



*while continuing to grow rapidly.*

*management technology,*

*of DBMS and all information*

*position itself at the forefront*

*strategic steps necessary to*

**I**nformix has taken the bold,

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*Informix Corporation develops, markets, and supports a range of high performance, Database Management and Office Automation software products. The company is the leading supplier of SQL-based Database Management and Fourth Generation Language Application Development Tools for Unix™-based computer systems. Informix offers products for the Unix, Macintosh™, MS™-DOS, VMS™, OS/2™, and MVS™ operating systems, and a wide range of networked computer systems.*

*With each successive year, the company has strived to provide industry leadership in the development of new data management technology, while sustaining a rapid rate of growth. This year, Informix has taken a significant step toward realizing its strategic vision of information management through a merger with Innovative Software, Inc., a leading vendor of integrated office automation and business productivity software. With the addition of new front-end Office Automation products, increased financial resources, and enhanced distribution capabilities, the company's goal is to lead the industry in the full-scale integration of Office Automation and Database Management software technologies across multiple operating environments. These enhanced capabilities and resources will allow Informix to address what it believes will be the fastest growing segments of the information processing industry in the years to come.*

## FINANCIAL HIGHLIGHTS

<i>(In thousands except per share data)</i>	1987	1986	1985	1984	1983
<i>For the Year</i>					
Revenues	\$41,616	\$21,108	\$10,578	\$ 5,210	\$ 2,192
Income Before Taxes	10,515	4,647	2,118	1,015	187
Net Income	5,941	2,463	1,174	620	169
Earnings per Share	\$ 0.66	\$ 0.36	\$ 0.19	\$ 0.12	\$ 0.03
Weighted Average Shares Outstanding (Fully Diluted)	9,000	6,860	6,075	5,144	5,270
<i>At Year End</i>					
Working Capital	\$38,942	\$13,961	\$ 2,780	\$ 463	\$ 288
Total Assets	54,451	21,128	7,071	2,459	1,157
Stockholders' Equity	44,636	15,679	3,323	1,075	549
Shares Issued and Outstanding	8,619	7,152	5,514	4,547	4,273

### Net Revenues

*(In thousands)*

83	84	85	86	87
\$2,192	\$5,210	\$10,578	\$21,108	\$41,616

### Net Income

*(In thousands)*

83	84	85	86	87
\$169	\$620	\$1,174	\$2,463	\$5,941

### Earnings Per Share

*(In dollars)*

83	84	85	86	87
\$0.03	\$0.12	\$0.19	\$0.36	\$0.66

### Stockholders' Equity

*(In thousands)*

83	84	85	86	87
\$549	\$1,075	\$3,323	\$15,679	\$44,636

As we begin our eighth year of operations, I am delighted to report that Informix Corporation was officially combined with Innovative Software, Inc. on February 8, 1988. Michael J. Brown, our new President and Chief Operating Officer, and I would like to welcome everyone who held stock in either separate company to the new Informix Corporation. As a matter of form, however, the bulk of this report will review the results of 1987, a period prior to the merger.

By every measure, 1987 was a remarkable year of growth for Informix. Net revenues increased 97 percent to \$41,616,000 as compared with \$21,108,000 achieved in 1986. Net income increased to \$5,941,000 (or \$.66 per share). This represented a 141 percent increase over last year's net income figure of \$2,463,000 (or \$.36 per share). Our net profit margin after taxes increased to 14.3 percent as compared with 11.7 percent achieved in 1986. Worldwide, our

business grew significantly with 36 percent of 1987 revenues generated via international sales.

In a year that consisted of many significant corporate achievements, we made our most important strides in the area of corporate development. Our efforts in this regard culminated in the completion of a merger with Innovative Software, Inc. Under the terms of the merger, Innovative stockholders received three-quarters of a share of Informix common stock for each share of Innovative common stock. The newly combined company is called Informix Software, Inc. and it is the primary operating subsidiary of Informix Corporation. We will operate out of headquarters located both in Menlo Park, California and Lenexa, Kansas.

Innovative's principal product is the Smart Software System, an integrated business software package that consists of three modules: the Smart Spreadsheet with Business Graphics, the Smart Word Processor, and the Smart Data Manager. A more recently announced product, Wingz,™ is an advanced presentation spreadsheet/business productivity product for the Apple Macintosh environment, and is expected for shipment in the second half of 1988.

The combination of our two companies represents much more than the short-term synergies attainable by combining two outstanding product lines.

The combined companies share a common vision of the next generation of software products. We believe that major new technology trends in our industry—connectivity, the rise of mid-range computers, object-oriented database managers, and windowed human interfaces—all intersect, and point to a new age of information processing and information management.

When advanced human interface technology is integrated with powerful indexed storage and retrieval systems, a new class of information management software will emerge. The new Informix Corporation has been formed specifically to bring this new type of software to our customers. Our goal is to lead the industry in the development, marketing and support of integrated office automation, fourth generation language, and database management products. The increased financial resources (including large cash reserves), strengthened distribution, and R&D capabilities that we possess as a result of the merger, will allow us to address what we believe will be the fastest growing segments of the market.

1987 was also marked by the successful completion of a second public offering of nearly 1.2 million shares of Informix common stock. The sale of these additional shares resulted in net proceeds of approximately \$21,500,000.

We continued to expand our sales and product marketing organizations to better serve the needs of our customers. Our direct sales efforts were restructured around major business segments such as Telecommunications, Fortune 1000, Government, International, and OEM. Our ability to focus on these key business segments has met with much success.

As our industry matures, we believe that the quality and the range of support services that we provide will become an increasingly important competitive advantage. For this reason, we have continued to expand our Customer Services Group by increasing our Consulting Services and Regency Support Groups. Our Consulting Services Group provides technical and business support to our customers based on an hourly rate. Our Regency Support Group provides premium technical services to customers that may have unusually demanding or highly complex support requirements.

The total number of employees increased 96 percent, from 214 at the end of 1986 to 419 employees at the end of the year (prior to the completion of the merger).

1987 was an outstanding year for new product introductions and enhancements. In addition, the quality of our software products received much favorable attention and accolades from our user base as well as from the trade press. The introduction of **INFORMIX-TURBO™** marked a significant milestone in our new product development efforts. **INFORMIX-TURBO** is a fault-tolerant transaction processing database server designed especially for high performance in large, multi-user Unix environments. This strategic product will provide the foundation for future genera-

tions of new products. In 1987, we also introduced 4GL programming tools for the mainframe environment. **REPORT/DB2** is a 4GL report writer that runs as a batch program in IBM's MVS environment. It is the first of a family of application development tools and utilities for DB2. Another new mainframe product, **BATCH/SPUFI**, enhances IBM SPUFI capabilities for IBM's DB2.

We introduced two new programming tools in 1987 that dramatically increase 4GL productivity. The **INFORMIX-4GL™ Rapid Development System** reduces development time and eliminates the need for an external C compiler or linker. The **INFORMIX-4GL Interactive Debugger** enables developers to perform source code-level debugging operations interactively within a running program. These new products are the second generation of our industry-leading 4GL products, and

reflect our continuing investment in 4GL application development tools so that we can maintain our leadership position.

During the year, we introduced higher performance versions of INFORMIX-4GL, INFORMIX-SQL™, and INFORMIX-ESQL/C (Embedded SQL for the C Programming Language) with performance enhancements for Digital Equipment Corporation's VMS operating system. We also announced that our DBMS products can now be distributed across networks of DOS-based PCs and VAX/VMS systems via DECnet™. This distributed processing capability provides VMS users with the ability to off-load front-end processing to PCs, enabling the back end on VAX/VMS machines to support a greater number of concurrent users. This employs the same architecture we have been offering for Unix-to-Unix and MS-DOS to Unix networking.

Finally, in a period of unusual turbulence in the nation's financial markets, Informix ranked as the top-performing stock of 1987, in a year-to-year performance comparison of 157 high-tech Silicon

Valley stocks recently published by the *San Jose Mercury News*.

In 1988, as Chairman and Chief Executive Officer of the new Informix Corporation, I intend to devote more of my time to the development of new products and less time to day-to-day management. Michael J. Brown, formerly President and Chief Executive Officer of Innovative Software, Inc., is now our President and Chief Operating Officer. Mike's proven leadership and management abilities will be a great asset as we move forward in this next phase of our development. He and I have assembled a talented team of experienced managers through the merger of our two companies.

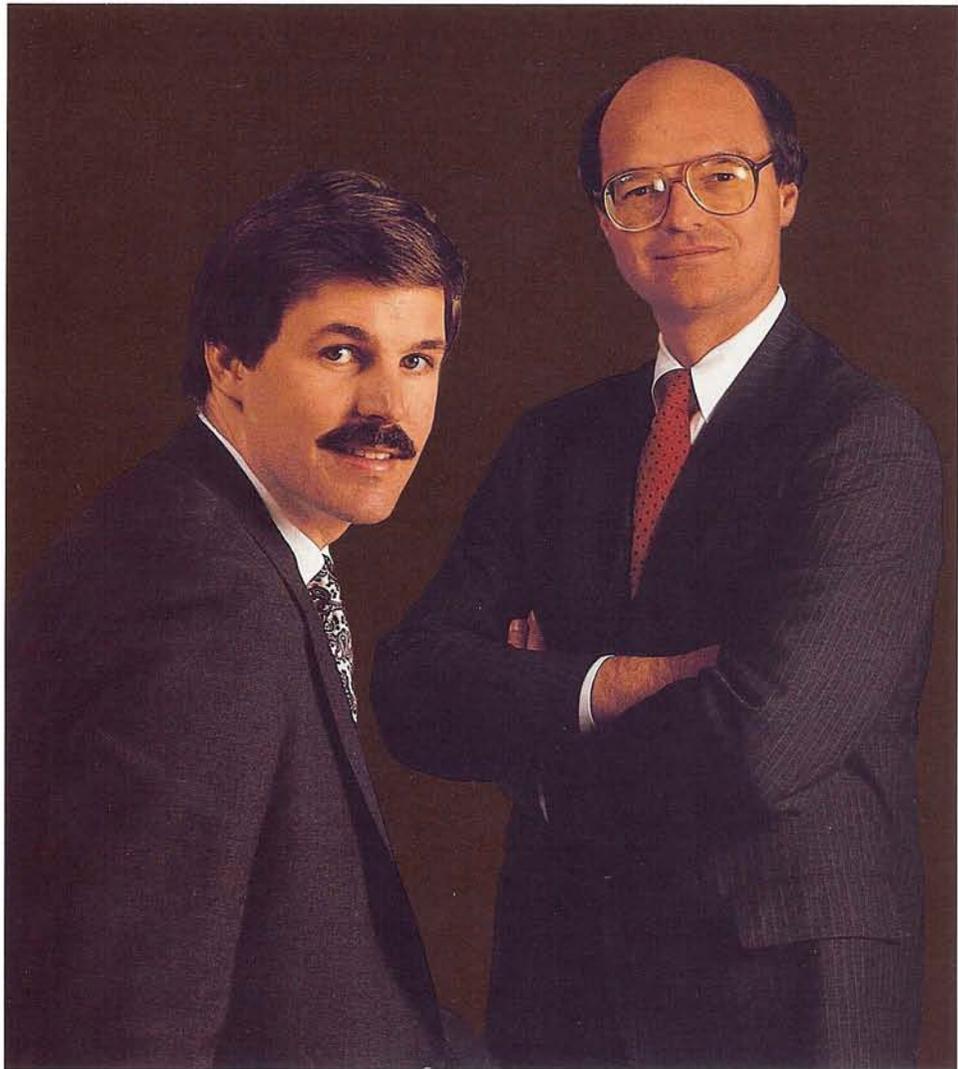
Today, the new Informix Corporation is a company that is at the forefront of information management technology. We are an 800-person entrepreneurial organization backed by a strong balance sheet, and we rank as the world's tenth largest publicly-held packaged software company in terms of combined 1987 revenues. Together, and with your support, we intend to transform an inspired vision of the future of integrated software technology into a reality.



Roger J. Sippl

Chairman and  
Chief Executive Officer

*As a result of the recently completed merger with Innovative Software, Inc., Roger J. Sippl is Chairman and Chief Executive Officer, and Michael J. Brown is President and Chief Operating Officer of the new Informix Corporation. Together, they have assembled a talented team of experienced managers from both companies.*



*Michael J. Brown*  
*President and Chief Operating Officer*

*Roger J. Sippl*  
*Chairman and Chief Executive Officer*

**I**nformix has developed a comprehensive range of industry-leading application development and database management tools based on SQL (Structured Query Language). These products are in use today on over 150 different computer systems manufactured by over 75 different vendors. Several years ago, Informix developed a two-process architecture based on ANSI-Standard SQL to maximize connectivity and compatibility. One process manages the human interface. The other process is an SQL software engine to manage the storage and retrieval of data.

#### **INFORMIX-TURBO**

The introduction of INFORMIX-TURBO, an optional database server for our SQL-based products, marked yet another significant milestone for Informix's new product development efforts. INFORMIX-TURBO is a new transaction processing software engine developed by Informix to boost speed in database operations up to 200 percent. This software product is a fault-tolerant database server designed specifically for high-volume Unix-based systems. Fault-tolerant transaction processing applications are in demand in a wide variety of commercial data processing environments.

#### **INFORMIX-SQL**

INFORMIX-SQL is the leading relational DBMS based on SQL for computers running the Unix operating system. This year, in an independent readers' poll published by *Unix/World* magazine, INFORMIX-SQL was voted the overall favorite software package, ahead of all other Unix-based products. INFORMIX-SQL provides users with easy access to sophisticated application development tools, context-sensitive help, and data management utilities to create full-featured applications quickly.

#### **Embedded SQL**

##### **In Programming Languages**

This series of application development

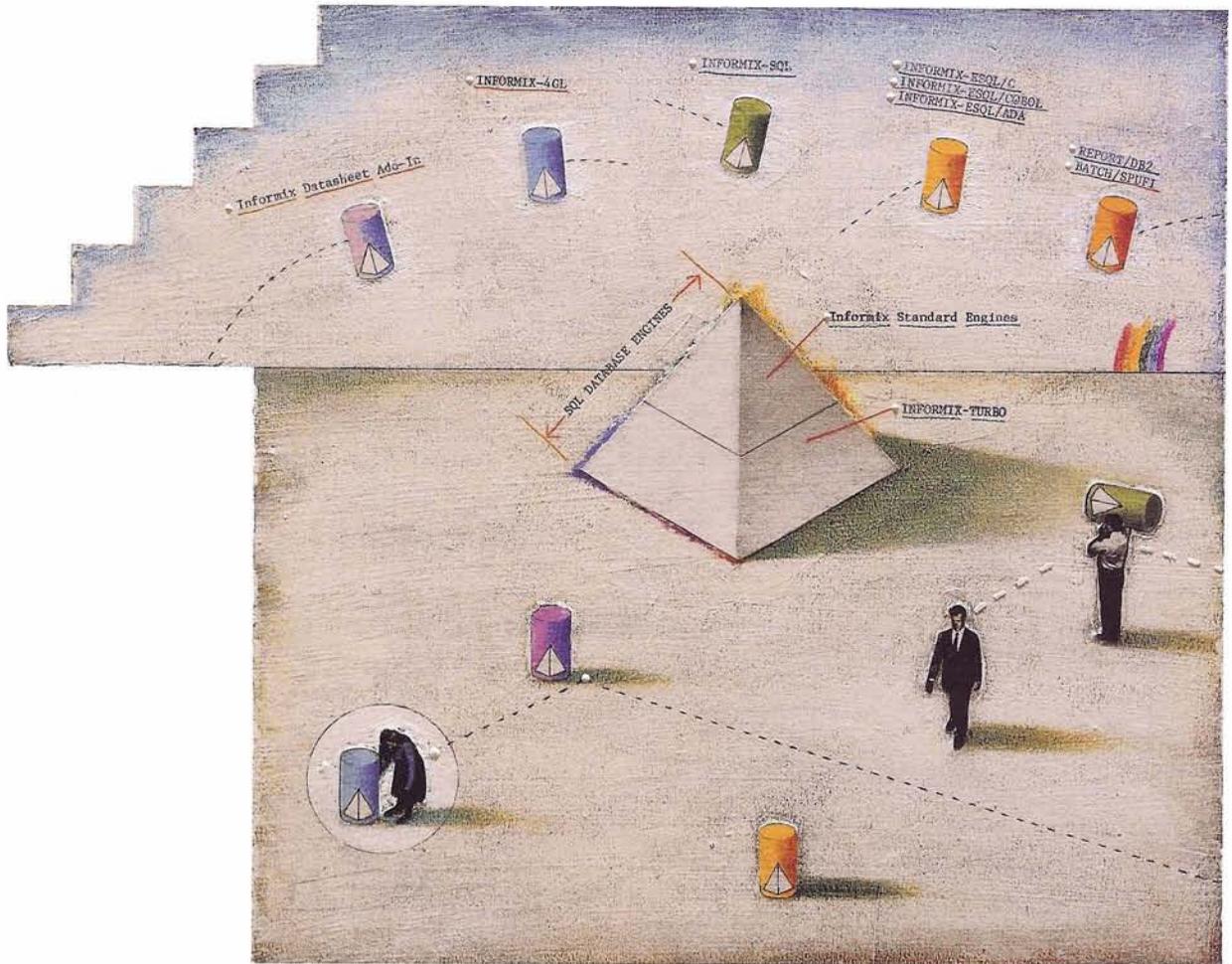
products was developed by Informix to allow programmers to embed powerful SQL statements in their programs. These products add increased functionality to third generation languages such as C, COBOL, and Ada. INFORMIX-ESQL/Ada, introduced in 1987, was developed specifically to meet the needs of application developers working within the federal government.

#### **Informix Datasheet Add-In**

Informix Datasheet Add-In is a seamless DBMS extension to Lotus 1-2-3<sup>®</sup>, the popular spreadsheet program. Special menus and commands extend the capability of 1-2-3 by allowing users to create true, disk-based SQL databases which are independent from any one particular spreadsheet. With Informix Datasheet Add-In, users can create databases, add, delete, and modify data, and use "query by example" techniques, all from within the familiar 1-2-3 interface. Informix Datasheet Add-In was named one of the best new products of 1987 by the editors of *PC Magazine*.

#### **C-ISAM**

C-ISAM is the industry standard indexed sequential access method worldwide for the Unix operating system, and is the internal access method for Informix's SQL-based products. It is a library of C programming language subroutines that allows a programmer to create and manipulate indexed files.



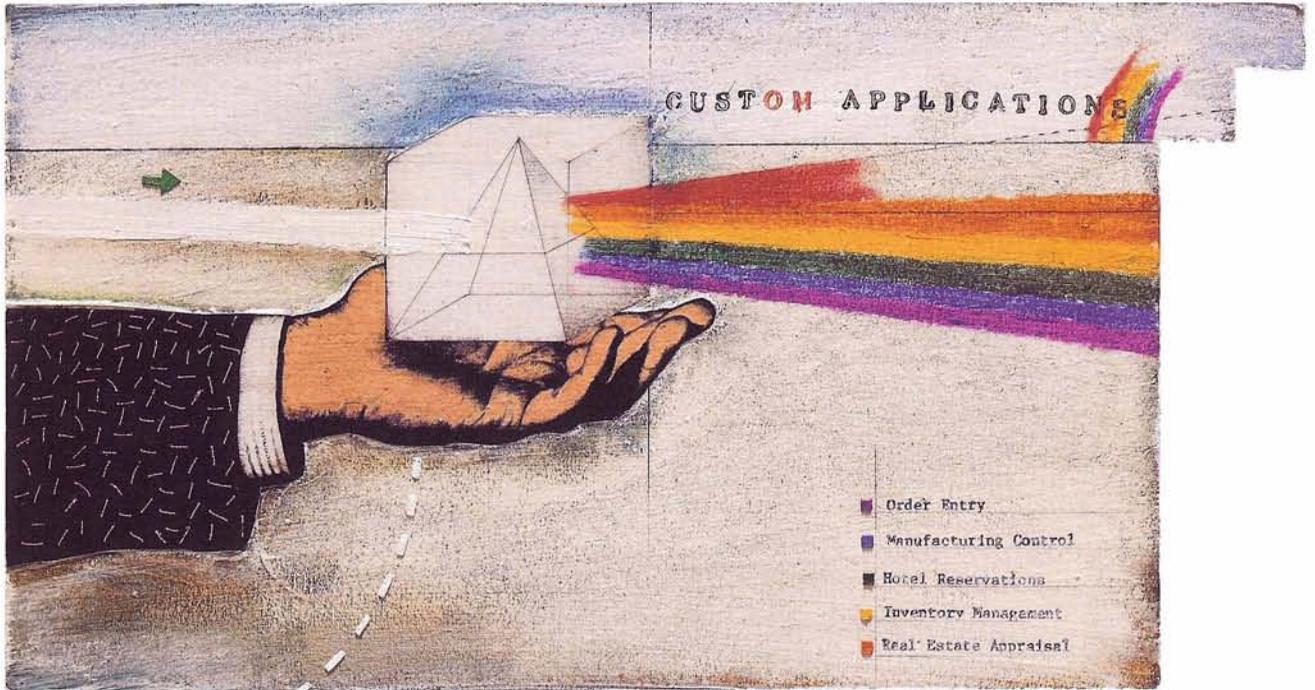
sophisticated application development tools and database engines based on industry-standard SQL.

range of

a complete

developed

**I**nformix has



*developed by Informix.*

*language tools*

*fourth generation*

*advanced SQL-based*

*has been built using*

**A** *broad spectrum of commercial applications*

Advanced fourth generation language software developed by Informix is designed to dramatically simplify the application development process. Today, Informix is an industry leader in providing advanced 4GL programming tools to meet the needs of developers worldwide. Informix is committed to developing and enhancing its line of 4GL tools to make this technology even easier and faster for developers to use. INFORMIX-4GL is available for use on a wide variety of operating system platforms including Unix, VMS, MS-DOS, and OS/2.

Informix's premier product, INFORMIX-4GL, is a proprietary fourth generation language engineered specifically to be the custom application development language of SQL databases. INFORMIX-4GL is a world-class programming tool that is proven to offer up to ten times the productivity achieved using conventional, third generation programming languages such as COBOL or C. With INFORMIX-4GL, programmers write code to specify the end result, rather than work the result backward into an algorithm that the computer can understand. This quantum leap in productivity that programmers can achieve by using products such as INFORMIX-4GL is widely regarded as an industry breakthrough, and is the key to the product's wide acceptance as the industry-leading fourth generation application development environment for Unix-based computers.

Two new fourth generation language products introduced by Informix in 1987

represent the next wave in advanced productivity tools. The new INFORMIX-4GL Rapid Development System reduces development time by quickly compiling 4GL code into Informix's proprietary "p-code," or psuedo code, and executes this code with a p-code runner without the need for a C compiler or linker. Available with this new INFORMIX-4GL product is the new INFORMIX-4GL Interactive Debugger, which enables developers to create programs and diagnose problems quickly by allowing them to perform debugging operations interactively within a running program. Both of these new products provide users with an ideal environment for quickly developing, diagnosing and evaluating the efficiency of programs.

Informix has also been active in developing, marketing and supporting new SQL-based fourth generation language products for IBM's MVS/DB2 mainframe environment. REPORT/DB2, the first such product from Informix, is designed to improve the productivity of application developers, database administrators and information center users. With REPORT/DB2, MVS/DB2 developers can generate complex reports quickly and easily, without having to resort to conventional programming languages. Another new mainframe utility from Informix, BATCH/SPUFI, enhances SQL execution capabilities for IBM's DB2.

For the past two years, Informix has been the only DBMS company to offer a COBOL-replacement caliber 4GL designed specifically for building SQL database applications. We have invested substantially in products that enhance this leadership position in state-of-the art software language technology such as the 4GL Rapid Development System and its animating debugger. We plan to continue to invest in the creation and improvement of application development tools, a marketplace that we perceive to be equal in potential to the DBMS engine software industry itself.

**A**t Informix, we believe that the management of information in the form of spreadsheets, word processing documents, and other office data items is as important as the management of database records. Our goal is to lead the industry in the integration of Office Automation and Database technologies. This year, we took the first steps toward realizing this new "information management" technology through a merger with Innovative Software, Inc. By joining our two companies, we have added additional high performance office automation software expertise, market presence, sales and marketing know-how, and support and training capabilities to meet the needs of our customers.

#### **SmartWare™ From Informix**

The Smart software system is an integrated package of business productivity software that includes spreadsheet with graphics, data management, word processing, and communications. Each SmartWare module is a full-featured environment in its own right, with performance features and functionality that surpass those of other stand-alone office automation software products. Smart features a unique method of modular integration: programs can be used separately or combined together to form a seamless, integrated system. These products are available for the MS-DOS, Unix, and Xenix™ operating systems.

The Smart Spreadsheet with Business Graphics is a high-performance spreadsheet product that can accommodate over 9.9 million cells. It features an extremely versatile graphics mode, and can hold up to four times as much data in the same amount of memory as typical spreadsheets, as well as recalculate faster than any other spreadsheet today.

The Smart Word Processor features accurate on-screen text representation including flying reform, visible page breaks, multiple

typestyles on-screen, custom definable fonts and graphic character sets for drawing lines around important information. Up to fifty documents may be open and edited simultaneously through the use of multiple windows.

The Smart Database Manager allows custom applications to be created utilizing ease-of-use features to meet users' specific needs. The Smart programming language is the only application development tool encompassing each of the business software application areas—database manager, spreadsheet and word processor.

#### **Introducing Wingz**

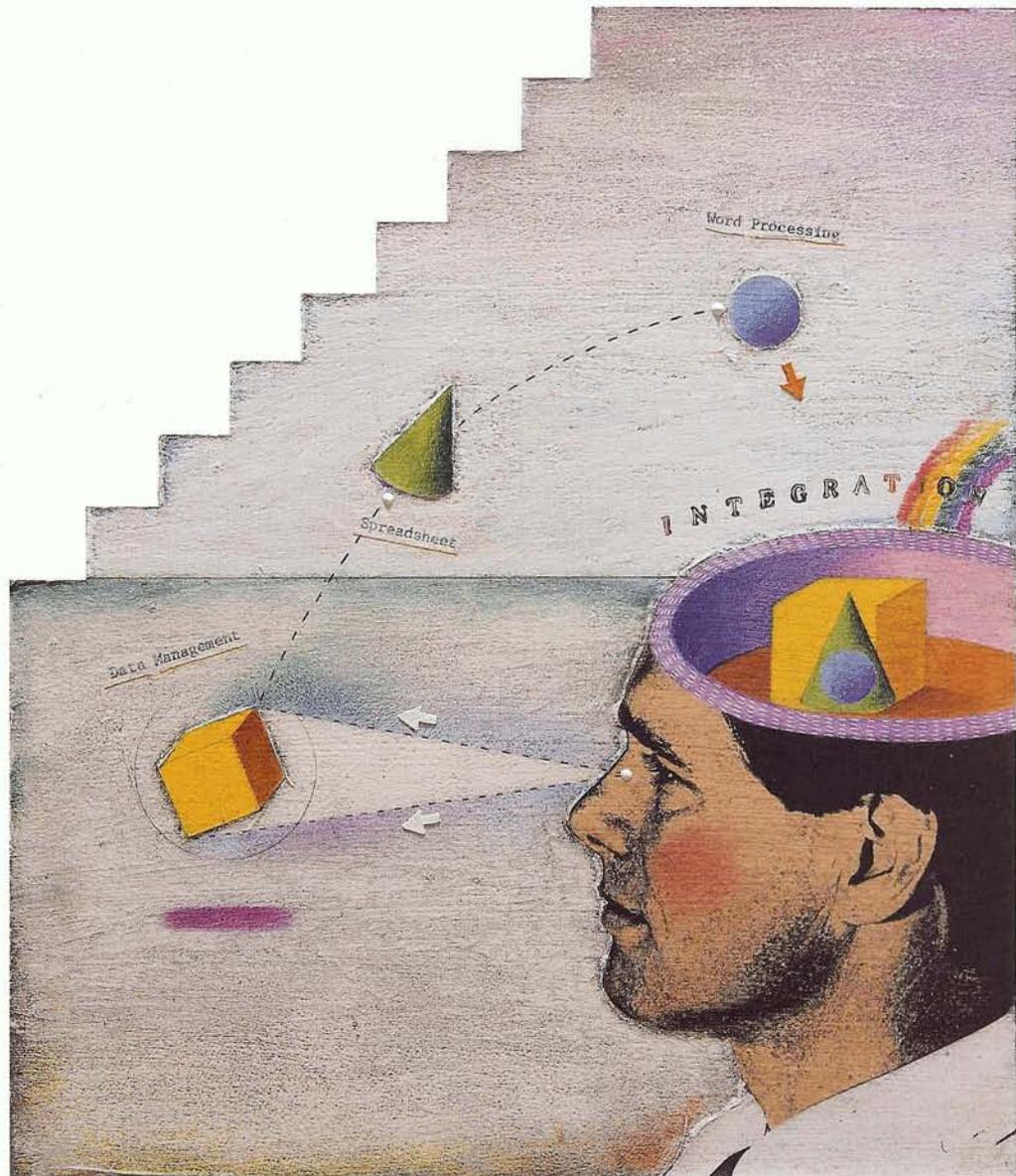
Wingz will be Informix's first product for the new generation of windowed graphical human interfaces. Wingz is a revolutionary new business productivity tool designed for the Apple Macintosh and A/UX™, Apple's implementation of Unix. Versions of Wingz are planned for X-Windows, OS/2 Presentation Manager, and other windowing environments. With Wingz, on a single page, users can incorporate presentation graphics and text processing within a spreadsheet that consists of over 1 billion cells. Text, graphs and charts, scanned images, free-hand illustrations, and worksheet data can be displayed on any page. No other Macintosh software offers Wingz' dramatic combination of 3-D graphics, including variable perspective and rotation. Wingz is planned for shipment in the second half of 1988.

productivity and maximize the intuitive use of computers.

are designed to increase business

software products from Informix

### Office Automation

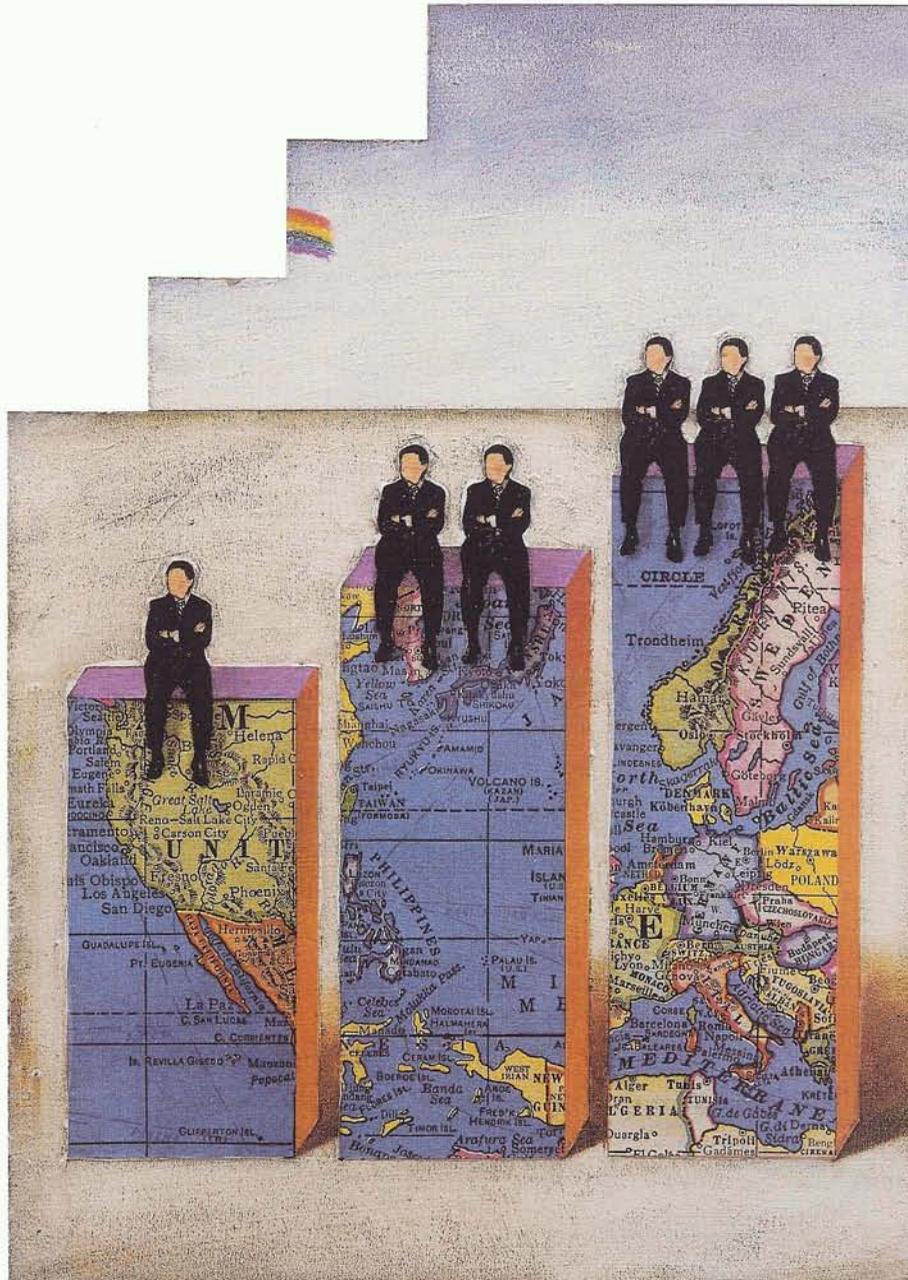


and increase product availability, worldwide.

capabilities to support growth

its marketing and distribution

**I**nformix has expanded



## MARKETING AND DISTRIBUTION

Throughout the year, Informix has continued to increase its distribution capabilities to support growth. Informix relies on a balanced combination of multiple direct and indirect channels in order to ensure broad market coverage and product availability, worldwide.

### Fortune 1000

The needs of Fortune 1000 customers are diverse. These customers require software products that combine superior functionality and high performance. Just as critical is a commitment to industry standards. In this market, the qualifications of the vendor may be as important to the customer as the products themselves. In 1987, Informix made significant inroads in this market by providing high-performance, standard SQL and 4GL solutions, as well as new distributed computing solutions that allow data to be shared across diverse workgroup computing environments such as DOS-VMS, DOS-Unix and other mixed-mode networks. We now also provide a wide variety of customer support services, including regular support and training, Regency Support, and custom application consulting, as part of a fundamental commitment to meeting the needs of our major customers. With the addition of our Office Automation products, our goal is to provide integrated information management solutions and capabilities for these customers in the future.

### International

Informix's international presence increased significantly this year, with the establishment of sales and support offices in major cities throughout the world. Standardization on Informix's C-ISAM by the European Unix community's X/OPEN Group underscores Informix's technology leader-

ship position in the international Unix market. The growth of Informix has paralleled the rapid expansion of the Unix market worldwide. Many strategic relationships were formed last year which will provide for more extensive geographic distribution of Informix products. In 1987, Informix reached a major strategic agreement with ASCII Corporation of Japan which grants ASCII the exclusive rights to sell the Kanji version of Informix's Unix and MS-DOS products in Japan. Translations of our DBMS products have been completed in Japanese, Mandarin Chinese, French, German, Spanish, Italian, Korean, Hebrew, and Danish, with more underway. The combination of the merged companies' sales forces both in Europe and in the Far East is expected to further support growth in markets abroad.

### Government

The federal government represents the largest single market for data processing goods and services in the world. An estimated 70 percent of all U.S. Government Requests For Proposals (RFPs) specify the Unix operating system as a necessary or preferred OS environment for these procurements. Informix's DBMS products are well established as the Unix industry's leading relational DBMS products. Informix has continued to strengthen its commitment to the needs of these customers by expanding the size and scope of its federal sales and marketing organization. This organization is dedicated to supporting the requirements of individual federal agencies as well as those of government system integrators. Prominent government agency end users include NASA, the U.S. Army, the U.S. Navy, the U.S. Customs Service, and the U.S. Treasury Department. Our expanded Office Automation and Database Management product offerings are expected to increase our ability to address the needs of these customers.

### OEMs

Informix has formed strategic relationships with many of the largest and best-known

manufacturers in the computer industry. These manufacturers remarket Informix products to add superior functionality to their hardware products. For example, the fault-tolerant transaction processing capabilities of INFORMIX-TURBO can create important new market opportunities for those original equipment manufacturers marketing total solutions in the Retail Point Of Sale, Finance, Airline, and other industries. In September, we signed a major OEM agreement with AT&T to supply our entire line of Informix products as their database management system of choice for the complete range of computer systems they provide. By offering our DBMS products, AT&T will be able to provide its customers with a consistent and common platform for all their system products.

Informix products run on over 150 different computer systems from over 75 domestic and international manufacturers. This year, a new comprehensive marketing support program known as the Informix OEM Alliance Program was introduced to allow OEMs to choose the level of marketing support that best suits their requirements. A partial list of domestic Informix OEMs includes AT&T, Pyramid, Texas Instruments, Data General Corporation, NCR Corporation, Northern Telecom, Encore Computer Corporation, Gould Inc., Sequent Computer Systems, Inc., Plexus Computers, Inc., and Altos Computer Systems. Given the vast opportunity for integrated OA and DBMS products, the OEM market holds even greater potential for growth in the future.

### VARs

Value Added Resellers market turn-key solutions to vertical industries based on a unique combination of software, hardware, and industry know-how. Demand is high in this segment for software products that allow programmers to build customized systems swiftly using advanced programming tools. Informix has developed specialized programs to support VARs with consulting, technical support, and market development services such as the Informix VAR Exchange. Our 1987 Independent Vendor Catalog featured over 635 VAR products and services. Overall, the long-term outlook for the combined OA and DBMS product offerings is bright, especially considering the enormous potential for cross-selling among VARs.



easier to use.

accessible and

all kinds more

**I**nformix now possesses the ability to combine the vision and the resources necessary to make information of

**F**rom its inception in 1980, Informix has been a company dedicated to the task of making information more accessible and easier to use. Just eight years ago, we pioneered the development of relational database management technology for use on mid-range computer systems. At that time, there was considerable debate about the commercial viability of the relational model. Today, the relational model is common to most commercially accepted DBMS products. Just two years ago, Informix released its new COBOL-replacement caliber fourth generation language for SQL database applications. Today, Informix's 4GL products continue to lead the industry due to their power, flexibility, and strict adherence to industry standards.

With each successive year, Informix has strived to provide leadership in important areas of new technology while sustaining a rapid rate of growth. This fundamental approach to success has been achieved by monitoring and identifying customer needs and anticipating new advances in computing. The "all input accepted" mode of product planning at Informix allows us to synthesize the input from dozens of managers throughout our departments into our plans. We believe that our ability to both listen to our customers' needs and to see beyond the present demand for new technology is what distinguishes Informix from its

competition; vision is one of our most important corporate resources.

Today, we believe that our industry is once again at a turning point. We believe that the convergence of major trends in information processing technology such as the rapid rise of the mid-range computer, mass acceptance of window-managed human interfaces, and connectivity, will create demand for a new class of information management products. These products will require a synergistic combination of DBMS and OA features and capabilities in order to make workgroup computing software a reality. Each OA product must be enhanced to provide users with a window to shared information resources. Database engine capabilities must be extended to allow any information object to be stored and retrieved using SQL indexes or free-text search indexing. The next generation of products from Informix will seek to address these needs by providing users with not only an integration over human interfaces, but a transparent integration over data as well.

The new Informix Corporation is the first company that has been formed specifically to address the current and future industry demand for this new type of software. Our goal is to provide industry leadership in this new area of technology by applying our balance of PC and mid-range experience and our DBMS and integrated OA technologies. This entrepreneurial effort is backed by the assets and resources of the world's tenth largest publicly-held packaged software company, the new Informix Corporation.

As a result of our efforts, we believe we now possess the vision and the resources to make information of all kinds more accessible and easier to use than ever before, and we look forward to leading an unprecedented age of information processing.

## FINANCIAL SECTION TABLE OF CONTENTS

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

The Company's revenues have approximately doubled year-to-year over each of the last three years. During that time, the Company has introduced several new products and has expanded its sales and marketing efforts and its research and development program.

*Results of Operations*

The following table sets forth for the fiscal periods indicated (a) the percentage of net revenues represented by certain items reflected in the Company's consolidated statements of operations and (b) the percentage change in such items from the prior fiscal period. The Company believes that year-to-year comparisons of financial results are not necessarily meaningful and should not be relied upon as an indication of results for future years.

	Percentage of Net Revenues			Period-to-Period Percentage Increases	
	Year Ended December 31,			Fiscal 1986 Compared To Fiscal 1985	Fiscal 1987 Compared To Fiscal 1986
	1985	1986	1987		
Net Revenues	100%	100%	100%	100%	97%
Costs and Expenses:					
Cost of revenues	9	8	8	97	100
Sales and marketing	46	45	46	96	101
Research and development <sup>(1)</sup>	14	12	10	66	65
General and administrative	12	14	14	129	94
Total costs and expenses	81	79	78	96	94
Operating Income:	19	21	22	114	107
Interest income	1	1	3	249	420
Income before income taxes	20	22	25	119	126
Provision for income taxes	9	10	11	131	109
Net Income	11	12	14	110	141

(1) See "Costs and Expenses—Research and Development Expenses" for a discussion of the effect of the change in accounting treatment for software development required by SFAS No 86.

*Revenues*

Informix derives most of its revenues from licensing its products. The Company's revenues increased 100% from 1985 to 1986, and 97% from 1986 to 1987. The growth in revenues during 1986 and 1987 has resulted from the Company's licensing of products introduced since the beginning of 1985 and increased revenues from certain previous products attributable to increased sales and marketing activities over the past two years. In particular, the INFORMIX-SQL product was introduced in the first quarter of 1985, and INFORMIX-4GL, the Company's fourth-generation database language product, was introduced in the first quarter of 1986. As net revenues from INFORMIX-SQL and INFORMIX-4GL have increased, revenues from INFORMIX, the predecessor product, have declined.

Generally, Informix recognizes net license revenues from products it manufactures upon product shipment and, from products manufactured by its manufacturing licensees, upon contract execution with respect to non-refundable license fees payable by the licensee to the Company within twelve months. Informix receives non-refundable prepaid license fees from certain of its customers, primarily licensees authorized to manufacture Informix products. See Note 1 of Notes to Consolidated Financial Statements.

From time to time Informix has recognized substantial net revenues from single large software license agreements. These net revenues, which are difficult to predict or plan for on a quarter-to-quarter basis, have caused fluctuations in the Company's quarterly net revenues and, particularly, net income because of the relatively high gross margin on such revenues. The Company anticipates that this condition will continue in the future. See "Quarterly Results."

## Cost and Expenses

*Cost Of Revenues.* Cost of revenues, which consist primarily of the costs of software media, manuals, other documentation and packaging, were 9% of revenues in 1985, 8% in 1986, and 8% in 1987.

*Sales and Marketing Expenses.* During 1985, 1986, and 1987, sales and marketing expenses increased in absolute dollar value as Informix continued to increase its sales and marketing expenditures, including advertising and sales promotional activities, in order to market its products more effectively to end users and to expand its presence in domestic and international markets. Since mid-1985, Informix has opened all ten of its regional domestic sales offices and all four of its international sales offices, and has increased its sales and marketing staff from 12 to 196 persons at December 31, 1987. Sales and marketing expenses were 46% of revenues in 1985, 45% in 1986 and 46% in 1987.

*Research and Development Expenses.* Informix believes that research and development of new products and enhancements of existing products are essential to its continued success, and so it expects these costs to continue to be a significant percentage of revenues. Informix' research and development expenses, while increasing significantly in absolute dollars year to year, have not increased in proportion to growth in revenues. Research and development expenses amounted to 14%, 12% and 10% of revenues in 1985, 1986 and 1987, respectively.

The predominant practice of expensing all costs of developing and producing a computer software product, followed by Informix through the end of 1985, has been changed by Statement of Financial Accounting Standards No. 86, Accounting for the Costs of Computer Software to be Sold, Leased, or Otherwise Marketed ("SFAS No. 86"), which requires that, once technological feasibility of a software product has been established, all subsequent software production costs incurred in developing the product to a commercially acceptable level be capitalized and reported at the lower of unamortized cost or net realizable value of the product. Informix adopted the provisions of SFAS No. 86 as of January 1, 1986. To the extent that the application of SFAS No. 86 results in the capitalization of software costs, the effect will be to defer such costs to future periods with a corresponding improvement in near-term operating results.

During 1986, \$274,000 of research and development expenses, equal to 1.3% of net revenues, were capitalized under SFAS No. 86. During 1987, approximately \$1,434,000 of such expenses, equal to 2.7% of net revenues, were

(In thousands, except per share data)	1985			
	1st	2nd	3rd	4th
Net Revenues	\$1,598	\$2,166	\$2,778	\$4,036
Costs and Expenses:				
Cost of revenues	166	242	234	255
Sales and marketing	924	965	1,231	1,777
Research and development	261	370	359	481
General and administrative	209	264	330	472
Total costs and expenses	1,560	1,841	2,154	2,985
Operating Income	38	325	624	1,051
Interest income, net	4	22	18	37
Income before income taxes	42	347	642	1,088
Provision for income taxes	19	155	286	485
Net Income	<u>\$ 23</u>	<u>\$ 192</u>	<u>\$ 356</u>	<u>\$ 603</u>
Net Income Per Share	<u>\$ —</u>	<u>\$ .03</u>	<u>\$ .06</u>	<u>\$ .10</u>
Shares used in computing net income per share, fully diluted	<u>5,321</u>	<u>6,138</u>	<u>6,179</u>	<u>6,274</u>

capitalized and \$75,000 of amortization expense relating to the capitalized software was recorded.

*General and Administrative Expenses.* General and administrative expenses of the Company were 12% of net revenues in 1985, 14% in 1986, and 14% in 1987. Increased general and administrative expenses as a percentage of sales in 1986 resulted from higher rents paid in connection with new facilities, and increased costs associated with operating as a public company.

#### Income

Informix' pre-tax income increased 119% from 1985 to 1986 and 126% from 1986 to 1987. Income before income taxes was 20% of 1985 revenues, 22% of revenues in 1986 and 25% of revenues in 1987. Because Informix' fixed costs, primarily associated with personnel, constitute the largest percentage of total costs and expenses, variations between planned and actual revenues will cause income to vary widely in any period. The capitalization of research and development expenses under SFAS No. 86, discussed above, along with interest income earned on the proceeds of Informix' initial public offering in September 1986 and its second public offering in June 1987, and lower provisions for income taxes due to lower tax rates contributed to the higher income as a percentage of revenues in 1986 and 1987. Certain provisions of the Tax Reform Act of 1986 caused the provision for income taxes to increase from 45% in 1985 to 47% in 1986.

The provision for income taxes for 1987 was 43%.

#### Quarterly Results

The following table presents unaudited quarterly operating results for the twelve fiscal quarters beginning January 1, 1985 and ending December 31, 1987. Prior to the quarter ended September 30, 1986, Informix had not prepared interim financial information for public use, and the amounts reflected below for prior quarters have been prepared based on a retrospective review by Informix. The Company believes that all necessary adjustments have been included in the amounts stated below to present fairly the following selected quarterly information when read in conjunction with the financial statements included elsewhere herein. This information includes all normal recurring adjustments that Informix considers necessary for a fair presentation thereof, in accordance with generally accepted accounting principles. The operating results for any quarter are not necessarily indicative of results for any future fiscal period.

1986				1987			
1st	2nd	3rd	4th	1st	2nd	3rd	4th
\$4,152	\$4,617	\$5,693	\$6,646	\$7,149	\$9,123	\$11,389	\$13,955
332	387	479	569	651	903	960	1,026
1,908	2,093	2,530	3,082	3,358	4,099	5,029	6,840
548	588	588	714	842	991	1,094	1,093
708	647	677	890	1,060	1,243	1,396	1,968
3,496	3,715	4,274	5,255	5,911	7,236	8,479	10,927
656	902	1,419	1,391	1,238	1,887	2,910	3,028
44	15	42	178	186	186	485	595
700	917	1,461	1,569	1,424	2,073	3,395	3,623
351	461	733	639	620	901	1,477	1,576
<u>\$ 349</u>	<u>\$ 456</u>	<u>\$ 728</u>	<u>\$ 930</u>	<u>\$ 804</u>	<u>\$1,172</u>	<u>\$ 1,918</u>	<u>\$ 2,047</u>
<u>\$ .06</u>	<u>\$ .07</u>	<u>\$ .11</u>	<u>\$ .12</u>	<u>\$ .10</u>	<u>\$ .14</u>	<u>\$ .20</u>	<u>\$ .22</u>
<u>6,102</u>	<u>6,487</u>	<u>6,556</u>	<u>8,045</u>	<u>8,259</u>	<u>8,546</u>	<u>9,513</u>	<u>9,516</u>

Informix' revenues have increased sequentially on a quarter-to-quarter basis since the beginning of 1985. The sequential increase in the Company's quarterly revenues throughout 1986 and 1987 are chiefly attributable to revenues from its INFORMIX-4GL product, first shipped in February 1986, from its INFORMIX-SQL product, first shipped in 1985, and increased emphasis on achievement of sales objectives on a quarterly, rather than an annual, basis.

In the first quarter of 1987, despite an increase in revenues, operating income declined as compared to the fourth quarter of 1986. The decline was due primarily to: increased sales and marketing staff hired to support the introduction of three new products and versions of certain existing products for the DEC/VMS market; increased general and administrative expenses related to the incorporation and opening of foreign subsidiaries; and increased costs of operating as a public company. Operating income in the fourth quarter of 1986 also decreased as compared to the third quarter of 1986, despite an increase in revenues. This decline was primarily due to the payment of higher levels of sales commissions in the fourth quarter to those sales personnel who achieved sales above quota, increased staffing in all areas (particularly customer services), increased rents and the additional costs of operating as a public company. The capitalization of research and development expenses under SFAS No. 86; increases in interest income and lower provisions for income taxes due to decreases in the applicable rates more than offset the decline in operating income in the fourth quarter of 1986 and partially offset the decline in the first quarter of 1987.

First quarter operating income in 1986 also decreased from the fourth quarter 1985 level, due to additional hiring, the relatively higher documentation cost for the Company's INFORMIX-4GL product, and approximately \$150,000 of unusual general and administrative expenses related to certain charges in connection to the Company's move to new facilities.

Revenues involving prepaid license fees, where costs of revenues are minimal, have represented a significant portion of revenues during the past ten quarters.

#### *Liquidity and Capital Resources*

Historically, Informix has funded most of its growth internally and through the sale of its Common Stock. Working capital increased from \$15,000 in 1981 to approximately \$14,000,000 at December 31, 1986 to approximately \$39,000,000 at December 31, 1987. The increase in working capital primarily represents proceeds of Informix' initial public offering of Common Stock in September 1986 and its second public offering of Common Stock in June 1987. At December 31, 1987, Informix also had a \$2,000,000 unsecured revolving line of credit with a bank, against which no borrowings are outstanding. See "Post-Merger Operations—Liquidity and Capital Resources." The Company believes that its present cash position plus its cash flow from operations will be sufficient to meet its presently anticipated working capital requirements through the end of 1988.

## *Post-Merger Operations*

### *Introduction*

The merger between Informix Software, Inc. and Innovative Software, Inc. was completed on February 8, 1988. Informix believes that the merger offers the combined companies benefits in product development and technology, distribution capability, financial performance and resources, and market presence and competitiveness. As a result of the merger, however, historical financial information regarding Informix and historical pro forma combined financial information presented elsewhere in this report may not necessarily be indicative of future operating results of the combined companies.

### *Results of Operations*

As this annual report to stockholders goes to press, Informix is in the preliminary stages of preparing operating plans and product and marketing strategies for the newly combined operations for 1988 and future periods. Until this process is completed, Informix will not have evaluated fully the expected impact of the merger on future results of operations of the combined companies. Long-term, Informix believes that the merger will improve results of operations through enhanced product development, marketing and distribution capabilities. Significant cost savings are not expected to result from the merger since plans for expansion will preclude meaningful reduction in overhead. In the months ahead, the Company must integrate its newly combined operations. Short term, the Company anticipates that this may have an adverse effect on operating results.

Informix and Innovative have incurred direct costs of approximately \$1.3 million in connection with the merger. Of those costs, approximately \$400,000 are already reflected in Informix' results of operations for the fourth quarter of 1987. The remaining direct costs will be charged to earnings of the combined company in the first quarter of fiscal 1988. Informix expects to incur additional expenses after the merger as a result of: operating from dual headquarters in Menlo Park, California and Lenexa, Kansas; the planned integration of Informix' database management and Innovative's office automation technologies, which will require substantial research and development expenditures; and the planned introduction of new products in 1988, which will require substantial sales and marketing expenditures. These expenditures will increase Informix' cost structure in advance of any future revenues Informix may derive from new or integrated products. In addition, Informix believes that the aspects of Innovative's business described below, among others, will affect Informix' future results of operations.

Historically, Informix derived most of its revenues from the licensing of its products for use on multi-user computers and Innovative derived most of its revenues from the licensing of its products for use on microcomputers. Software products for the microcomputer market generally have lower prices, higher relative cost of goods, and lower gross margins than multi-user software products.

Historically, a majority of Innovative's product orders and shipments occurred at the end of each month, primarily due to industry trends compounded by Innovative's marketing, sales and pricing programs. In addition, a significant portion of Innovative's business was done with large accounts, which often involved lengthy purchasing decision cycles. Innovative experienced quarterly fluctuations in its results of operations due to these factors.

Historically, Innovative distributed a significant portion of its microcomputer software products through retail stores. Retail distribution generally requires greater expenditures on advertising and promotion, particularly in connection with the launch of new products, than software distribution through other channels.

### *Liquidity and Capital Resources*

The combined companies have cash and short-term investments of approximately \$62.7 million and working capital of approximately \$76.9 million. In July 1987, Innovative offered and sold \$28,500,000 aggregate principal amount of 7 $\frac{3}{4}$ % Convertible Subordinated Debentures Due 2012. In connection with the merger, Informix assumed joint and several liability with Innovative for Innovative's repayment obligations and certain other obligations under the outstanding debentures and reserved shares of Informix common stock for issuance upon conversion of the debentures. Although Informix Corporation's access to the proceeds of the debenture offering is limited by the terms of the debentures, these proceeds will be available to fund the operations of the new Informix Software, Inc. Innovative had a revocable bank loan agreement in the United States which continues after the merger, for a \$3,500,000 line of credit, secured by accounts receivable and certain other assets of the company, and a secured line of credit in Germany for up to 2,400,000 DM. Informix is in the process of determining which credit facilities it will seek or maintain for the future.

CONSOLIDATED BALANCE SHEETS

(In thousands, except per share data)	December 31,	
	1986	1987
<i>Assets</i>		
Current Assets:		
Cash and cash investments	\$12,120	\$31,531
Accounts receivable, less allowance of \$140 in 1986 and \$351 in 1987 for doubtful accounts	5,615	13,646
Inventories	531	1,042
Other current assets	469	1,323
Total current assets	<u>18,735</u>	<u>47,542</u>
Property and Equipment, at cost:		
Computer equipment	1,882	4,872
Furniture, fixtures and leasehold improvements	886	1,628
	2,768	6,500
Less—Accumulated depreciation and amortization	(790)	(1,760)
	1,978	4,740
Other Assets	415	2,169
	<u>\$21,128</u>	<u>\$54,451</u>
<i>Liabilities and Stockholders' Equity</i>		
Current Liabilities:		
Current portion of leases payable	\$ 44	\$ 64
Current portion of guarantee of ESOP liability	125	118
Accounts payable	598	1,513
Accrued expenses	2,056	4,240
Income taxes payable	1,094	556
Current deferred taxes	184	232
Deferred maintenance contract income	673	1,877
Total current liabilities	<u>4,774</u>	<u>8,600</u>
Leases Payable	144	127
Guarantee of ESOP Liability	207	103
Deferred Income Taxes	324	985
Stockholders' Equity:		
Preferred stock, \$.01 par value		
Authorized—5,000,000 shares		
Outstanding—none	—	—
Common stock, \$.01 par value		
Authorized—20,000,000 shares		
Outstanding—7,151,667 shares in 1986 and 8,619,117 shares in 1987	72	86
Additional paid-in capital	11,980	34,667
Notes receivable from stockholders	(322)	(118)
Deferred compensation	(332)	(221)
Retained earnings	4,281	10,222
Total stockholders' equity	<u>15,679</u>	<u>44,636</u>
	<u>\$21,128</u>	<u>\$54,451</u>

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

## CONSOLIDATED STATEMENTS OF OPERATIONS

<i>(In thousands, except per share data)</i>	Year ended December 31,		
	1985	1986	1987
Net Revenues	\$10,578	\$21,108	\$41,616
Cost of Revenues	897	1,767	3,540
Gross margin	9,681	19,341	38,076
Cost and Expenses:			
Sales and marketing	4,897	9,613	19,326
Research and development	1,470	2,438	4,020
General and administrative	1,276	2,922	5,667
Total costs and expenses	7,643	14,973	29,013
Operating income	2,038	4,368	9,063
Interest Income, net	80	279	1,452
Income Before Provision for Income Taxes	2,118	4,647	10,515
Provision for Income Taxes:			
Federal	745	1,812	3,708
State	199	372	866
Net Income	\$ 1,174	\$ 2,463	\$ 5,941
Earnings per Common and Common Equivalent Share			
Primary:			
Net income per share	\$ .20	\$ .37	\$ .66
Shares used in computing primary net income per share	5,970	6,648	8,947
Fully Diluted:			
Net income per share	\$ .19	\$ .36	\$ .66
Shares used in computing fully diluted net income per share	6,075	6,860	9,000

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

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(In thousands, except per share amounts)	Common Stock		Additional Paid-in Capital	Notes Receivable From Stockholders	Deferred Compensation	Retained Earnings	Total
	Shares	Amount					
<i>Balance, December 31, 1984</i>	4,547	\$ 449	\$ —	\$ (18)	\$ —	\$ 644	\$ 1,075
Issuance of stock at \$1.75 per share, to employees in exchange for promissory notes	16	28	—	(28)	—	—	—
Exercise of stock options	42	13	—	—	—	—	13
Sale of stock at \$1.65 per share, net of offering expenses of \$46	909	1,454	—	—	—	—	1,454
Payments received on notes receivable	—	—	—	4	—	—	4
Guarantee of ESOP liability	—	—	—	—	(397)	—	(397)
Net income	—	—	—	—	—	1,174	1,174
<i>Balance, December 31, 1985</i>	5,514	1,944	—	(42)	(397)	1,818	3,323
Exercise of stock options	28	20	25	—	—	—	45
Sale of stock at \$2.125 per share	17	36	—	—	—	—	36
Sale of stock at \$2.45 per share, to employees in exchange for cash and promissory notes	18	44	—	(11)	—	—	33
Sale of stock at \$3.50 per share, to officers in exchange for cash and promissory notes	74	259	—	(233)	—	—	26
Repurchase of stock at \$1.75 per share	(16)	(28)	—	—	—	—	(28)
Reincorporation of Company	—	(2,218)	2,218	—	—	—	—
Sale of stock at \$5.00 per share, to an officer in exchange for promissory note	10	—	50	(50)	—	—	—
Payments received on notes receivable	—	—	—	14	—	—	14
Payment on ESOP liability	—	—	—	—	87	—	87
Interest on ESOP liability	—	—	—	—	(22)	—	(22)
Proceeds from initial public offering at \$7.50 per share, net of offering expenses of \$757	1,507	15	9,687	—	—	—	9,702
Net income	—	—	—	—	—	2,463	2,463
<i>Balance, December 31, 1986</i>	7,152	72	11,980	(322)	(332)	4,281	15,679
Exercise of stock options	279	3	517	—	—	—	520
Proceeds from public offering at \$18.25 per share, net of offering expenses of \$319	1,184	12	21,277	—	—	—	21,289
Repurchase of stock from employees	(9)	(1)	(179)	154	—	—	(26)
Payments received on notes receivable	—	—	—	50	—	—	50
Interest on ESOP liability	—	—	—	—	(20)	—	(20)
Payment on ESOP liability	—	—	—	—	131	—	131
Sale of stock to employees under employee- stock purchase plan	13	—	248	—	—	—	248
Tax benefits of ISO disqualifying dispositions	—	—	824	—	—	—	824
Net income	—	—	—	—	—	5,941	5,941
<i>Balance, December 31, 1987</i>	<u>8,619</u>	<u>\$ 86</u>	<u>\$34,667</u>	<u>\$(118)</u>	<u>\$(221)</u>	<u>\$10,222</u>	<u>\$44,636</u>

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

## CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION

(In thousands)	Year ended December 31,		
	1985	1986	1987
<i>Working Capital Was Provided by:</i>			
Net income	\$ 1,174	\$ 2,463	\$ 5,941
Add-Items not affecting working capital—			
Depreciation and amortization	230	422	1,046
Increase in deferred income taxes	37	235	661
Working capital provided by operations	1,441	3,120	7,648
Proceeds from notes payable to bank	198	—	—
Sales of common stock, net of notes receivable from stockholders	1,471	9,856	23,084
Increase in long-term notes and leases payable	109	93	57
Increase (decrease) of ESOP liability	310	(103)	(104)
Total working capital provided	<u>3,529</u>	<u>12,966</u>	<u>30,685</u>
<i>Working Capital Was Used for:</i>			
Additions to property and equipment	(625)	(1,281)	(3,732)
Increase in other assets	(126)	(285)	(1,829)
(Increase) decrease in deferred compensation	(397)	65	111
Payments and current maturities of notes payable to bank	(64)	(256)	(74)
Repurchase of common stock	—	(28)	(180)
Total working capital used	<u>(1,212)</u>	<u>(1,785)</u>	<u>(5,704)</u>
Increase in working capital	<u>\$ 2,317</u>	<u>\$11,181</u>	<u>\$24,981</u>
<i>Increase in Working Capital Represented by:</i>			
Increase in current assets—			
Cash and cash investments	\$ 2,583	\$ 9,312	\$19,411
Accounts receivable	1,143	3,059	8,031
Inventories	179	323	511
Other current assets	185	219	854
	<u>4,090</u>	<u>12,913</u>	<u>28,807</u>
(Increase) decrease in current liabilities—			
Current portion of leases payable	(64)	45	(20)
Current portion of ESOP liability	(122)	(3)	7
Accounts payable	(99)	(219)	(915)
Accrued expenses	(375)	(1,088)	(2,184)
Income taxes payable	(564)	(290)	538
Deferred income taxes	(314)	180	(48)
Deferred maintenance contract income	(235)	(357)	(1,204)
	<u>(1,773)</u>	<u>(1,732)</u>	<u>(3,826)</u>
Increase in working capital	<u>\$ 2,317</u>	<u>\$11,181</u>	<u>\$24,981</u>

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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 1987

### Note 1 Summary of Significant Accounting Policies

#### *Operations and Innovative Merger*

Informix Corporation, a Delaware corporation, through its wholly-owned subsidiary Informix Software, Inc. and its foreign sales subsidiaries (together the "Company") designs, develops, manufactures, markets and supports computer software systems to perform general purpose data management functions on various computer systems. The Company also licenses others to manufacture its software programs and user manuals. The Company was initially incorporated in 1980 and in August 1986 the Company reincorporated in Delaware. See Note 2 for a discussion of the formation of Informix Corporation and the change in name of its wholly-owned subsidiary from Relational Database Systems, Inc. to Informix Software, Inc.

On February 8, 1988, Informix Software, Inc. merged with and into Innovative Software, Inc. ("Innovative"), as part of a plan of reorganization in which each outstanding share of Innovative common stock was exchanged for three quarters of a share of Informix common stock. As a result of this transaction, Innovative became a wholly-owned subsidiary of Informix Corporation.

#### *Consolidation*

The consolidated financial statements include the accounts of Informix Corporation and its wholly-owned subsidiaries. All material intercompany accounts and transactions have been eliminated.

#### *Revenues*

The Company recognizes product revenue at the time of shipment and recognizes license revenue at the time the agreement is signed, with respect to non-refundable license fees payable to the Company within twelve months. Maintenance contract revenue is recognized over the term of the contract. In 1985, 1986 and 1987, one customer accounted for 18%, 14% and 16%, respectively, of the Company's net revenues. Export sales, primarily in Europe, accounted for 15%, 24% and 36% of net revenues in 1985, 1986 and 1987, respectively.

#### *Income Taxes*

In December 1987, the Financial Accounting Standards Board released Statement of Financial Accounting Standards No. 96, "Accounting for Income Taxes." This statement requires an asset and liability approach for financial accounting and reporting for income taxes. The company is required to adopt the new accounting and disclosure rules no later than its fiscal year ending December 31, 1990, although earlier implementation is permitted.

The company has not yet determined when it will adopt the new standard. The effect on the company of implementation of the new standard has not yet been determined.

#### *Inventories*

Inventories are recorded at the lower of cost (first-in, first-out) or market value and primarily consist of computer software manuals and related items.

#### *Property and Equipment*

Depreciation of property and equipment is provided using the straight-line method over the estimated useful lives of the assets. The estimated useful lives are as follows:

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Computer equipment	3-5 years
Furniture and fixtures	3-5 years
Leasehold improvements	Life of lease

*Accrued Expenses*

Accrued expenses consisted of the following:

<i>(In thousands)</i>	<i>December 31,</i>	
	<i>1986</i>	<i>1987</i>
Accrued payroll and profit sharing	\$ 867	\$1,636
Accrued payables	466	438
Commissions	236	537
Other accruals	487	1,629
	<u>\$2,056</u>	<u>\$4,240</u>

*Research and Development Expenditures*

Commencing January 1, 1986, in compliance with Statement of Financial Accounting Standards No. 86, "Accounting for the Costs of Computer Software to be Sold, Leased, or Otherwise Marketed," the Company is required to capitalize computer software costs incurred in developing a product after its technological feasibility has been determined. The capitalized software is amortized based on current and future software revenue, subject to a minimum straight-line amortization over the remaining estimated economic life of the product. Software development costs capitalized in 1986 and 1987 amounted to \$274,000 and \$1,434,000, respectively, and are included in other assets in the accompanying consolidated financial statements. As of December 31, 1987, the Company has recorded \$75,000 of amortization expense related to the capitalized software.

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*Note 2 Common and Preferred Stock*

On March 15, 1985, the Company entered into an agreement with Altos Computer Systems ("Altos"), whereby 909,090 shares of its common stock were sold for \$1,454,000, net of offering expenses. In addition, certain Company officers and employees sold 303,030 additional shares to Altos for \$500,000. In January 1986, the Company sold an additional 16,792 shares to Altos at \$2.125 per share, the fair market value as determined by the Company's Board of Directors at the time of the agreement.

In August 1986, Relational Database Systems, Inc. (a California corporation) changed its name to Informix Software, Inc. Concurrent with this name change, Informix Corporation, a new Delaware corporation, was formed and each stockholder of Informix Software, Inc. was issued two shares of common stock of Informix Corporation in exchange for each outstanding share of Informix Software, Inc. In addition, options to purchase two shares of Informix Corporation common stock were exchanged for each outstanding option to purchase one share of Informix Software, Inc. common stock. As a result of the above-described transactions, Informix Software, Inc. became a wholly-owned subsidiary of Informix Corporation. A par value was assigned to the Company's common stock which resulted in reflecting additional paid-in capital in the accompanying consolidated financial statements. All per share data included in the consolidated financial statements reflect this two for one common stock exchange.

In August 1986, the Company increased the number of authorized common shares to 20,000,000 and created a class of preferred stock with 1,000,000 authorized shares. In February 1988, the Company increased the authorized preferred stock to 5,000,000 shares. The Company's Board of Directors is authorized to fix or alter the rights, preferences, privileges and restrictions of any wholly unissued series of preferred stock, including the dividend rights, dividend rates and voting rights.

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*Note 3 Employee Stock Option and Purchase Plans*

In 1986, the 1981, 1985 and 1986 Stock Option Plans (the "Plans") were combined into one plan, the 1986 Stock Option Plan. The Board of Directors may grant options at not less than the fair market value of the shares at the date of grant. Options are generally exercisable in cumulative annual installments over five years. The Plans provide that payment for shares purchased upon exercise of options may be by cash or, with Board of Director approval, by full recourse promissory notes or shares of the Company at fair market value on the date of exercise. During 1986, the authorized shares were increased by 564,420 and during 1987 by 500,000 to 2,100,000 shares. At December 31, 1987, there were 681,990 shares reserved for future grants and 1,138,660 stock options were outstanding to purchase shares at prices ranging from \$1.00 to \$19.75, of which options for 245,730 shares are exercisable at prices ranging from \$1.00 to \$19.75. Options for 42,120, 27,920 and 278,750 shares of common stock were exercised during 1985, 1986 and 1987 at prices ranging from \$1.00 to \$11.375.

In December 1986, the Board of Directors approved a qualified Employee Stock Purchase Plan under which up to 300,000 shares could be purchased. As of December 31, 1987, 13,525 shares have been purchased under this plan.

*Note 4 Employee Stock Ownership Plan*

In May 1985, the Company's Shareholders and Board of Directors approved the adoption of the 1985 Employee Stock Ownership Plan and Trust (the "Plan"). The Plan purchased 150,286 shares from the Company's president for \$263,000 and 85,714 shares from a key officer of the Company for \$150,000.

In connection with the stock purchase referred to above, the Plan financed the entire \$413,000 at 9% interest, with the Company's president and a key officer for \$263,000 and \$150,000, respectively. Both notes and the related interest are payable in four equal annual installments of which the first and second annual installments were paid in March 1986 and March 1987, respectively. The Company has guaranteed these notes and, accordingly, a \$222,000 ESOP liability and deferred compensation is included in the accompanying consolidated financial statements. The total ESOP debt includes approximately \$15,000 of accrued interest.

Company contributions to the Plan in excess of the future required debt payments described above are made at the sole discretion of the Board of Directors. The Company contributed \$35,000, \$94,727 and \$131,127 to the Plan in 1985, 1986 and 1987, respectively, which also reduced the ESOP liability in the accompanying consolidated financial statements.

On February 8, 1988, Informix' stockholders approved a proposal to terminate the ESOP in January 1989. However, assets will not be distributed prior to receipt of a favorable ruling from the Internal Revenue Service.

*Note 5 Commitments*

The Company has various operating leases for rental of office facilities and equipment. Rent expense recorded in 1985, 1986 and 1987 approximated \$587,000, \$844,000 and \$1,526,000, respectively, net of sublease income. As of December 31, 1987, future minimum lease payments under noncancellable operating leases are as follows:

(In thousands)

1988	\$ 2,687
1989	2,968
1990	3,010
1991	3,054
1992	1,606
Thereafter	1,062
Total future lease payments	14,387
Less—Sublease rental income	(146)
Net future minimum payments	<u>\$14,241</u>

*Note 6 Capital Leases*

The Company entered into three capitalized leases for its telephone system. Minimum future lease payments, by fiscal year, related to these leases are as follows:

(In thousands)

1988	\$ 82
1989	82
1990	53
Total capitalized lease payments	217
Less interest (ranging from 10.6% to 13.0%)	(26)
Present value of future minimum lease payments	191
Less current portion	(64)
Long-term leases payable	<u>\$127</u>

Note 7 *Transactions with Related Parties*

During 1985, 1986 and 1987, the Company paid approximately \$33,000, \$94,000 and \$73,000, respectively, in consulting fees to a director and paid approximately \$197,000, \$184,000 and \$232,000, respectively, for legal services to the law firm of which another of the Company's directors is a partner.

The Company recognized total sales of \$37,000, \$639,000 and \$500,000 to Altos Computer Systems, its largest stockholder, in 1985, 1986 and 1987, respectively. As of December 31, 1986 and 1987, there was an outstanding receivable balance of \$86,000 and \$19,000, respectively, related to these sales.

The Company paid approximately \$3,000, \$67,000 and \$74,000 in 1985, 1986 and 1987 to the spouse of an officer of the Company for various consulting services and technical publications.

A director of the Company is president of a real estate firm that assisted in obtaining the leases for the Company's facilities. For this service, the lessor of the Company's facilities paid a fee of \$93,000 to the director's company in 1987 and will pay a \$71,000 fee in 1988.

Note 8 *Income Taxes*

Deferred income taxes result from timing differences in the determination of income for financial statement and income tax reporting purposes. Such timing differences arise principally from the use of installment sales reporting and deduction of software development costs for tax purposes.

As of December 31, the components of the provision for income taxes are as follows:

<i>(In thousands)</i>	1985	1986	1987
Current deferred	\$ 26	\$ (170)	\$ 147
Long-term deferred	38	184	714
Currently payable	880	2,170	3,713
Total provision for income taxes	<u>\$944</u>	<u>\$2,184</u>	<u>\$4,574</u>

Research and development tax credits are accounted for under the flow-through method. The difference between the effective income tax rate and the statutory Federal income tax rate is summarized as follows:

	1985	1986	1987
Statutory Federal income tax rate	46.0%	46.0%	40.0%
State income taxes, net of Federal benefit	5.2	4.3	4.8
Investment and research and development credits	(8.1)	(3.4)	(2.7)
Other	1.5	.1	1.4
Effective income tax rate	<u>44.6%</u>	<u>47.0%</u>	<u>43.5%</u>

The Company's effective statutory Federal income tax rate decreased from 46% in 1986 to 40.0% in 1987 due to the Tax Reform Act of 1986.

Note 9 *Line of Credit Agreement*

In November 1987, the Company entered into a \$2 million unsecured revolving line of credit with a bank. The line bears interest at the bank's prime interest rate. This agreement contains certain financial covenants requiring, in part, that the Company maintain a 2.5 to 1 minimum current ratio, current assets to exceed current liabilities by at least \$15,000,000, a 1 to 1 maximum debt to tangible net worth ratio and a tangible net worth of at least \$36,000,000. The agreement expires April 30, 1988. There were no borrowings under this line of credit as of December 31, 1987.

*Note 10 Earnings per Share*

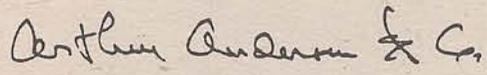
Net income per share has been computed based upon the weighted average number of shares of common stock and common stock equivalents outstanding during the periods. In addition, common shares sold or exercised under employee stock purchase and stock option plans and options granted during the last twelve months immediately preceding the Company's initial public offering in 1986, at prices less than the public offering price, are included in the calculation of common and common equivalent shares as if they were outstanding throughout 1985. Common stock equivalents consist of the dilutive effect of outstanding options to purchase common stock, in accordance with the treasury stock method.

*Report of Independent Public Accountants*

To the Board of Directors of Informix Corporation:

We have examined the consolidated balance sheets of Informix Corporation (a Delaware corporation) and subsidiaries as of December 31, 1986 and 1987, and the related consolidated statements of operations, stockholders' equity and changes in financial position for each of the three years in the period ended December 31, 1987. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the consolidated financial statements referred to above present fairly the financial position of Informix Corporation and subsidiaries as of December 31, 1986 and 1987, and the results of their operations and the changes in their financial position for each of the three years in the period ended December 31, 1987, in conformity with generally accepted accounting principles applied on a consistent basis.



Arthur Andersen & Co.  
San Jose, California  
February 8, 1988

## PRO FORMA CONDENSED COMBINED FINANCIAL STATEMENTS

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The following unaudited pro forma financial statements give effect to the Merger of Informix and Innovative on a pooling of interests basis. The pro forma combined balance sheets and statement of operations assume that the Merger took place as of the beginning of each period presented and combine Informix' statements for the years ended December 31, 1985, 1986 and 1987 with Innovative's historical financial statements restated to the same periods.

The pro forma combined statements of operations are not necessarily indicative of operating results which would have been achieved had the Merger been consummated as of the beginning of such periods and should not be construed as representative of future operations.

These pro forma combined financial statements should be read in conjunction with the historical consolidated financial statements and the related notes thereto of Informix included elsewhere herein.

## PRO FORMA CONDENSED COMBINED BALANCE SHEETS (Unaudited)

	At December 31, 1987			
	Informix	Innovative	Pro forma	
(In thousands except per share amounts)			Adjustments	Combined
<i>Assets</i>				
Current Assets:				
Cash and short-term investments	\$31,531	\$31,207	\$ —	\$ 62,738
Accounts receivable	13,646	7,578	—	21,224
Inventories and supplies	1,042	1,822	—	2,864
Other current assets	1,323	2,140	—	3,463
Total Current Assets	47,542	42,747	—	90,289
Property and Equipment, net of depreciation	4,740	4,704	—	9,444
Other	2,169	3,393	—	5,562
	<u>\$54,451</u>	<u>\$50,844</u>	<u>\$ —</u>	<u>\$105,295</u>
<i>Liabilities and Shareholders' Equity</i>				
Current Liabilities:				
Accounts payable and accrued expenses	\$ 7,630	\$4,130	\$ —	\$ 11,760
Income taxes payable	788	79	—	867
Current portion of other liabilities	182	575	—	757
Total Current Liabilities	8,600	4,784	—	13,384
Convertible Subordinated Debentures	—	28,500	—	28,500
Other Liabilities	1,215	1,164	—	2,379
Stockholders' Equity:				
Common stock	86	39	(39)	115
			29	
Additional paid-in capital	34,667	13,468	4	48,139
Notes receivable from stockholders	(118)	—	—	(118)
Deferred compensation	(221)	—	—	(221)
Retained earnings	10,222	2,939	—	13,161
Treasury stock, at cost	—	(6)	6	—
Foreign currency translation	—	(44)	—	(44)
Total Stockholders' Equity	44,636	16,396	—	61,032
	<u>\$54,451</u>	<u>\$50,844</u>	<u>\$ —</u>	<u>\$105,295</u>

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

PRO FORMA STATEMENTS OF OPERATIONS (Unaudited)

(In thousands, except per share amounts)	Year Ended December 31,		
	1985	1986	1987
Software Revenues	\$18,878	\$36,184	\$68,471
Cost of Revenues	2,952	4,624	7,739
Gross Margin	15,926	31,560	60,732
Costs and Expenses:			
Sales and marketing	8,930	16,697	32,634
Research and development	2,314	3,494	5,266
General and administrative	2,296	5,027	9,253
Total Costs and Expenses	13,540	25,218	47,153
Operating Income	2,386	6,342	13,579
Interest Income	107	566	2,762
Interest Expense	(87)	(108)	(1,134)
Income Before Income Taxes	2,406	6,800	15,207
Income Taxes	1,085	3,199	6,312
Net Income	<u>\$ 1,321</u>	<u>\$ 3,601</u>	<u>\$ 8,895</u>
Earnings per Common and Common Equivalent Share			
Primary:			
Net Income Per Share	<u>\$ .16</u>	<u>\$ .39</u>	<u>\$ .74</u>
Shares Used in Computing Primary Net Income Per Share	<u>8,088</u>	<u>9,316</u>	<u>12,012</u>
Fully Diluted:			
Net Income Per Share	<u>\$ .16</u>	<u>\$ .38</u>	<u>\$ .74</u>
Shares Used in Computing Fully Diluted Net Income Per Share	<u>8,265</u>	<u>9,538</u>	<u>12,074</u>

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

INFORMIX AND INNOVATIVE NOTES TO PRO FORMA CONDENSED COMBINED  
FINANCIAL STATEMENTS (Unaudited)

December 31, 1987

- Note 1* The pro forma combined income per share before extraordinary item is based on the combined weighted average number of common and equivalent shares of Informix Stock and Innovative Stock for each period based on the exchange ratio of .75 of a share of Informix Stock for each share of Innovative Stock.
- Note 2* The pro forma combined balance sheet reflects the issuance of 2,955,500 shares of Informix Stock in exchange for all shares of Innovative Stock outstanding at December 31, 1987 based on the exchange ratio of .75 of a share of Informix Stock for each share of Innovative Stock.
- Note 3* The two quarters from Innovative's fiscal year ended June 30, 1985 included in the restated year ended December 31, 1985 had a loss for which no tax benefit was taken since Innovative was in a loss carryforward position at June 30, 1985. The two quarters from Innovative's fiscal year ended June 30, 1986 included in the restated year ended December 31, 1985 had income for which income taxes were calculated and for which an extraordinary credit for realization of the operating loss carryforward was taken. As a result of combining the two periods the loss period is included with the period the benefit was taken and the benefit ceases to be an extraordinary item. Accordingly, the benefit of the loss, \$432,000, has been reclassified from an extraordinary item and is offset against the income tax expense shown.
- Note 4* There are no other significant adjustments required to the historical balance sheets or historical statements of operations of Informix and Innovative, except reclassifications for consistent presentation, to arrive at the pro forma combined balance sheet and pro forma combined statements of operations.
- Note 5* The table below sets forth the composition of the unaudited pro forma combined sales and income before extraordinary item for each of the periods shown, had the Merger taken place at the beginning of the periods shown:

(In thousands) (unaudited)	Year Ended December 31,		
	1985	1986	1987
Net Revenues:			
Informix	\$10,578	\$21,108	\$41,616
Innovative	8,300	15,076	26,855
Combined company	<u>\$18,878</u>	<u>\$36,184</u>	<u>\$68,471</u>
Income before extraordinary item:			
Informix	\$ 1,174	\$ 2,463	\$ 5,941
Innovative	147	1,138	2,954
Combined company	<u>\$ 1,321</u>	<u>\$ 3,601</u>	<u>\$ 8,895</u>

- Note 6* Total costs to be incurred by Informix and Innovative in connection with the Merger, relating to legal, printing, accounting, fees paid to Hambrecht & Quist and Shearson Lehman for their services and other related expenses, will be charged against net income of the combined company. Approximately \$400,000 of these costs are reflected in Informix' historical financial statements and have been reflected in the pro forma combined financial statements.

*Board of Directors*

Roger J. Sippl, *Chairman and Chief Executive Officer*  
Michael J. Brown, *President and Chief Operating Officer*  
Mark R. Callegari, *Vice President, Advanced Product Research*  
John L. deBenedetti, III, *President, Cypress Properties, Inc.*  
Thomas A. McDonnell, *Vice President and Chief Executive Officer, DST Systems, Inc.*  
Dan G. Sully, *President, Sully Associates, Inc.*  
Albert F. Knorp, Jr., *Partner, Shearer, Lanctot, Walsh and Knorp*

*Corporate Officers*

Roger J. Sippl, *Chairman and Chief Executive Officer*  
Michael J. Brown, *President and Chief Operating Officer*  
Mark R. Callegari, *Vice President, Advanced Product Research*  
Richard C. Blass, *Corporate Controller*  
Thomas A. DeBacco, *Vice President, European Operations and Sales*  
Ronald G. Ferguson, *Vice President, Marketing*  
Steven M. Goldsworthy, *Vice President, Research and Development*  
Roy V. Harrington III, *Vice President, Advanced Product Research*  
E.L. Hawk, *Vice President, Sales*  
Wynne R. Jennings, *Vice President, Finance and Chief Financial Officer*  
Laura L. King, *Vice President, Product Planning*  
William E. Morton, *Vice President, Customer Services*  
Joseph E. Poskin, *Vice President, Operations*  
Dan G. Sully, *Secretary*  
Stuart G. Whittelsey, *Vice President, Assistant Chief Financial Officer*

*Sales Divisional Vice Presidents*

Mark D. Hansen, *Vice President*  
James W. Thanos, *Vice President*  
Martin A. Yam, *Vice President*

*Transfer Agent*

Bank of America, San Francisco, California

*Independent Public Accountants*

Arthur Andersen & Co., San Jose, California  
Ernst & Whinney, Kansas City, Missouri

*Legal Counsel*

Shearer, Lanctot, Walsh & Knorp, San Francisco, California  
Ware & Freidenrich, Palo Alto, California  
Stinson, Mag & Fizzell, Kansas City, Missouri

*Form 10-K*

A copy of the Company's Form 10-K Annual Report as filed with the Securities and Exchange Commission including financial statements and schedules, will be provided without charge upon request to:

Wynne R. Jennings, Vice President, Finance, Chief Financial Officer,  
Informix Corporation, 9875 Widmer Road, Lenexa, Kansas 66215.

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### Annual Meeting

The Annual Meeting of Stockholders will be held at 5:30 P.M. on Wednesday, May 4, 1988 at the Stanford Park Hotel, 100 El Camino Real, Menlo Park, California.

### Common Stock Trading Range

The Company's Common Stock has been traded on the over-the-counter market under the NASDAQ symbol IFMX since the company's initial public offering on September 24, 1986. The following table sets forth for the Company's Common Stock the range of high and low closing bid prices in the over-the-counter market through February 16, 1987, and the closing prices on the NASDAQ National Market System after such date. Prices with respect to the Company's Common Stock through February 16, 1987 represent quotations between dealers without adjustments for retail markups, markdowns, or commissions and may not represent actual transactions.

1986	High	Low
3rd quarter	\$ 7 <sup>7</sup> / <sub>8</sub>	\$ 7 <sup>7</sup> / <sub>8</sub>
4th quarter	10 <sup>7</sup> / <sub>8</sub>	7 <sup>7</sup> / <sub>8</sub>
1987	High	Low
1st quarter	\$17 <sup>1</sup> / <sub>4</sub>	\$10
2nd quarter	23 <sup>3</sup> / <sub>8</sub>	16
3rd quarter	28	16 <sup>1</sup> / <sub>4</sub>
4th quarter	30 <sup>1</sup> / <sub>2</sub>	12

At February 20, 1988 there were approximately 1,105 stockholders of record of the Company's Common Stock, as shown in the records of the Company's transfer agent.

The Company has never paid dividends on its Common Stock and its present policy is to retain its earnings to finance future growth.

### Corporate Headquarters

4100 Bohannon Drive, Menlo Park, California 94025. (415) 322-4100  
9875 Widmer Road, Lenexa, Kansas 66215. (913) 492-3800

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### Sales Offices

Domestic:				International
Atlanta	Dallas	New York	St. Louis	England
Boston	Denver	Newport Beach	Seattle	Belgium
Chicago	Detroit	Philadelphia	Tampa	Canada
Cincinnati	Los Angeles	Pittsburgh	Washington D.C.	France
Connecticut	New Jersey	San Francisco		Germany

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