foreign -----	Total -----
Net Sales	\$ 12,223,014	\$1,970,884	\$14,193,898
Net Income (Loss)	(2,231,595)	58,491	(2,173,104)
Identifiable Assets	\$ 10,621,910	\$1,376,738	\$11,998,648
Fiscal 1994: -----	Domestic -----	Foreign -----	Total -----
Net Sales	\$ 12,955,530	\$1,671,024	\$14,626,554
Net Income (Loss)	(292,779)	50,314	(242,465)
Identifiable Assets	\$ 12,594,523	\$1,044,267	\$13,638,790

</TABLE>

## 13. SUBSEQUENT EVENT

On May 30, 1996, the Company entered into a letter of intent to acquire all outstanding stock of The Chas. H. Lilly Company ("Lilly"), a Portland based developer and marketer of lawn and garden fertilizers, pesticides and packet seeds. On December 12, 1996, the Company announced that it elected to discontinue efforts to acquire Lilly. Accordingly, the costs associated with this acquisition attempt, which amounted to \$312,771, have been charged to expense in the accompanying fiscal 1996 Consolidated Statement of Operations and is included in other expense.

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## INDEX OF EXHIBITS

<TABLE>  
<CAPTION>

Exhibit Number	Description	Pages
<S>	<C>	<C>
10.3	Lease Agreement between the Company and 94th Street Associates, a Minnesota Partnership, dated August 15, 1996.	_____
10.4	Lease Agreement between the Company and MEPC American Properties, Inc., a Delaware corporation, dated August 16, 1996.	_____
* 10.15	Ringer Corporation 1996 Employee Stock Option Plan	

21.1 Subsidiaries of the Registrant. \_\_\_\_\_

23.1 Consent of Deloitte & Touche LLP. \_\_\_\_\_

24.1 Power of Attorney. \_\_\_\_\_

27.1 Financial Data Schedule \_\_\_\_\_

</TABLE>

\* Management contract or compensation plan or arrangement.

MARFIELD, BELGARDE & YAFFE COMPANIES  
 MANAGED PROPERTIES  
 OFFICE/SERVICE BUILDING LEASE

This LEASE is made this 15th day of August 1996, between 94th Street Associates (as LANDLORD) and Ringer Corporation (as TENANT).

WITNESSETH:

-----

In consideration of the mutual covenants, promises, and agreements herein contained, the parties agree as follows:

1. DESCRIPTION OF THE PREMISES

TENANT hereby leases from LANDLORD certain Premises (Leased Premises) within the building (Building), identified as 9555 James Ave. S., Bloomington MN. The Lease Premises is identified on the building plans as Suite 200 and is more specifically designated in Building Floor Plan (Exhibit "A") and Detailed Floor Plan (Exhibit "B") which are made a part hereof. The Lease Premises is measured from the outside of all exterior walls to the center of tenant division and common area walls. The Leased Premises contain:

Office, Restroom, entry and finished spaces	4,851 S.F.
Storage or service area	1,589 S.F.
Total Area	6,440 S.F.

2. RENT

TENANT covenants to pay annual Base Rent for the Leased Premises of Forty One Thousand Five Hundred Thirty-Eight and no/100 (\$41,538.00) payable to the LANDLORD, or to any other entity designated by LANDLORD, without further notice, in equal monthly installments, subject to proration in the case of the first and last months of the Lease term, of \$3,461.50 on the first business day of each month during the full term hereof. See Section 7 for TENANT'S Additional Rent obligations. TENANT'S obligation to pay Base and Additional Rent is unconditional and independent of any other provision of this Lease. TENANT agrees not to withhold Base and Additional Rent for any reason. TENANT agrees to pay a ten percent (10%) late charge fee each month on any sums due LANDLORD which are owing to the LANDLORD by the tenth day of that month. The first month's Base Rent is included with this Lease as Check #052767 dated 8/19/96 \$3,461.50, issued by Ringer Corporation.

Notwithstanding the foregoing, the granting of any rent abatement, above standard leaseholds, or other concessions is conditioned upon TENANT fulfilling all its obligations under the Lease, all Rent previously abated and other

concessions granted shall be immediately paid to the Landlord.

### 3. TERM OF LEASE

Tenant shall be given occupancy upon issuance of "Certificate of Occupancy", with rental abatement until October 14, 1996, with full rental payments to begin October 15, 1996.

The Lease is 3 years 0 months commencing on the 1st day of October, 1996 and expiring on the last day of September, 1999.

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### 4. USE OF PREMISES

TENANT agrees to use the Leased Premises for office, warehouse, laboratory and no other purpose; subject to all local, state, and federal laws regulating such use. Such use shall not cause excessive odors, humidity, noise or vibrations which may injure the building, cause harm to, or disrupt other tenants.

### 5. PARKING AND COMMON AREAS

The TENANT, its employees and invitees shall have the non-exclusive right to use the common areas, driveways and parking lots along with the other tenants of the Building and their employees and invitees. The use of common areas, and the portion of the land set aside by LANDLORD for non-exclusive use of tenants, is subject to such reasonable rules and regulations as the LANDLORD may impose from time to time. No more than 24 parking spaces are to be occupied at any one time by the TENANT, its employees and invitees. Overnight parking of vehicles and the storage, at any time, of any other property in the common area is prohibited.

### 6. NET LEASE

This is a "net" Lease, and LANDLORD shall not be required to provide any services or do any acts in connection with the Leased Premises not specifically set forth in this Lease. As hereinafter further described in this Lease, the TENANT is responsible for and shall pay its utility charges, trash removal, interior cleaning and maintenance, its proportionate share of real estate taxes including installments of assessments and its proportionate share of the Building's operating expenses.

### 7. ADDITIONAL RENT

The net rentable area of the building(s) #9555 James in the project is/are 115,000 sq. ft. and accordingly, the TENANT's proportionate share for purposes of allocating

real estate taxes and assessments and operating expenses is 5.6%.

## 8. REAL ESTATE TAXES

Real estate taxes include the following:

(a) all real estate taxes

(b) all installments of assessments, general or special, levied against the property

## 9. OPERATING EXPENSES

Operating Expenses include the following:

(a) City water and sewer charges, except where used by tenants in substantial amounts for production and is therefore separately metered, and the monitoring surveillance of the fire protection system.

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(b) Lawn care, snow and liter removal, and the repair and maintenance as reasonably required for: parking lots, drives, sidewalks, landscaped areas, roof, H.V.A.C. systems, garage doors and garage door openers, and exterior panes of exterior windows and foyer glass.

(c) Electrical service for the trash room (if any) and mechanical rooms and for lighting, replacement of bulbs used for exterior lighting and trash removal from the common area trash room serving the TENANT, if any.

(d) Insurance for fire and extended coverage, loss of rents and business interruption general liability.

(e) All other maintenance, replacement, repair and miscellaneous operating expenses except structural maintenance and that which is covered by manufacturer or subcontractor warranties.

(f) Property management expenses of four percent of the Base Rents and Additional Rents collected.

(g) Such other expenses incurred in operating the Building generally, if of a type normally incurred in the operating of similar buildings.

(h) Maintenance of vestibules.

Commencing with the operating expenses incurred and real estate taxes payable in

the year this Lease commences and each subsequent year during the Lease term, TENANT will pay, in equal monthly installments, payable in advance on the first day of each calendar month, its estimated monthly proportionate share of all such real estate taxes and operating expenses. As the actual amount will not be known at the beginning of each calendar year, LANDLORD shall make a reasonable estimate, to the best of its knowledge, of what the amount will be for that year, and TENANT will pay its estimated proportionate share each month. In no way should LANDLORD's estimate be construed as actuals or as a guarantee.

After the actual real estate tax statement is received, LANDLORD shall have the right to make adjustments for any difference between that which TENANT has paid and that which it should have paid. TENANT shall then start paying its proportionate share based upon the actual tax statement.

LANDLORD shall have the right to make adjustments periodically (but at least annually) to the operating expenses, and adjust accordingly. When actual operating expenses have been compiled, a final year-end adjustment will be made, and either a charge or credit will be issued. LANDLORD agrees to exercise due to care and diligence to obtain operating expenses, services and supplies at competitive and reasonable market costs with acceptable quality and service standards.

TENANT may have been given projections for real estate taxes by LANDLORD's agents. LANDLORD does not warrant that these projections are correct or that they even approximate the amounts shown. The TENANT is encouraged to call the city assessor to verify the real estate tax projections before executing the lease.

#### 10. UTILITIES

TENANT is responsible and shall pay for all of its utility services. The TENANT is separately metered for gas and electricity and will contract with the utility companies for service requirements and billing. TENANT is also responsible for its own telephone service.

LANDLORD reserves the right to protect its Property and interest with respect to

utilities in any way it sees fit should TENANT not pay utility charges.

In the event the TENANT uses water and sewer in substantial amounts or for production purposes, the LANDLORD shall install at TENANT's expense a water meter to sub-meter for said water and sewer at rates as charged by the City. TENANT shall pay to the City any water availability charge (WAC) and sewer availability charge high usage.

LANDLORD shall, under no circumstances, be liable for; a) physical loss arising from any failure to furnish heating, cooling, water, electricity, telephone, or any other utility; b) any consequential damages; regardless of the cause; or c)) any loss or damages of any kind not resulting from the LANDLORD's willful nonperformance or grossly negligent performance of its duties hereunder.

## 11. INSURANCE

The TENANT shall maintain in full force and effect during the term hereof, a policy of public liability insurance under which LANDLORD and TENANT are named insured. The minimum limits of liability of such insurance shall be \$1,000,000.00 combined single limit for bodily injury and property damage, and in addition the TENANT shall carry a policy of property insurance for fire and extended coverage including an all leasehold improvements to the premises on a replacement cost value. TENANT agrees to deliver a duplicate copy of said policy, or a certificate of insurance evidencing such coverage, to LANDLORD. Such policy shall contain a provision requiring ten (10) days written notice to the LANDLORD before cancellation of the policy can be effected.

The LANDLORD shall carry and cause to be in full force and effect a fire and extended coverage insurance policy on the Building an leasehold improvements; but not on TENANT's personal property, trade fixtures, contents or improvements owned, or otherwise -in possession of the TENANT, or any improvements to the premises which improvement and contents are to be insured by the TENANT. Such policy shall contain a provision that the policy shall no be canceled except upon ten (10) days written notice to the TENANT.

Each insurance policy carried by either the LANDLORD of TENANT covering the Lease Premises or its contents shall provide that the insured party has relinquished all rights to recover against the other party for loss or damage resulting from perils insured against by the policy. LANDLORD and TENANT each hereby waive any claim based upon liability which may arise

against the other so far as the claim relates to loss or damage to the premises or contents which is covered by insurance or coverable under the aforementioned insurance policies, whether maintained or not.

## 12. MAINTENANCE

The TENANT shall be wholly responsible for the maintenance and repair of the interior of the Leased Premises, and will keep it in as good condition as when turned over to tenant, reasonable wear and tear and damage by fire and the elements excepted.

The TENANT agrees to keep the Leased Premises in a clean, orderly and sanitary condition and will neither do nor permit to be done therein anything which is in violation of insurance policies on the building or that is contrary to law. The TENANT will neither commit nor suffer waste to the Building or to the Leased Premises.

The maintenance and repair obligations of the TENANT specifically extend to all exterior walls, interior doors, interior windows, plumbing and electrical fixtures within the Lease Premises, except as these obligations may be covered by manufacturer or contractor warranties. The LANDLORD agrees to cooperate with and reasonably assist TENANT in pursuing such warranties which are still in effect.

The LANDLORD shall at its own expense keep in good order, safe condition and repair the structural integrity of the Building, except where repairs to the structural parts are required due to the fault or negligence of the TENANT, its employees or invitees, in which case the TENANT shall be responsible.

## 13. APPEARANCE AND ACCESS

LANDLORD and TENANT mutually agree to keep the grounds, Building, Leased Premises and common areas in a condition of good repair and appearance as their respective responsibilities and rights may allow. LANDLORD shall provide general access to TENANT and its invitees to the common areas except as reasonable security requirements and temporary conditions may prevent, and shall make a reasonable effort to keep the common areas well maintained and free of nuisance. LANDLORD may establish from time to time and TENANT will abide by reasonable rules for parking, security, handling of trash and like procedures.

TENANT agrees to keep all of its trash containers, pallets, dumpsters, refuse and waste within its Leased Premises and not outside or in common areas and agrees not to litter any of the grounds or entries. TENANT is responsible for the cost of the removal of its trash.

Tenant to Initial

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Window coverings, if desired by TENANT, are to be installed by TENANT at

TENANT's expense and must be horizontal levelour type made of metal. TENANT shall also provide and maintain fire extinguishers as required for its particular use by the City.

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If TENANT's bathroom is contiguous to a bathroom of an adjoining TENANT, and LANDLORD installs a common hallway serving these bathrooms , TENANT agrees to allow the adjoining TENANT the use of its bathroom, and shall have the right to use the adjoining tenant's bathroom. TENANT agrees to keep in good order, cleanliness and repair the contiguous bathroom, as does the adjoining tenant.

TENANT agrees not to have or keep any animals, including dogs and/or cats, within the Leased Premises.

TENANT agrees to use chair pads under any chairs within the Leased Premises that is placed at a desk so that wear of the carpet is minimal.

#### 14. LANDLORD'S RESPONSIBILITY

LANDLORD agrees that prior to the commencement of the term hereof, at its sole cost and expense, it will construct the Building(s), and will also finish the Leased Premises substantially in accordance with the Building Floor Plan (Exhibit "A") and Detailed Floor Plan (Exhibit "B") and by specifications in the Landlord's Finishing Schedule (Exhibit "C") attached and made a part hereof. It is understood and agreed that minor changes from any plans or specifications which may be necessary during construction of the Leased Premises shall not affect or invalidate this Lease.

TENANT agrees that upon occupancy hereof, it will inspect the Leased Premises in order to ascertain the condition thereof; that any objections (except for latent deficiencies not the discoverable ) thereto not delivered in writing to LANDLORD within 60 days after occupancy shall be deemed waived; and that no representations, either expressed or implied, have been made regarding the quality or condition thereof except as specifically stated below:

- (a) The Leased Premises, at the time of initial occupancy, shall comply with applicable building codes; and the Americans with Disabilities Act.
- (b) The Leased Premises will be completed substantially as agreed to in this Lease; and
- (c) The mechanical system serving the Leased Premises will have been checked and found to be operating satisfactorily.

#### 15. CONDEMNATION LOSS

Should all the Leased Premises to be taken in condemnation proceedings or by exercise of any right of eminent domain, then this Lease shall automatically terminate as of the date the condemning authority or the authority exercising its right of eminent domain takes possession of the Leased Premises. If, as a result of a partial taking, the Leased Premises is no longer useable for the purposes specified in of this Lease, then, in any such case, the TENANT or LANDLORD may terminate this Lease as of the date the condemning authority or the authority exercising its right of eminent domain takes possession of the property. If this Lease is not terminated, LANDLORD will immediately make all repairs necessary to make the Leased Promises complete

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and tenable. The LANDLORD shall be specifically entitled to all awards for condemnation, except in the case of awards made specifically foe loss or damage to TENANT's property or TENANT's relocation expenses.

#### 16. TENANT ASSIGNMENT

The TENANT shall not assign this Lease, and shall not sublet any part of the Leased Premises without the prior written consent of the LANDLORD. Said consent will not be unreasonably withheld or delayed. Any such assignment or subletting will not release the TENANT from its responsibilities under this Lease, unless expressly agreed to in writing by the LANDLORD. TENANT shall pay LANDLORD's reasonable attorneys fees for reviewing the sublease.

If the TENANT shall be declared bankrupt, shall have a receiver appointed of its property, shall make an assignment for the benefit of creditors, or its rights hereunder shall be taken under execution; it shall be construed as an assignment of this Lease within the meaning hereof, and the LANDLORD shall have the right to terminate this Lease.

#### 17. DEFAULT BY TENANT

It is a Default for TENANT: (a) if Base Rent, Additional Rent, or any other sum due by TENANT under this Lease shall be unpaid of the date payment is required; (b) if TENANT fails to perform any of the other terms, conditions, covenants and obligations of this Lease to be observed or performed by the TENANT for more than (10) days after LANDLORD gives TENANT written notice of such Default ( it being agreed that a Default, other than failure to pay Base Rent, Additional

Rent or other sums due, which is of such character that the cure thereof reasonably requires longer than (10) ten days, shall be deemed cured within said period, if TENANT in good faith commences a cure within the (10) ten day period and diligently undertakes to complete the cure with reasonable dispatch); (c) if TENANT abandons the Leased Premises (it being agreed that the Leased Premises shall be considered abandoned should TENANT fail to openly conduct business from the aforementioned premises for a period of (7) seven calendar days; (d) if TENANT or guarantor knowingly misrepresents any material fact in any written statement provided to the LANDLORD or at its request, pursuant to or in connection with this Lease; or (e) if TENANT, any guarantor, general partner, joint venture, or majority shareholder becomes insolvent or the subject of a bankruptcy petition.

A Default gives LANDLORD the right (without further notice except as hereinafter expressly provided) to: (a) immediately reenter the Leased Premises, change the locks, and remove all persons and property; (b) at TENANT's expense, store or sell said property for TENANT's account; (c) treat said property as abandoned upon TENANT's failure to remove it within (10) ten days of written demand to remove; (d) make alterations and repairs; (e) without terminating the Lease, relet all or part of the Leased Premises, at TENANT's expense and for its account, on such terms, for such rentals, and for such a term as LANDLORD in its sole discretion deems advisable' and /or (h) resort to any other remedy authorized by this Lease or by statute, law or equity.

Whether or not LANDLORD reenters and/or relets the Leased Premises, TENANT will remain liable, for all periods in which this Lease is in full force and not terminated, for the Base Rent, Additional Rent and utilities due hereunder, subject only to a credit for rental received from a substitute tenant over and above expenses of reletting and other sums due hereunder. Additionally, whether or not LANDLORD has already resorted to any other above-mentioned

right, LANDLORD may elect, by giving a written notice, to terminate the Lease effective as of any date specified in the notice. No act, including the re-entering and/or reletting, except the giving of such notice, shall be deemed a termination, or acceptance of surrender of the Lease. Upon said effective date, TENANT will comply with any surrender provisions.

TENANT will be liable for (a) all expenses and damages incurred by LANDLORD resulting, whether before or after termination, from a Default, including without limitation attorney's fees and brokers' fees to obtain a new tenant, reclaiming possession and alteration or repair costs to obtain a new tenant and (b) 0% interest on any sum due under the Lease, from the date due.

Whether or not LANDLORD terminates the Lease, LANDLORD may elect, by giving written notice, to accelerate unaccrued rent and hold TENANT immediately liable for the amount of the base and additional rents payable during the remainder of the Lease term. In addition to this amount due shall be all free rent received and all above normal construction costs paid by LANDLORD.

## 18. ALTERATIONS

The TENANT shall not make any alterations to the Lease Premises without the written consent of the LANDLORD, such consent not to be unreasonably withheld or delayed. If the TENANT shall desire to make any such alterations, it shall furnish plans and specifications of the work to be so performed together with a construction statement containing a complete breakdown of the cost of all labor and material included therein, and together with an escrow of cash with Title Services, Inc. in an amount equal to the estimated cost of all such work, if it should exceed one thousand dollars (\$1,000.00). TENANT agrees to obtain a building permit from the city for any alterations exceeding fifty dollars (\$50.00) in cost. TENANT agrees that all such work shall be done in a good, workmanlike manner, and in compliance with applicable building codes and all applicable laws, including, without limitation, the American Disabilities Act, that the structural integrity of the Building shall not be impaired, and that no liens shall attach to the Building or Leased Premises by reason thereof. No such alteration(s) shall change the office/finish area to storage/service area without LANDLORD's permission.

The TENANT shall, before the expiration of the Lease, restore the Leased Premises to its original condition unless the LANDLORD elects that all of part of the alterations may remain. Any such alterations shall become the property of LANDLORD as soon as they are affixed to the Leased Premises and all right, title and interest therein of the TENANT shall immediately cease unless otherwise stated in writing. The TENANT however, shall remain the owner of any installed trade fixtures and shall have the right to remove such trade fixtures at the expiration of this Lease Agreement, so long as the Lease Premises and/or Building is restored to its original conditions.

TENANT agrees that, if by reason of TENANT's operations, the use to which TENANT puts the space, or any alterations made by TENANT (whether or not approved

unconditionally by LANDLORD), applicable law, including, without limitation, the American Disabilities Act, requires further alterations or modifications of the lease premises or the building(s), that the TENANT will make such alterations or modifications so as to promptly address such requirements; or, if TENANT fails to do so, that TENANT will reimburse LANDLORD promptly for the cost of such alterations or modifications as LANDLORD may make upon TENANT's default (LANDLORD having the right but not the obligation to make such alterations or modifications under that circumstance); and that this provision shall survive termination or expiration of the lease.

## 19. SIGNS

The LANDLORD will provide, install, and the TENANT shall maintain in good repair, one standard exterior entry sign at the TENANT's front entry. The sign will remain property of the LANDLORD. The LANDLORD shall also provide one standard rear-entry sign to be installed by LANDLORD near the rear door serving the Leased Premises. No other signage, including no soliciting or other directional type signage, promotional material, or identification of any type shall be placed in, on, or externally visible from, any entry, window, outer door, or exterior surface without the written consent of LANDLORD. TENANT agrees that no visitor parking or other parking signage will be installed on any part of the parking or common areas without the written consent of the LANDLORD. Exceptions to this are security system signs not to exceed sixty (60) square inches in size.

## 20. ENTRY

The TENANT agrees that no additional locks will be placed on any of the TENANT's doors without the written consent of the LANDLORD. LANDLORD, its agents, and its employees shall have the right to enter the premises at all reasonable times to inspect them, to make repairs, and to maintain the Building of which the Leased Premises are part. During the one hundred and eighty (180) days prior to the expiration of the term, the LANDLORD or its agents may exhibit the Leased Premises to prospective tenant. LANDLORD shall also have the right of entry as provided in Paragraph 17.

## 21. SUBORDINATION

It is mutually agreed that this Lease shall be subordinate to any and all mortgages, ground leases, or other securities, including any renewals, modifications, consolidations, replacements and extensions thereof now or hereafter recorded against the Leased Premises by the LANDLORD. TENANT's right to quiet possession of the Leased Premises shall not be disturbed if TENANT is not in Default and so long as TENANT shall pay the Base and Additional Rents and observe and perform all of the provisions of this Lease, unless this Lease is otherwise terminated pursuant to its terms.

## 22. NOTICES

All notices, consents, demands and requests which may be or are required to be given by either party of the other, shall be in writing, and sent by United

States registered or certified mail, with return receipt requested, addressed to the TENANT at the street address set forth in Paragraph I and to the LANDLORD in care of Marfield, Belgarde and Yaffe Companies, 7841 Wayzata

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Boulevard, Minneapolis, Minnesota 55426 or to such other address as LANDLORD may direct in writing in the future.

The date which said registered or certified mail is mailed by the LANDLORD or TENANT shall be conclusively deemed to be the date on which a notice, consent, demand, or request is given or made,

The above address of a party may be changed at any time or from time to time by notice given by said party to the other party in the manner herein above provided.

#### 23. SHORT FORM LEASE

The parties hereto shall, at the option of either party, execute a short form of Lease for recording purposes and, in such event, the terms thereof shall constitute a part of this Lease as fully as though recited at length herein.

#### 24. LANDLORD ASSIGNMENT

The LANDLORD may assign its right, title and interest in this Lease, and such assignment shall then terminate all the LANDLORD's obligations so long as the LANDLORD is not in default when such assignment is made and the assignee assumes the LANDLORD's responsibilities thereafter.

#### 25. OCCUPANCY

If the Leased Premises is not ready for occupancy on the Lease commencement date, then the lease term shall commence on the date of TENANT's possession but still terminate on the date previously shown. LANDLORD shall not be liable to TENANT for any loss or damage resulting if the Leased Premises is not ready for occupancy on the commencement date of this Lease. TENANT agrees to take possession within ten (10) days after the Leased Premises is substantially ready for occupancy and permission to occupy is granted by the City. All TENANT's obligations hereunder will commence on the first day TENANT occupies any portion of the Leased Premises.

26. FIRE REPAIR

In the event of damage to the promises by fire, the elements or other casualty, LANDLORD shall repair the damage with reasonable dispatch (with Base Rent to abate in the meantime), unless any mortgagee or financial participant, who from time to time might have an interest in on the demised promises, shall require that the fire insurance proceeds to be used to reduce its interest or the indebtedness on the promises.

If the damage renders the Leased Promises untenable in part but TENANT continues to occupy them in part, the Base and Additional Rent shall be reduced in an equitable manner.

27. QUIET ENJOYMENT

TENANT, upon payment of the Base and Additional Rent herein reserved and upon performance of all of the terms, covenants and conditions of this Lease by it to be kept and performed, shall at

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all times during the term hereof or during any extension or renewal hereof, peaceably and quietly enjoy the Leased Premises without any disturbance from LANDLORD or from any other person claiming through LANDLORD. Upon expiration or sooner termination of the term hereof, TENANT shall surrender the Leased Premises in good condition and repair, except for reasonable wear and tear, condemnation and casualty.

28. HOLDING OVER

If TENANT shall hold over the Leased Premises or any part thereof after the expiration of the term hereof, or any extension thereof, such holding over shall be construed only to be a tenancy from day to day subject to all of the covenants, conditions and obligations hereof except that the Base Rent shall be 150% of the rent normally due. Nothing herein shall be construed to give TENANT any rights to holdover and to continue in possession of the Leased Premises after expiration of the term hereof.

29. DEPOSIT

TENANT has deposited with LANDLORD the sum of one full month's Base Rent. Said sum shall be held by LANDLORD as security for the faithful performance by TENANT of all the terms, covenants, and conditions of this Lease to be kept and

performed by TENANT. The deposit shall not bear interest. If TENANT shall fully and faithfully perform every provision of this Lease to be performed by it, the security deposit or any balance thereof shall be returned to TENANT at the expiration of the Lease term. Said deposit was made by check # 052767, dated 8-19-96, \$3,461.50, issued by Ringer Corporation.

### 30. OTHER PROVISIONS

The invalidity or unenforceability of any provisions hereof shall not effect or impair the validity of any other provision. The headings herein are inserted only for convenience and reference and shall have no substantive import. Where necessary, the singular imports the plural and vice versa, and masculine, feminine and neuter pronouns and expressions are interchangeable. The Lease shall bind and inure to the benefit of the LANDLORD and TENANT, their respective heirs, administrators, legal representatives, successors and assigns.

During the term of the Lease, LANDLORD's acceptance of an amount which is less than the amount due at that time, will be deemed partial payment only, not payment in full.

This Lease shall be governed by Minnesota Law.

One or more waivers of any provision by either party shall not be construed as a waiver of subsequent breach of same. Failure to enforce or delay in enforcing any right hereunder will not be construed as a waiver thereof. Each party expressly (a) consents to the maintaining of any such action in any court of competent subject matter jurisdiction, and (b) agrees that the mailing, with postage pre-paid, registered or certified mail, of any complaint or other legal process to it, at either the address stated in this Lease for notices or any other address where that party is then actually residing or doing business, constitutes legally sufficient service of the same upon that party as of the postmark date of the mailing, it being each party's intent to waive in the event of such a mailing, any insufficiency of service of process, lack of personal jurisdiction claim, or the like that might otherwise arise from provisions of the law otherwise requiring a different form of personal service.

TENANT and any guarantors agree to provide LANDLORD with a current financial statement on or before (4) months after the end of their fiscal year. The financial statement shall meet generally accepted accounting principles.

TENANT hereby agrees that in the event of a purchase of the Leased Premises by

another party, TENANT will sign a Lease Estoppel Agreement, stating that this Lease agreement between TENANT and LANDLORD is in full force and effect and that all covenants herein have been met. Any uncompleted covenants should be noted and listed on the Lease Estoppel Agreement.

SECTION 31: BROKERAGE: It is hereby agreed and understood that the Tenant is represented by Landmark Partners, as their agent. It is further agreed that the Landlord will pay all and any fees/commissions due for this transaction to Landmark Partners within thirty days of Tenant occupancy, It is further agreed that both Tenant and Landlord will indemnify each other against all and any claims arising from any and all sources other than Landmark Partners in regards to fees or commissions that may result from this transaction.

EXHIBITS AND ADDENDUMS

This instrument contains all of the agreements made between the parties and may not be modified orally or in any manner other than by agreement in writing signed by all parties to this Lease. The following exhibits and addendums are attached and hereby made a part of this Lease:

<TABLE>			<C>
<S>	X	Exhibit "A"	Building Floor Plan
	---		
	X	Exhibit "B"	Detailed Floor Plan or Blueprint
	---		
	X	Exhibit "C"	Landlord's Finishing Schedule
	---		
	X	Exhibit "D"	TENANT's and/or Guarantor(s) Financial Statement Rider
	---		
	X	Exhibit "E"	Material Use Rider
	---		
		Exhibit "F"	Personal Guaranty
	---		
</TABLE>			

The signatories below warrant that they are duly authorized to enter into this Lease representing the parties hereto.

IN WITNESS WHEREOF, the parties hereto have caused this Lease to be executed the day and year first above written.

LANDLORD  
By \_\_\_\_\_  
Partner  
\_\_\_\_\_

TENANT  
By Ringer Corporation  
\_\_\_\_\_  
\_\_\_\_\_

Its Authorized Agent

Its Chief Financial Officer

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## [MINNEAPOLIS WEST BUSINESS CENTER LOGO]

## LEASE

This Lease is entered into as of August 16, 1996, between MEPC AMERICAN PROPERTIES INC., a Delaware corporation ("Lessor") and RINGER CORPORATION, a Minnesota corporation, ("Tenant").

## 1. Definitions. In this Lease:

- (a) "Building" means that certain office/warehouse building containing approximately 96,800 square feet of net rentable area known as Trapp Road Community Building I located on the Land Eagandale Center, known as Suite 190, 1279 Trapp Road in the of Eagan, Minnesota.
- (b) "Premises" means that certain portion of the Building designated as Bays 12 - 15, which space is shown crosshatched on the drawing attached to this Lease as Exhibit A and is estimated to contain 1,234 square feet of office and 25,358 square feet of warehouse for a total of 26,592 square feet.
- (c) "Office Space" means that portion of the Premises, based upon the final floor plan for the Premises, constructed for purposes of office use and designated as such in the supplemental agreement referred to in Section 2.
- (d) "Warehouse Space" means that portion of the Premises, based upon the final plan for the Premises, constructed for purposes of manufacturing, production or warehouse use and designated as such in the supplemental agreement referred to in Section 2.
- (e) "Term" means the period of 5 years and no months, beginning on January 1, 1997 and ending on December 31, 2001, subject to the provisions of Sections 2 and 7 and the other provisions of this Lease.
- (f) "Commencement Date" means the earlier of the date on which Tenant opens for business in the Premises or the date on which Lessor has substantially completed Lessor's Work as evidenced by a Certificate of Substantial Completion issued by Lessor's architect or a Certificate of Occupancy issued by the City of Eagan.

- (g) "Lease Year" means a period of 12 consecutive months commencing on the first day of the first full month of the Term and each 12-month period thereafter during the Term.
- (h) "Monthly Base Rent" means the following amounts per Rentable Square Foot multiplied by the number of Square Feet of Office Space and Warehouse Space in the Premises divided by 12:

<TABLE>

<CAPTION>

Lease Year -----	Office Space Rate -----	Warehouse Space Rate -----
<S> 1 through 5	<C> \$8.00	<C> \$4.00

</TABLE>

After the Monthly Base Rent is determined, the amount of the Monthly Base Rent will not change during the Term unless space is added to or deleted from the Premises as provided in this Lease or by written amendment to this Lease.

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- (I) "Costs" means the estimated monthly Tax Costs plus the estimated monthly Operating Costs.
- (j) "Monthly Rent" means the Monthly Base Rent plus Tenant's Share of the Costs.
- (k) "Tenant's Share" means the percentage obtained by dividing the Square Feet of the Premises by the Square Feet in the Building, which percentage on the date of this Lease is estimated to be 27.47% based on the number of square feet stated in paragraph (b) above and based upon a current estimated of the Square Feet in the Building of 96,800 square feet.
- (l) "Operating Costs" means all costs, charges and expenses incurred by Lessor in connection with ownership, operation, security, maintenance and repair of the Land, the Building, other improvements on the Land, appurtenances to the Building,

parking, roadways, landscaping, lighting, sidewalks, and common or public areas, including but not limited to real estate taxes and insurance on Common Areas, interior and exterior maintenance, insurance, utilities, fees or expenses for management by Lessor or any other party, amortization of capital investments made to reduce Operating Costs, or required under any governmental law or regulation which was not applicable to the Building at the time it was constructed, and amortization of repairs made to extend the life of the Building and other improvements. Operating Costs will not include mortgage interest, depreciation on the Building or fixtures, advertising expenses, real estate brokers' commissions or the cost of tenant improvements.

(m) "Tax Costs" means all real estate taxes, levies, charges, and installments of assessments (including interest on deferred assessments) assessed, levied or imposed on, or allocated to, the Land and Building and all attorney's fees, consultants' fees, witness fees, court costs and other expenses of Lessor in connection with any proceeding to contest these amounts.

(n) "Square Feet" means the number of square feet calculated from dimensional architect's drawings by measuring to the outside surface of exterior walls and to the centerline of walls separating areas leased or held for lease to others.

(o) "Lease" means this Lease, all Exhibits attached to this Lease, and all properly executed amendments, modifications and supplements to this Lease.

(p) "Section" means a section of this Lease.

(q) "Exhibit" means an Exhibit attached to and thereby made a part of this Lease.

(r) "Land" means the land described on Exhibit B.

(s) "Taking" means acquisition by a public authority having the power of eminent domain of all or part of the Land or Building by condemnation or conveyance in lieu of condemnation.

(t) "Casualty" means a fire, explosion, tornado, or other cause of damage to or destruction of the Building.

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(u) "Lessor's Work" means the work described in the plans and specifications identified in Exhibit D to be provided by Lessor at its expense.

- (v) "Common Areas" means any halls, lavatories, loading facilities, driveways and open lot parking areas, designed for the nonexclusive use of the owner and occupants of the Building, and not designed or intended for the exclusive use of a single tenant, as designated by Lessor from time to time.
- (w) "Tenant's Work" means all improvements, alterations, fixtures and equipment other than the Lessor's Work constructed or installed for Tenant's use and occupancy of the Premises or desired by Tenant to complete the Premises for occupancy.

## 2. Premises and Construction.

Lessor leases the Premises to Tenant, and Tenant leases the Premises from Lessor, for the Term, under the terms and conditions of this Lease.

Lessor will be responsible for the design and construction of the Building. The Premises will be constructed by Lessor in accordance with Exhibit D. All work will be designed, performed, completed and paid for as provided in Exhibit D. Any other work desired by Tenant to complete the Premises for occupancy will be performed by Lessor at Tenant's sole expense.

When Tenant takes possession of all or a portion of the Premises, that will be deemed conclusive evidence that the Premises or the portion are in satisfactory condition on that date, and that Lessor has completed all work for which it is responsible, subject only to latent defects and to deficiencies (if any) listed in a written notice delivered by Tenant to Lessor not more than 30 days after the date of taking possession.

Within 60 days after the Commencement Date, Lessor and Tenant will execute an agreement supplementing this Lease setting forth: the Commencement Date and expiration date of the Term, the "as-built" Square Feet of the Premises and Square Feet in the Building, the Monthly Base Rent, and the Tenant's Share percentage.

## 3. Rent.

Tenant will pay the Monthly Rent to Lessor at P.O. Box 73547, Chicago, Illinois 60673-7547, or such other place as Lessor may designate, in advance on the first day of each month during the Term, without demand, deduction or setoff. The Monthly Rent may change as the Costs are adjusted annually under Sections 4 and 5. Monthly Rent will begin on the Commencement Date. If the Term begins on a day other than the first day of a month, the Monthly Rent for that month will be prorated by multiplying the Monthly Rent by the number of days of that month included in the Term and dividing the product by the number of days in that month.

Any Monthly Rent or other amounts payable by Tenant to Lessor under this Lease which are not paid within 10 days after the date due will bear interest from the date due to the date paid at the rate of 18% per annum or the maximum rate

of interest permitted by law, whichever is less, and the interest will be paid to Lessor on demand. In addition, Tenant will pay Lessor a \$100 service charge for all Monthly Rent not paid by the 10th day of the month for which it is payable, which service charge is to partially cover expense involved in handling delinquent payments. All amounts to be paid by Tenant to Lessor under this Lease will be deemed to be additional rent for purposes of payment and collection.

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If any taxes, special assessments, fees or other charges are imposed against Lessor by any governmental unit or agency with respect to rentals under this Lease, Tenant will pay these amounts to Lessor when due, except that Tenant will have no obligation to pay any income tax on rentals unless the tax is imposed in lieu of real estate taxes.

#### 4. Cost Adjustments.

The initial Monthly Rent is based in part on the estimated Operating Costs and Tax Costs. Prior to the first day of each calendar year after the date of this Lease, or as soon as reasonably possible after the first day of the year, Lessor will furnish Tenant with an estimate of the Costs if greater than the initial Costs, and the Monthly Rent will be increased by 1/12th of Tenant's Share of the difference between the initial estimate of Costs and the current estimate.

After the end of each calendar year, including the year in which the Term expires, Lessor will give Tenant a statement of the actual Costs for that calendar year. If the actual Costs exceed the estimated Costs for that year, Tenant will pay Tenant's Share of the excess to Lessor within 20 days after receiving the statement. If the actual Costs are less than the estimated Costs for that year, Lessor will pay Tenant's Share of the difference to Tenant with the statement. If Tenant does not give Lessor written notice within one year after receiving Lessor's statement that Tenant disagrees with the statement and specifying the amounts in dispute, Tenant will be deemed to have waived the right to contest the statement. Tenant will file no petition in Tax Court regarding the Tax Costs without Lessor's prior written consent. If Lessor contests Tax Costs and receives a refund or incurs additional Tax Costs after adjustments for actual Tax Costs have been made, the actual Tax Costs will be corrected accordingly and the appropriate adjustment will be made between Lessor and Tenant. The portion of Costs to be paid by Tenant for the years in which the Term begins and ends will be prorated by multiplying the actual Costs by a fraction, the numerator of which is the number of days of that year in the Term and the denominator of which is 365.

#### 5. Cost Computations and Allocations.

Notwithstanding any other provision of this Lease to the contrary, it is agreed that Lessor will in its reasonable discretion, determine from time to time, the method of computing and allocating Costs, the allocation of Costs to various types of space within the Building, and Tenant will be bound thereby. If the Building is not fully occupied during any partial or full year, an adjustment

will be made in computing the actual Operating Costs for such year so that it is computed as though the Building had been fully occupied during that year.

#### 6. Fiscal Year.

The year used to determine Costs may be changed to a different 12-month period designated by Lessor. If the calendar year is changed to a fiscal year, or if a fiscal year is changed to a different fiscal year, prorations will be made for the estimated Costs and the actual Costs so that the same time period is used to determine each and so that Costs are not included in more than one time period.

#### 7. Possession.

If Tenant begins to conduct business in all or any portion of the Premises before the Commencement Date, Tenant will pay to Lessor Monthly Rent for the period from the date Tenant begins to conduct business in the Premises to the Commencement Date and all other provisions of this Lease will be applicable during that period.

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If Lessor is delayed in delivering possession of all or any portion of the Premises to Tenant on the Commencement Date, Tenant will take possession of the Premises on the date when Lessor delivers possession of all of the Premises, which date will then become the Commencement Date, and the last day of the term will be extended so that the length of the Term remains the same. If the extended Term would end on a day other than the last day of a month, the Term will be further extended to the last day of the month in which the Term ends.

This Lease will not be void or voidable and Lessor will not be liable to Tenant for any loss or damage resulting from any delay in delivering possession of the Premises to Tenant, but unless the delay is principally caused by or attributable to Tenant, its employees, agents or contractors, no Monthly Rent will be due for the period prior to the date Lessor delivers possession of the Premises, unless Tenant elects to take possession of a portion of the Premises, in which case Monthly Rent will be due for the portion of the Premises taken. Tenant's occupancy of the Premises will constitute Tenant's acceptance of the Premises.

If Tenant pays the Monthly Rent and other charges and performs all of Tenant's obligations under this Lease, Lessor promises that Tenant may peaceably and quietly possess and enjoy the Premises under this Lease.

#### 8. Use.

Tenant will use the Premises for 1,234 square feet for general business office and 25,358 square feet of general warehouse use and for no other purpose. Tenant will not commit or permit any act or omission which results in the violation of any law, governmental regulation, or insurance policy of Lessor, relating to the Building, or which will increase Lessor's insurance rates on

the Building. Tenant will not permit any conduct or condition which may unduly disturb or endanger other occupants of the Building.

#### 9. Care of Premises.

Tenant will, at all times during the Term and any renewals and extensions, at its sole expense, keep and maintain the Premises in a clean, safe, sanitary, and first class condition and in compliance with all applicable laws, codes, ordinances, rules, and regulations. Tenant's obligations will include but not be limited to the maintenance, repair and replacement, if necessary, of heating, air conditioning and ventilating fixtures, equipment and systems, all lighting and plumbing fixtures, all interior walls, partitions, doors and windows, including the regular painting thereof, all exterior entrances, windows, doors, and docks and the replacement of all broken glass. When used in this Section, the term "repairs" shall include replacements and overhauling equipment when necessary, and all such repairs made by the Tenant shall be equal in quality and class to the original work. The Tenant shall keep and maintain all portions of the Premises and the sidewalk and areas adjoining the same in clean and orderly condition, free of accumulation of dirt, rubbish, snow, and ice.

If Tenant fails, refuses or neglects to maintain or repair the Premises as required in this Lease after notice has been given Tenant, Lessor may make such repairs without liability to Tenant for any loss or damage that may accrue to Tenant's merchandise, fixtures, or other property or to its business, and upon completion, Tenant will pay to Lessor all costs plus 15% for overhead incurred by Lessor in making such repairs upon presentation to Tenant of bill for the repairs.

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Lessor will repair, at its expense, the structural portions of the Building provided, however, where structural repairs are required to be made by reason of the acts of Tenant, the costs will be reimbursed by Tenant and payable by Tenant to Lessor upon demand.

Tenant, at its own cost and expense, will enter into a regularly scheduled preventive maintenance and service contract with a maintenance contractor approved by Lessor for servicing all hot water, heating and air conditioning systems and equipment within the Premises. The service contract must include all services suggested by the equipment manufacturer in its operations and maintenance manual and must become effective within 30 days of the date Tenant takes possession of the Premises.

#### 10. Building Rules.

Rules and Regulations for the Premises and the Building in effect on the date of this Lease are attached as Exhibit C. Lessor will have the right to adopt different or additional reasonable rules and regulations, and to rescind or amend the attached rules and regulations, from time to time. Tenant will abide by the rules and regulations then in force and will cause Tenant's employees to

observe and comply with them.

#### 11. Compliance with Laws.

Tenant will, at its expense, promptly comply with all laws, ordinances, rules, orders, regulations and other requirements of governmental authorities now or subsequently pertaining to the Premises. Tenant will pay any taxes or other charges by any governmental authority on Tenant's property or trade fixtures in the Premises or relating to Tenant's use of the Premises.

The Premises shall not be used in any manner which under any requirement of law or of any public authority would require Lessor to make any addition or alterations to or in the Building. After the construction of any initial improvements by Lessor in the Premises, Tenant will be responsible for compliance with the Americans with Disabilities Act of 1990 as it applies to the Premises. The Premises shall not be used in any manner which will increase the rates required to be paid for public liability or for all risk insurance covering the Building. Tenant shall occupy the Premises, conduct its business and control its agents, employees, invitees, and visitors in such a way as is lawful and reputable and will not permit or create any nuisance, noise, odor, or otherwise interfere with, annoy, or disturb any other Tenant in the Building in its normal business operations or Lessor in its management of the Building. Outside storage on the Land of any type of equipment, property, or materials owned or used by Tenant or its customers and suppliers is not permitted.

#### 12. Hazardous Substances.

The term "Hazardous Substances", as used in this Lease, means pollutants, contaminants, toxic or hazardous wastes or any other substances, the removal of which is required or the use of which is restricted, prohibited or penalized by an "Environmental Law", which term means any federal, state or local law or ordinance relating to pollution or the protection of the environment. Tenant agrees that (a) no activity will be conducted on the Premises that will produce any Hazardous Substance, except for activities which are part of the ordinary course of Tenant's business (the "Permitted Activities"), provided the Permitted Activities are conducted in accordance with all Environmental Laws and have been approved in advance in writing by Lessor; (b) the Premises will not be used for storage of any Hazardous Substances, except for temporary storage of materials used in the Permitted Activities (the "Permitted Materials"), provided the Permitted Materials are properly stored in a manner and location meeting all Environmental Laws and approved in advance in writing by Lessor; (c) no portion of the Premises or Land will be used by Tenant as a landfill or a dump; (d) Tenant will not install any underground tanks of any type; (e) Tenant will not cause any surface or subsurface conditions to exist or come into existence that constitute, or with the passage of time may constitute, a public or private nuisance; (f) Tenant will not permit any Hazardous Substances to be brought onto the Premises, except for Permitted Materials, and if so brought or found, Tenant will immediately remove them, with proper disposal, and will undertake all required cleanup procedures under the Environmental Laws. If, at any time during or after the term of the Lease, the Premises are found to be contaminated or subject to conditions prohibited

in this Lease, Tenant will indemnify and hold Lessor harmless from all claims, demands, actions, liabilities, costs, expenses, damages

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and obligations of any nature arising from or as a result of the use of the Premises by Tenant. The foregoing indemnification will survive the termination or expiration of this Lease.

### 13. Signs.

Tenant will not place or permit any signs on the exterior or windows of the Building, or within the Premises if visible from the exterior of the Building or from hallways or other Common Areas of the Building, except lettering and numerals for identification purposes on or near doorways as approved in advance by Lessor. Lessor agrees that Tenant will be entitled to two (2) identification signs on the north and south exterior of the Building, subject to (i) Lessor's approval of the size, location, type and design of the sign, (ii) compliance with all applicable laws, ordinances and regulations, and (iii) Tenants payment of all costs relating to such signage.

### 14. Alterations.

After completion of the Building and the Premises, Lessor will have no obligations to do any redecorating or remodeling or to make any repairs or alterations.

Tenant will not make any alterations, additions or improvements in or to the Premises without first obtaining the written consent of Lessor. Tenant will get Lessor's prior written approval of any contractor or subcontractor who is to perform work on the Premises at Tenant's request. Lessor may require Tenant to post a bond, cash or other security to protect the Premises from mechanic's liens. All alterations by Tenant will be constructed with new materials, in a good and workmanlike manner, and in compliance with the plans and specifications approved by Lessor and all applicable laws, ordinances, rules, orders, regulations, or other requirements of governmental authorities. Tenant will pay for any labor, services, materials, supplies or equipment furnished or alleged to have been furnished to Tenant in or about the Premises, and will pay and discharge any mechanic's, materialmen's or other lien against the Premises resulting from Tenant's failure to make such payment, or will contest the lien and deposit with Lessor cash equal to 150% of the amount of the lien. If the lien is reduced to final judgment, Tenant will discharge the judgment and Lessor will return the cash deposited by Tenant. Lessor may post notices of nonresponsibility on the Premises as provided by law.

All alterations, additions and improvements to the Premises made at Lessor's or Tenant's expense, except movable office furniture and Tenant's movable trade fixtures and equipment, will become the property of Lessor upon installation and will be surrendered with the Premises upon termination of this Lease unless Lessor elects otherwise in writing.

### 15. Utilities and Services.

Lessor will provide mains and conduits to supply water, gas, electricity and sanitary sewer services to the Premises. Tenant will pay all charges for sewer usage, garbage disposal, refuse removal, water, electricity, gas, heating, air conditioning and ventilation costs, telephone, and any other utility services furnished to the Premises during the Term. If any of such services are furnished by Lessor, the cost of all such services furnished by Lessor will be a part of the Operating Costs. Lessor will not be liable for any loss or damage resulting from any temporary interruption of these services due to repairs, alterations or improvements, or any variation, interruption or failure of these services due to governmental controls, unavailability of energy, or any other cause beyond Lessor's control. No such interruption or failure of these services will be deemed as an eviction of Tenant or will relieve Tenant from any of its obligations under this Lease.

#### 16. Entry by Lessor.

Lessor and its agents and contractors and mortgagees will have the right to enter the Premises at reasonable times for inspecting, cleaning, repairing, or exhibiting the Premises, by Lessor will have no obligation to make repairs, alterations or improvements except as expressly provided in this Lease.

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#### 17. Subordination.

At the request of any mortgagee or ground lessor, this Lease will be subject and subordinate to any mortgage or ground lease which may now or hereafter encumber the Building, and Tenant will execute, acknowledge and deliver to Lessor any document requested by Lessor to evidence the subordination. Such subordination is on the condition that Tenant's right of possession of the Premises as provided in this Lease will not be disturbed by the mortgagee or ground lessor so long as Tenant is not in default under this Lease. If the interest of Lessor is transferred to any party by reason of foreclosure of a mortgage or cancellation of a ground lease, or by delivery of a deed in lieu of foreclosure or cancellation, Tenant will immediately and automatically attorn to such party. Tenant agrees that upon notification by Lessor or any mortgagee or ground lessor of the election of a mortgagee or ground lessor to subordinate its interest in the Premises to this Lease, this Lease will become prior to the mortgage or ground lease.

#### 18. Estoppel Certificates.

Within 10 business days after written request from Lessor, Tenant will execute, acknowledge and deliver to Lessor a document furnished by Lessor, which document may be relied upon by Lessor and any prospective purchaser or mortgagee of the Building, stating (a) that this Lease is unmodified and is in full force and effect (or if modified, that the Lease is in full force and effect as modified and stating the modifications), (b) the dates to which rent and other charges have been paid, (c) the current Monthly Rent, (d) the dates

on which the Term begins and ends, (e) that Tenant has accepted the Premises and is in possession, (f) that Lessor is not in default under this Lease, or, if Lessor is in default, specifying any such default, and (g) including such other information as the prospective purchaser or mortgagee may require.

19. Waiver of Claims and Assumption of Risks.

Lessor and Tenant release each other from any liability for loss or damage by fire or other casualty coverable by a standard form of "all risk" insurance policy, whether or not the loss or damage resulted from the negligence of the other, its agents or employees. Each party will use reasonable efforts to obtain policies of insurance which provide that this release will not adversely affect the rights or the insureds under the policies. The releases in this Section will be effective whether or not the loss was actually covered by insurance. Tenant assumes all risk of loss or damage of Tenant's property within the Premises, including any loss or damage caused by water leakage, fire, windstorm, explosion, theft, act of any other tenant, or other cause. Lessor will not be liable to Tenant, or its employees, for loss of or damage to any property in the Premises.

20. Indemnification.

Tenant will indemnify Lessor and its agents and employees against all claims, demands and actions, and all related costs and expenses (including attorneys' fees) for injury, death, disability or illness of any person, or damage to property, occurring in the Premises or arising out of Tenant's use of the Premises, except to the extent caused by the willful misconduct or negligence of Lessor or someone acting on its behalf.

21. Insurance.

Tenant will keep public liability insurance in force at its expense by an insurer and policy acceptable to Lessor in its reasonable opinion. The policy will name Lessor and its mortgagee as additional insureds, for limits of at least \$1,000,000 for bodily injuries or death of one or more persons and at least \$500,000 for property damage. Tenant will carry fire and "all risk" coverage insurance for Tenant's property and improvements in this Premises. Prior to Tenant's occupancy of the Premises, Tenant will deliver to Lessor the liability and casualty policies or certificates by the insurer showing this coverage to be in effect with premiums paid. The insurance will provide that Lessor will be notified in writing 30 days prior to cancellation of, material change in, or failure to renew, the insurance.

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22. Assignment and Subletting.

Tenant may assign this Lease or sublet all or part of the Premises only with Lessor's prior written consent. If Tenant receives a bona fide offer for an assignment of Tenant's interest under this Lease or to sublease all or part of the Premises and Tenant requests Lessor's consent, a copy of the offer will be furnished to Lessor. In the case of a proposed assignment or sublease of all of

the Premises, Lessor may terminate this Lease, either conditioned on execution of a new lease between Lessor and the party making the offer on the same terms as the offer to Tenant or without that condition. In the case of a proposed sublease for less than all of the Premises, Lessor may amend this Lease to exclude the portion of the Premises to be subleased, either conditioned on execution of a new lease between Lessor and the party making the offer on the same terms as in the offer to Tenant or without that condition.

If Lessor fails to give Tenant written notice of its decision to terminate or amend this Lease within 15 days after receiving a copy of the offer to Tenant, Lessor will not unreasonably withhold its consent to the assignment or sublease described in the offer. The provisions of this Section will be binding on Tenant and any assignee or subtenant of Tenant and will apply to all portions of the Premises remaining subject to this Lease and to each request by Tenant, or its assignee or subtenant, for Lessor's consent to a further or subsequent assignment or subletting.

If Lessor consents to one or more assignments or subleases, Tenant will still remain liable for all obligations of the Tenant under this Lease.

Lessor's interest in this Lease will be freely assignable and the obligations of the Lessor arising or accruing under this Lease after an assignment will be enforceable only against the assignee.

### 23. Damage or Destruction.

If the Premises or Building is damaged by Casualty, the damage (excluding damage to improvements paid for by Tenant or trade fixtures, equipment or personal property of Tenant) will be repaired by Lessor at its expense to a condition as near as reasonably possible to the condition prior to the Casualty, but if more than 25% of the total Square Feet in the Building is rendered untenable, Lessor may terminate this Lease as of the date of the Casualty by giving written notice to Tenant within 30 days after the Casualty. If this Lease is not terminated, Lessor will begin repairs within 90 days after the Casualty and complete the repairs within a reasonable time, subject to acts of God, strikes and other matters not within the control of Lessor. If Lessor fails to begin and proceed with repairs as required, Tenant may give Lessor notice to do so. If Lessor has not begun the repairs within 30 days after Tenant's notice, Tenant may terminate this Lease by written notice to Lessor within 15 days after expiration of the 30-day period. If this Lease is terminated because of the Casualty, rents and other payments will be prorated as of the termination and will be proportionately refunded to Tenant or paid to Lessor, as the case may be. During any period in which the Premises or any portion of the Premises is made untenable as a result of the Casualty, the Monthly Rent will be abated for the period of time untenable in proportion to the square foot area untenable.

### 24. Eminent Domain.

If there is a Taking of 25% or more of the Premises or 25% or more of the total Square Feet in the Building, either party may terminate this Lease as of the

date the public authority takes possession, by written notice to the other party within 30 days after the Taking. If this Lease is so terminated, any rents and other payments will be prorated as of the termination and will be proportionately refunded to Tenant, or paid to Lessor, as the case may be. All damages, awards and payments for the Taking will belong to Lessor irrespective of the basis upon which they were made or awarded, except that Tenant will be entitled to any amounts specifically awarded for Tenant's trade fixtures or equipment or as a relocation payment or allowance. If this Lease is not terminated as a result of the Taking, Lessor will restore the remainder of the Premises to a condition as near as reasonably possible to the condition prior to the Taking, the rent will be abated for the period of time the space is untenable in proportion to the square foot area untenable and this Lease will be amended appropriately to reflect the deletion of the space taken.

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## 25. Defaults.

If (a) Tenant defaults in the payment of rent or other amounts under this Lease and the default continues for 10 days after written notice by Lessor to Tenant, (b) Tenant defaults in any other obligation under this Lease and the default continues for 30 days after written notice by Lessor to Tenant, (c) any proceeding is begun by or against Tenant to subject the assets of Tenant to any bankruptcy or insolvency law or for an appointment of a receiver of Tenant or for any of Tenant's assets, or (d) Tenant makes a general assignment of Tenant's assets for the benefit of creditors, then Lessor may, with or without terminating this Lease, cure the default and charge Tenant all costs and expenses of doing so, and Lessor also may reenter the Premises, remove all persons and property, and regain possession of the Premises, without waiver or loss of any of Lessor's rights under this Lease, including Lessor's right to payment of Monthly Rent. Lessor also may terminate this Lease as to all future rights of Tenant, without terminating Lessor's right to payment of Monthly Rent and other charges due under this Lease.

Tenant waives any right of restoration to possession of the Premises after reentry, notice of termination, or after judgment for possession. If this Lease is terminated under this Section, Tenant promises and agrees to pay all Monthly Rent and other charges due for the remainder of the original Term, and all attorneys' fees and other expenses. If Tenant defaults in any of its obligations under this Lease, it will promptly pay all costs (including attorneys' fees) of enforcing Tenant's obligations, whether or not this Lease is terminated and whether or not suit is brought. No right or remedy will preclude any other right or remedy, no right or remedy will be exclusive of or dependent upon any other right or remedy, and any right or remedy may be exercised independently or in combination.

If Tenant is in default and notice of termination of Tenant's right to possession has been mailed to Tenant at the Premises and it appears in Lessor's reasonable judgment that Tenant has abandoned or vacated the Premises, Lessor may reenter the Premises and retake possession without legal action, without relieving Tenant of the obligation to pay Monthly Rent or any other obligations under this Lease, and without any liability to Tenant for re-entry

removal of Tenant's property.

#### 26. Waiver of Lease Provisions.

No waiver of any provision of this Lease will be deemed a waiver of any other provision or a waiver of that same provision on a subsequent occasion. The receipt of rent by Lessor with knowledge of a default under this Lease by Tenant will not be deemed a waiver of the default. Lessor will not be deemed to have waived any provision of this Lease by any action or inaction and no waiver will be effective unless it is done by expressed written agreement signed by Lessor. Any payment by Tenant and acceptance by Lessor of a lesser amount than the full amount of all Monthly Rent and other charges then due will be applied to the earliest amounts due. No endorsement or statement on any check or letter for payment of rent or other amount will be deemed an accord and satisfaction, and Lessor may accept such check or payment without prejudice to its right to recover the balance of any rent or other amount or to pursue any other remedy provided in this Lease. No acceptance of payment of less than the full amount due will be deemed a waiver of the right to the full amount due together with any interest and service charges.

#### 27. Return of Possession to Lessor.

On expiration of the Term or sooner termination of this Lease, Tenant will return possession of the Premises to Lessor, without notice from Lessor, in good order and condition, except for ordinary wear and damage, destruction or conditions Tenant is not required to remedy under this Lease. If Tenant does not return possession of the Premises to Lessor, Tenant will pay Lessor all resulting damages Lessor may suffer and will indemnify Lessor against all claims made by any new tenant of all or any part of the Premises. Tenant will give Lessor all keys for the Premises and will inform Lessor of combinations on any locks and safes on the Premises. Any property left in the Premises after expiration or termination of this Lease or after the Premises have been vacated by Tenant will become the property of Lessor to dispose of as Lessor chooses.

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#### 28. Holding Over.

If Tenant remains in possession of the Premises after expiration of the Term without a new lease, it may do so only with written consent by Lessor, and any such holding over will be from month-to-month subject to all the same provisions of this Lease, except that the Monthly Base Rent will be the Monthly Base Rent stated in Lessor's consent if a new Monthly Base Rent is stated, or double the Monthly Base Rent under this Lease if no new Monthly Base Rent is stated in Lessor's consent. Any holding over without Lessor's consent will be at double the Monthly Rent under this Lease. The month-to-month occupancy may be terminated by Lessor or Tenant on the last day of any month by at least 30 days' prior written notice to the other.

#### 29. Security Deposit.

Tenant deposits \$9,276.00 with Lessor as a security deposit. Lessor may commingle the security deposit with other funds but will refund this amount to Tenant without interest on termination of this Lease, less any amounts necessary in Lessor's reasonable opinion to pay the cost of repair or restoration of the Premises to the condition required under this Lease or to cure any defaults of Tenant under this Lease.

### 30. Brokers.

Lessor and Tenant represent and warrant one to another that except for Joseph Antonucci with Landmark Partners, neither of them has employed or otherwise used any broker or agent in relation to this Lease. Lessor will indemnify and hold Tenant harmless, and Tenant will indemnify and hold Lessor harmless, from and against any claims for brokerage or other commissions or fees arising out of any breach of the foregoing representation and warranty by the respective indemnitors.

### 31. Notices.

Any notice under this Lease will be in writing, and will be sent by prepaid certified mail, or by telegram confirmed by certified mail, addressed to Tenant at the Premises and to Lessor at 1550 Utica Avenue South, Suite 120, St. Louis Park, Minnesota 55416, or to such other address as is designated in a notice given under this Section. A notice will be deemed given on the date mailed. Lessor's statements of Costs and other routine mailings to tenants need not be sent by certified mail.

### 32. Governing Law.

This Lease will be construed under and governed by the laws of Minnesota. If any provision of this Lease is illegal or unenforceable, it will be severable and all other provisions will remain in force as though the severable provision had never been included.

### 33. Entire Agreement.

This Lease contains the entire agreement between Lessor and Tenant regarding the Premises. Tenant agrees that it has not relied on any statement, representation or warranty of any person except as set out in this Lease. This Lease may be modified only by an agreement in writing signed by Lessor and Tenant. No surrender of the Premises, or of the remainder of the Term, will be valid unless accepted by Lessor in writing.

### 34. Successors and Assigns.

All provisions of this Lease will be binding on and for the benefit of the successors and assigns of Lessor and Tenant, except that no person or entity holding under or through Tenant in violation of any provision of this Lease will have any right or interest in this Lease or the Premises.

Lessor and Tenant have executed this Lease to be effective as of the date stated in the first paragraph of this Lease.

Lessor:

MEPC AMERICAN PROPERTIES INC.

By: /s/ Peter ?????  
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Its: Senior Vice President

And

By: /s/ ????? ?????  
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Its: Vice President

TENANT: RINGER CORPORATION

By: /s/ Mark Eisenschenk  
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Mark Eisenschenk

Its: Chief Financial Officer

RINGER CORPORATION  
1996 INCENTIVE AND STOCK OPTION PLAN

SECTION 1. PURPOSE.

The purpose of this 1996 Incentive and Stock Option Plan (the "Plan") is to promote the interests of Ringer Corporation (the "Company") and its shareholders by aiding the Company in attracting and retaining employees and directors capable of contributing to the growth and success of, and providing strategic direction to, the Company, and by offering such employees and directors an opportunity to acquire a proprietary interest in the Company, thereby providing them with incentives to put forth maximum efforts for the success of the Company's business and aligning the interests of such employees and directors with those of the Company's shareholders.

SECTION 2. DEFINITIONS.

As used in the Plan, the following terms shall have the meanings set forth below:

(a) "Affiliate" shall mean (i) any entity that, directly or indirectly through one or more intermediaries, is controlled by the Company and (ii) any entity in which the Company has a significant equity interest, in each case as determined by the Committee.

(b) "Award" shall mean any Option, Restricted Stock or other award granted under the Plan.

(c) "Award Agreement" shall mean any written agreement, contract or other instrument or document evidencing any Award granted under the Plan.

(d) "Code" shall mean the Internal Revenue Code of 1986, as amended from time to time, and any regulations promulgated thereunder.

(e) "Committee" shall mean a committee of the Board of Directors of the Company designated by such Board to administer the Plan, which shall consist of members appointed from time to time by the Board of Directors and shall be composed solely of two or more "non-employee directors" within the meaning of Rule 16b-3, each of whom is an "outside director" within the meaning of Section 162(m) of the Code to the extent required by such Section.

(f) "Company" shall mean Ringer Corporation, a Minnesota corporation, and any successor corporation.

(g) "Eligible Person" shall mean any employee, officer, director, consultant or independent contractor providing services to the Company or any Affiliate.

(h) "Exchange Act" shall mean the Securities and Exchange Act of 1934, as amended.

(i) "Fair Market Value" shall mean, with respect to any property (including, without limitation, any Shares or other securities), the fair market value of such property determined by such methods or procedures as the Committee shall establish in good faith from time to time. Where there is a public market for the Shares, the fair market value per Share on a given date shall be the closing price of a Share in the over-the-counter market on such date, as reported in The Wall Street Journal (or, if not so reported, as otherwise reported by The Nasdaq Stock Market ("Nasdaq")) or, in the event the Shares are traded on the Nasdaq National Market ("NMS") or listed on a stock exchange, the fair market value per Share shall be the closing price on such system or exchange on such date, as reported in The Wall Street Journal; if such market or exchange is not open for trading on such date, the Fair Market Value shall be determined as of the day closest to such date when such market or exchange is open for trading.

(j) "Incentive Stock Option" shall mean an option granted under Section 6(a) of the Plan that is intended to meet the requirements of Section 422 of the Code or any successor provision.

(k) "Non-Qualified Stock Option" shall mean an option granted under Section 6(a) of the Plan that is not intended to be an Incentive Stock Option.

(l) "Option" shall mean an Incentive Stock Option or a Non-Qualified Stock Option, and shall include Reload Options.

(m) "Other Stock Grant" shall mean any right granted under Section 6(c) of the Plan.

(n) "Participant" shall mean an Eligible Person whom the Committee designates to receive an Award under the Plan.

(o) "Person" shall mean any individual, corporation, partnership, association or trust.

(p) "Restricted Stock" shall mean any Share granted under Section 6(c) of the Plan.

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(q) "Rule 16b-3" shall mean Rule 16b-3 promulgated by the Securities and Exchange Commission under the Exchange Act or any successor rule or regulation.

(r) "Shares" shall mean shares of Common Stock, \$.01 par value, of the Company or such other securities or property as may become subject to Awards pursuant to an adjustment made under Section 4(c) of the Plan.

### SECTION 3. ADMINISTRATION.

(a) Power and Authority of the Committee. The Plan shall be administered by the Committee. Subject to the express provisions of the Plan and to applicable law, the Committee shall have full power and authority to: (i) designate Participants; (ii) determine the type or types of Awards to be granted to each Participant under the Plan; (iii) determine the number of Shares to be covered by each Award; (iv) determine the terms and conditions of any Award or Award Agreement; (v) amend the terms and conditions of any Award or Award Agreement and accelerate the exercisability of Options or the lapse of restrictions relating to Restricted Stock; (vi) interpret and administer the Plan and any instrument or agreement relating to, or Award made under, the Plan; (vii) establish, amend, suspend or waive such rules and regulations and appoint such agents as it shall deem appropriate for the proper administration of the Plan; and (viii) make any other determination and take any other action that the Committee deems necessary or desirable for the administration of the Plan. Unless otherwise expressly provided in the Plan, all designations, determinations, interpretations and other decisions under or with respect to the Plan or any Award shall be within the sole discretion of the Committee, may be made at any time and shall be final, conclusive and binding upon any Participant, any holder or beneficiary of any Award and any employee of the Company or any Affiliate.

(b) Delegation. The Committee may delegate its powers and duties under the Plan to one or more officers of the Company or any Affiliate or a committee of such officers, subject to such terms, conditions and limitations as the Committee may establish in its sole discretion; provided, however, that the Committee shall not delegate its powers and duties under the Plan (i) with regard to officers or directors of the Company or any Affiliate who are subject to Section 16 of Exchange Act or (ii) in such a manner as would cause the Plan not to comply with the requirements of Section 162(m) of the Code to

the extent required by such Section.

(c) Power and Authority of the Board of Directors. Notwithstanding anything to the contrary contained herein, the Board of Directors may, at any time and from time to time, without any further action of the Committee, exercise the powers and duties of the Committee under the Plan.

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#### SECTION 4. SHARES AVAILABLE FOR AWARDS.

(a) Shares Available. Subject to adjustment as provided in Section 4(c), the aggregate number of Shares which may be issued under all Awards under the Plan shall be 500,000. Shares to be issued under the Plan shall be authorized but previously unissued Shares. If any Shares covered by an Award or to which an Award relates are not purchased or are forfeited, or if an Award otherwise terminates without delivery of any Shares, then the number of Shares counted against the aggregate number of Shares available under the Plan with respect to such Award, to the extent of any such forfeiture or termination, shall again be available for granting Awards under the Plan.

(b) Accounting for Awards. For purposes of this Section 4, if an Award entitles the holder thereof to receive or purchase Shares, the number of Shares covered by such Award or to which such Award relates shall be counted on the date of grant of such Award against the aggregate number of Shares available for granting Awards under the Plan.

(c) Adjustments. In the event that the Committee shall determine that any dividend or other distribution (whether in the form of cash, Shares, other securities or other property), recapitalization, stock split, reverse stock split, reorganization, merger, consolidation, split-up, spin-off, combination, repurchase or exchange of Shares or other securities of the Company, issuance of warrants or other rights to purchase Shares or other securities of the Company or other similar corporate transaction or event affects the Shares such that an adjustment is determined by the Committee to be appropriate in order to prevent dilution or enlargement of the benefits or potential benefits intended to be made available under the Plan, then the Committee shall, in such manner as it may deem equitable, adjust any or all of (i) the number and type of Shares (or other securities or other property) which thereafter may be made the subject of Awards, (ii) the number and type of Shares (or other securities or other property) subject to outstanding Awards and (iii) the purchase or exercise price with respect to any Award; provided, however, that the number of Shares covered by any Award or to which such Award relates shall always be a whole number.

## SECTION 5. ELIGIBILITY.

Any Eligible Person, including any Eligible Person who is an officer or director of the Company or any Affiliate, shall be eligible to be designated a Participant. In determining which Eligible Persons shall receive an Award and the terms of any Award, the Committee may take into account the nature of the services rendered by the respective Eligible Persons, their present and potential contributions to the success of the Company or such other factors as the Committee, in its discretion, shall deem relevant. Notwithstanding the foregoing, an Incentive Stock Option may only be granted to full or part-time employees (which term as used

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herein includes, without limitation, officers and directors who are also employees), and an Incentive Stock Option shall not be granted to an employee of an Affiliate unless such Affiliate is also a "subsidiary corporation" of the Company within the meaning of Section 424(f) of the Code or any successor provision.

## SECTION 6. AWARDS.

(a) Options. The Committee is hereby authorized to grant Options to Participants with the following terms and conditions and with such additional terms and conditions not inconsistent with the provisions of the Plan as the Committee shall determine:

(i) Exercise Price. The purchase price per Share purchasable under an Option shall be determined by the Committee; provided, however, that the purchase price per Share purchasable under an Option shall not be less than 100% of the Fair Market Value of a Share on the date of grant of such Option.

(ii) Option Term. The term of each Option shall be fixed by the Committee; provided, however, that the term of an Incentive Stock Option may not extend more than ten years from the date of grant of such Incentive Stock Option.

(iii) Time and Method of Exercise. The Committee shall determine the time or times at which an Option may be exercised in whole or in part and the method or methods by which, and the form or forms (including, without limitation, cash, Shares, other securities or other property, or any combination thereof, having a Fair Market Value on the exercise date equal to the relevant exercise price) in which, payment of the exercise price with respect thereto may be made or deemed to have been made.

(iv) Certain Options to be Treated as Non-Qualified Stock Options. If the aggregate Fair Market Value of all Shares subject to Incentive Stock

Options granted to a Participant under all plans of the Company and its parent and subsidiary corporations (as described in Section 422(d) of the Code) that are exercisable for the first time during any calendar year exceeds \$100,000 at the time an Option is granted to such Participant, then such Option shall be treated as an Option that does not qualify as an Incentive Stock Option.

(v) Ten Percent Shareholder Rule. Notwithstanding any other provision in the Plan, if at the time an Option is otherwise to be granted pursuant to the Plan to a Participant who owns, directly or indirectly (within the meaning of Section 424(d) of the Code), Common Stock of the Company possessing more than 10% of the total combined voting power of all classes of stock of the Company or its parent or any subsidiary, then any Incentive Stock Option to be granted to such Participant pursuant to the Plan shall satisfy the

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requirements of Section 422(c)(5) of the Code, and the exercise price of such Option shall be not less than 110% of the Fair Market Value of the Shares covered, and such Option by its terms shall not be exercisable after the expiration of five years from the date such Option is granted.

(vi) Option Limitations Under the Plan For Purposes of Section 162(m). No Eligible Person who is an employee of the Company at the time of grant may be granted any Option, the value of which is based solely on an increase in the value of the Shares after the date of grant of such Option, covering more than 500,000 Shares in the aggregate in any calendar year. The foregoing annual limitation specifically includes the grant of any Option representing "qualified performance-based compensation" within the meaning of Section 162(m) of the Code to the extent required by such Section.

(b) Restricted Stock. The Committee is hereby authorized to grant Awards of Restricted Stock to Participants with the following terms and conditions and with such additional terms and conditions not inconsistent with the provisions of the Plan as the Committee shall determine:

(i) Restrictions. Shares of Restricted Stock shall be subject to such restrictions as the Committee may impose (including, without limitation, any limitation on the right to vote a Share of Restricted Stock or on the right to receive any dividend or other right or property with respect thereto), which restrictions may lapse separately or in combination, at

such time or times, in such installments or otherwise as the Committee may deem appropriate.

(ii) Stock Certificates. Any Restricted Stock granted under the Plan shall be evidenced by issuance of a stock certificate or certificates which certificate or certificates shall be held by the Company. Such certificate or certificates shall be registered in the name of the Participant and shall bear an appropriate legend referring to the terms, conditions and restrictions applicable to such Restricted Stock.

(iii) Forfeiture; Delivery of Shares. Except as otherwise determined by the Committee, upon termination of employment (as determined under criteria established by the Committee) during the applicable restriction period, all Shares of Restricted Stock at such time subject to restriction shall be forfeited and become authorized but unissued Shares; provided, however, that the Committee, when it finds that a waiver would be in the best interests of the Company, may waive in whole or in part any or all remaining restrictions with respect to Shares of Restricted Stock. Any Share representing Restricted Stock that is no longer subject to restrictions shall be delivered to the holder thereof promptly after the applicable restrictions lapse or are waived.

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(c) Other Stock Grants. The Committee is hereby authorized, subject to the terms of the Plan and any applicable Award Agreement, to grant to Participants Shares without restrictions thereon as are deemed by the Committee to be consistent the purpose of the Plan; provided, however, that such grants must comply with Rule 16b-3 and applicable law.

(d) General.

(i) No Cash Consideration for Awards. Awards shall be granted for no cash consideration or for such minimal cash consideration as may be required by applicable law.

(ii) Grant of Additional Awards. An Eligible Person who has been granted an Award under this Plan may be granted additional Awards under the Plan if the Committee shall so determine.

(iii) Forms of Payment under Awards. Subject to the terms of the Plan

and of any applicable Award Agreement, payments or transfers to be made by the Company or an Affiliate upon the grant, exercise or payment of an Award may be made in such form or forms as the Committee shall determine (including, without limitation, cash, Shares, other securities or other property or any combination thereof), and may be made in a single payment or transfer, in installments or on a deferred basis, in each case in accordance with rules and procedures established by the Committee.

(iv) Limits on Transfer of Awards. No Award (other than Other Stock Grants) and no right under any such Award shall be transferable by a Participant otherwise than by will or by the laws of descent and distribution. No Award or right under any such Award may be pledged, alienated, attached or otherwise encumbered, and any purported pledge, alienation, attachment or encumbrance thereof shall be void and unenforceable against the Company or any Affiliate.

(v) Term of Awards. The term of each Award shall be for such period as may be determined by the Committee and the Committee shall be under no duty to provide terms of like duration for Awards granted under the Plan.

(vi) Restrictions; Securities Exchange Listing. All certificates for Shares or other securities delivered under the Plan pursuant to any Award or the exercise thereof shall be subject to such stop transfer orders and other restrictions as the Committee may deem advisable under the Plan or the rules, regulations and other requirements of the Securities and Exchange Commission and any applicable federal or state securities laws, and the Committee may cause a legend or legends to be placed on any such certificates to make appropriate reference to such restrictions. If the Shares or other

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securities are quoted on Nasdaq, traded on NMS or listed on a stock exchange, the Company shall not be required to deliver any Shares or other securities covered by an Award unless and until such Shares or other securities have been admitted for quotation or trading on NMS or such stock exchange.

#### SECTION 7. INCOME TAX WITHHOLDING; TAX BONUSES.

(a) Withholding. In order to comply with all applicable federal or state income tax laws or regulations, the Company may take such action as it deems appropriate to ensure that all applicable federal or state payroll, withholding, income or other taxes, all of which are and shall remain the sole and absolute responsibility of a Participant, are withheld or collected from such Participant. In order to assist a Participant in paying all or a portion of the federal and state taxes to be withheld or collected upon exercise or receipt of (or the lapse of restrictions relating to) an Award, the Committee, in its discretion and subject to such additional terms and conditions as it may adopt,

may permit the Participant to satisfy such tax obligation by (i) electing to have the Company withhold a portion of the Shares otherwise to be delivered upon exercise or receipt of (or the lapse of restrictions relating to) such Award with a Fair Market Value equal to the amount of such taxes or (ii) delivering to the Company Shares other than Shares issuable upon exercise or receipt of (or the lapse of restrictions relating to) such Award with a Fair Market Value equal to the amount of such taxes. The election, if any, must be made on or before the date that the amount of tax to be withheld is determined.

(b) Tax Bonuses. The Committee, in its discretion, shall have the authority, at the time of grant of any Award under this Plan or at any time thereafter, to approve cash bonuses to designated Participants to be paid upon their exercise or receipt of (or the lapse of restrictions relating to) Awards in order to provide funds to pay all or a portion of the federal and state taxes due as a result of such exercise or receipt (or the lapse of such restrictions). The Committee shall have full authority in its discretion to determine the amount of any such tax bonus.

#### SECTION 8. GENERAL PROVISIONS.

(a) No Rights to Awards. No Eligible Person, Participant or other Person shall have any claim to be granted any Award under the Plan, and there is no obligation for uniformity of treatment of Eligible Persons, Participants or holders or beneficiaries of Awards under the Plan. The terms and conditions of Awards need not be the same with respect to any Participant or with respect to different Participants.

(b) Award Agreements. No Participant will have rights under an Award granted to such Participant unless and until an Award Agreement shall have been duly executed on behalf of the Company and, if requested by the Company, signed by the Participant.

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(c) No Limit on Other Compensation Arrangements. Nothing contained in the Plan shall prevent the Company or any Affiliate from adopting or continuing in effect other or additional compensation arrangements, and such arrangements may be either generally applicable or applicable only in specific cases.

(d) No Right to Employment. The grant of an Award shall not be construed as giving a Participant the right to be retained as an employee or director of the Company or any Affiliate, nor will it affect in any way the right of the Company or an Affiliate to terminate such employment or directorship at any time, with or without cause. In addition, the Company or an Affiliate may at any time dismiss a Participant from employment or directorship free from any

liability or any claim under the Plan, except as otherwise expressly provided in the Plan or in any Award Agreement.

(e) Governing Law. The validity, construction and effect of the Plan or of any Award, and any rules and regulations relating to the Plan or any Award, shall be determined in accordance with the laws of the State of Minnesota.

(f) Severability. If any provision of the Plan or any Award is or becomes or is deemed to be invalid, illegal or unenforceable in any jurisdiction or would disqualify the Plan or any Award under any law deemed applicable by the Committee or the Board of Directors, such provision shall be construed or deemed amended to conform to applicable law, or if it cannot be so construed or deemed amended without, in the determination of the Committee or the Board of Directors, materially altering the purpose or intent of the Plan or the Award, such provision shall be stricken as to such jurisdiction or Award, and the remainder of the Plan or any such Award shall remain in full force and effect.

(g) No Trust or Fund Created. Neither the Plan nor any Award shall create or be construed to create a trust or separate fund of any kind or a fiduciary relationship between the Company or any Affiliate and a Participant or any other Person. To the extent that any Person acquires a right to receive payments from the Company or any Affiliate pursuant to an Award, such right shall be no greater than the right of any unsecured general creditor of the Company or any Affiliate.

(h) No Fractional Shares. No fractional Shares shall be issued or delivered pursuant to the Plan or any Award, and the Committee shall determine whether cash shall be paid in lieu of any fractional Shares or whether such fractional Shares or any rights thereto shall be canceled, terminated or otherwise eliminated.

(i) Headings. Headings are given to the Sections and subsections of the Plan solely as a convenience to facilitate reference. Such headings shall not be deemed in any way material or relevant to the construction or interpretation of the Plan or any provision thereof.

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(j) Other Benefits. No compensation or benefit awarded to or realized by any Participant under the Plan shall be included for the purpose of computing such Participant's compensation under any compensation-based retirement, disability, or similar plan of the Company unless required by law or otherwise provided by such other plan.

#### SECTION 9. AMENDMENT AND TERMINATION; ADJUSTMENTS.

Except to the extent prohibited by applicable law and unless otherwise

expressly provided in an Award Agreement or in the Plan:

(a) Amendments to the Plan. The Board of Directors of the Company may amend, alter, suspend, discontinue or terminate the Plan; provided, however, that, notwithstanding any other provision of the Plan or any Award Agreement, without the approval of the shareholders of the Company, no such amendment, alteration, suspension, discontinuation or termination shall be made that, absent such approval, would:

(i) violate the rules or regulations of Nasdaq, NMS or any stock exchange that are applicable to the Company; or

(ii) cause the Company to be unable, under the Code, to grant Incentive Stock Options under the Plan.

(b) Amendments to Awards. The Committee may waive any conditions or rights of the Company under any outstanding Award, prospectively or retroactively. The Committee may not amend, alter, suspend, discontinue or terminate any outstanding Award, prospectively or retroactively, without the consent of the Participant or holder or beneficiary thereof, except as otherwise provided herein or in the Award Agreement.

(c) Correction of Defects, Omissions and Inconsistencies. The Committee may correct any defect, supply any omission or reconcile any inconsistency in the Plan or any Award in the manner and to the extent it shall deem desirable to carry the Plan into effect.

#### SECTION 10. EFFECTIVE DATE; TERM.

(a) Effective Date. The Plan shall be effective as of November 25, 1996 (the "Effective Date"); provided, however, that if the Company's shareholders do not approve the Plan at the next meeting of Shareholders, the Plan shall be null and void and all Awards granted prior to the date of such Special Meeting shall be of no force or effect.

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(b) Term. Awards shall be granted under the Plan only during a 10-year period beginning on the Effective Date. Unless otherwise expressly provided in the Plan or in an applicable Award Agreement, however, any Award theretofore granted may extend beyond the end of such 10-year period, and the authority of

the Committee provided for hereunder with respect to the Plan and any Awards, and the authority of the Board of Directors of the Company to amend the Plan, shall extend beyond the termination of the Plan.

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## SUBSIDIARIES OF THE REGISTRANT

- Safer, Inc.: A wholly owned subsidiary of Ringer Corporation, incorporated under the laws of the State of Delaware.
- Safer, Ltd.: A wholly owned subsidiary of Safer, Inc., incorporated under the laws of Canada.

## INDEPENDENT AUDITORS' CONSENT

Ringer Corporation and Subsidiary

We consent to the incorporation by reference in the Registration Statement on Form S-8 (SEC File Nos. 33-37806 and 33-72666) of our report dated December 3, 1996 (December 12, 1996 as to Note 13) appearing in Form 10-KSB of Ringer Corporation and subsidiary for the year ended September 30, 1996.

Deloitte & Touche LLP  
December 26, 1996  
Minneapolis, Minnesota

## POWER OF ATTORNEY

Each person whose signature appears below hereby constitutes and appoints Stanley Goldberg and Mark G. Eisenschenk and each of them, his true and lawful attorneys-in-fact and agents, with full power of substitution and re-substitution for him and in his name, place and stead, in any and all capacities, to sign the Ringer Corporation (the "Company") Annual Report on Form 10-KSB for the year ended September 30, 1996 (the "1996 Form 10-KSB") under the Securities Exchange Act of 1934, as amended, and any and all amendments thereto, and to file such 1996 Form 10-KSB and any and all such amendments, with all exhibits thereto, and all other documents in connection therewith, with the Securities and Exchange Commission, state securities administrations and any and all other agencies or administrations as may be deemed necessary or advisable by said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing requisite or necessary to be done in and about the premises, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or either of them, or their or his substitutes, may lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, this Power of Attorney has been signed on the 14th day of November 1996, by the following persons:

/s/ Gordon F. Stofer

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Gordon F. Stofer

/s/ Robert W. Fischer

-----

Robert W. Fischer

/s/ Stanley Goldberg

-----

Stanley Goldberg

/s/ Donald E. Lovness

-----

Donald E. Lovness

/s/ John R. Hetterick

-----

John R. Hetterick

/s/ Franklin Pass

-----

Franklin Pass

/s/ Frederick F. Yanni, Jr.

-----

Frederick F. Yanni, Jr.



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THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM (A) CONSOLIDATED FINANCIAL STATEMENTS CONTAINED IN THE COMPANY'S ANNUAL REPORT ON FORM 10-KSB DATED SEPTEMBER 30, 1996 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH (B) FORM 10-KSB DATED SEPTEMBER 30, 1996.

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