

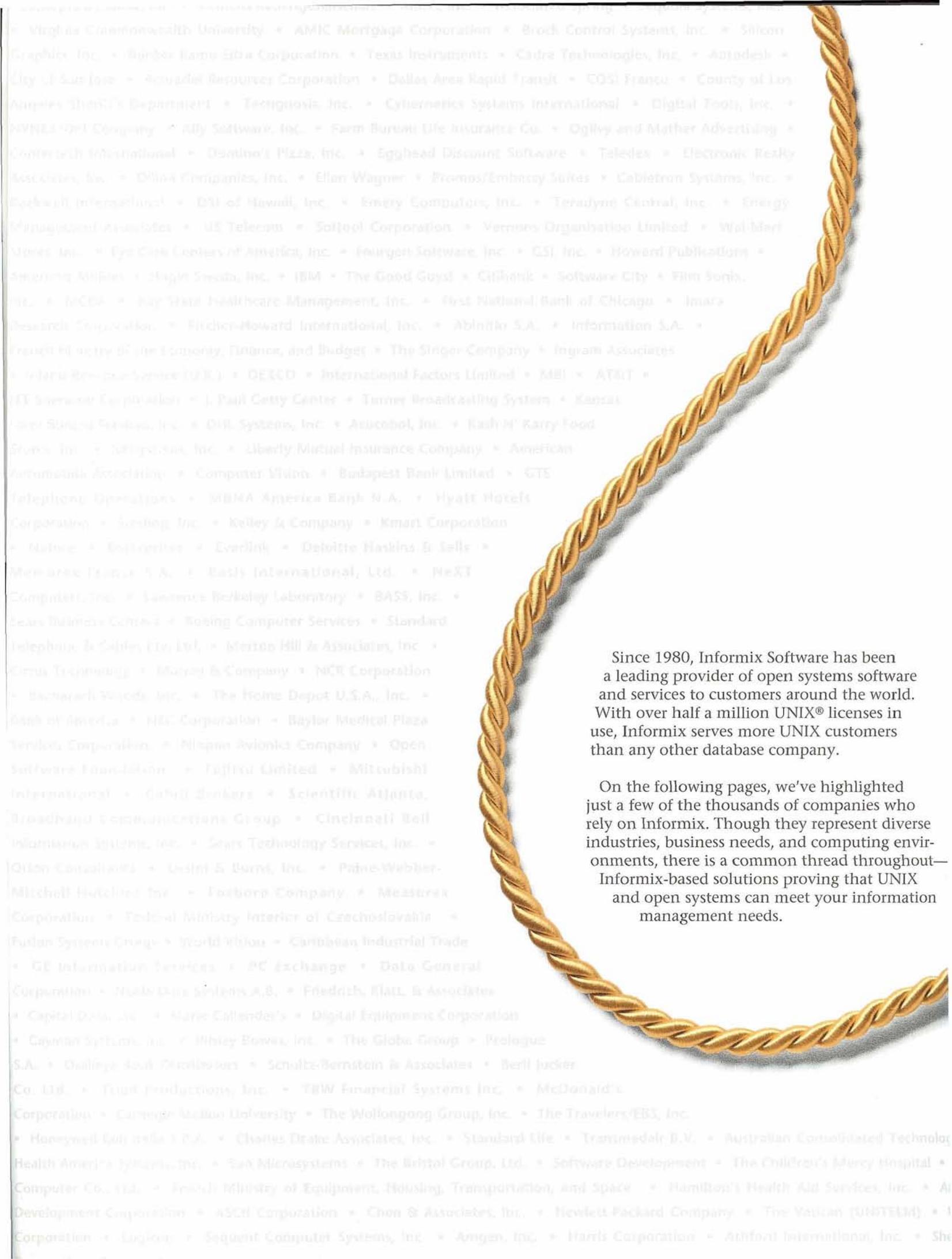
Informix Corporation

1991

Annual Report



INFORMIX



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Since 1980, Informix Software has been a leading provider of open systems software and services to customers around the world. With over half a million UNIX® licenses in use, Informix serves more UNIX customers than any other database company.

On the following pages, we've highlighted just a few of the thousands of companies who rely on Informix. Though they represent diverse industries, business needs, and computing environments, there is a common thread throughout—Informix-based solutions proving that UNIX and open systems can meet your information management needs.

Nineteen ninety-one was a great year for Informix. We are pleased with our financial turnaround, as demonstrated by the year's record revenue and earnings, cash flow, and solid productivity gains. We made important strategic decisions concerning our organization, and product development and delivery — decisions that we believe set the stage for 1991 and the next several years.

For the year ended December 31, 1991, net revenues totaled \$179.8 million, a record for the Company and a 23 percent increase over the 1990 total of \$146.1 million. Another Informix record was net income, which totaled \$12.6 million in 1991, compared to 1990's net loss of \$46.4 million. Fully diluted earnings per share for 1991 were \$0.84, compared to a net loss per share of \$3.65 in 1990.

Anticipating the evolving revenue reporting standards in the software industry, Informix voluntarily adopted a new, more conservative revenue recognition policy at the end of 1990 that more closely matches license revenue with the actual issuance of end-user licenses. The adoption of this policy — effective January 1, 1990 — affected our 1990 loss, which included a one-time adjustment of \$23.3 million to reflect the effect of the change on prior years. We believe these new methods improve our view of the ongoing business and, in turn, enable us to better manage the Company.

We also took measures to bring expenses in line with our revenue expectations under this new policy. These measures included an organizational restructuring in early 1991 — which resulted in a 15 percent reduction of our worldwide workforce — as well as a refocusing of our product strategies and programs in an effort to increase revenues and control expenses.

We believe the Company's 1991 results reflect these efforts and decisions. Informix's revenues grew each quarter in 1991, reflecting the continued success of our products in the market. Net income for 1991 grew each quarter as well, indicating our effective cost controls and asset management. Although our total revenues increased by 23 percent in 1991, operating expenses actually decreased by approximately one percent compared with those incurred in 1990. Another indicator of our increased efficiency is the 1991 revenue per employee figures which grew to approximately \$152,000 — compared to approximately \$121,000 for 1990.

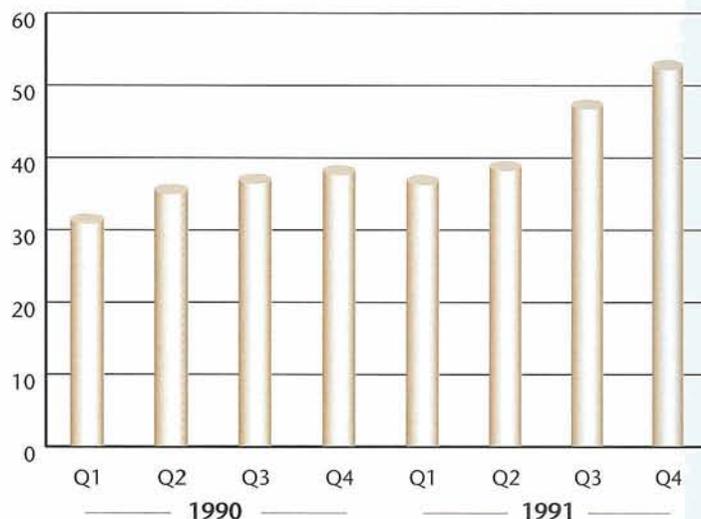
A strong indicator of our improved cash position is the Company's year-end cash balance. Informix generated \$21.3 million in cash during 1991, and closed the year with \$41.9 million in cash and no short-term debt.

Our product strategies continue to demonstrate our commitment to the Company's mission statement, which emphasizes quality products and services, open systems, and partnerships. In the third quarter, the Company realigned its product marketing and product development activities. We formed three strategic business units (technology centers), each of which has been given a charter to deliver "best-in-class" products to our customers.

The servers and connectivity technology center focuses on providing leading-edge relational database management systems (RDBMS) and networking products for client/server-based, enterprisewide computing systems.

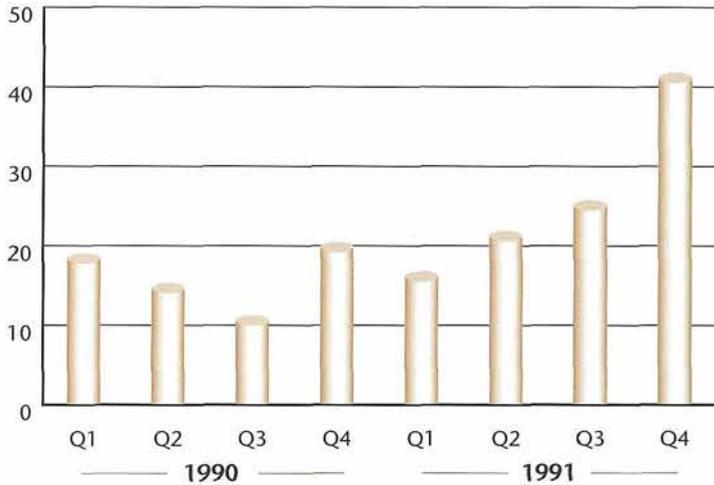
The application development tools and environments technology center is committed to providing a complete set of powerful application development tools, programming environments, and easy-to-use end-user tools designed to improve the software development process, reduce costs, and allow easy access to the corporate database.

Revenue Per Quarter  
(in millions)



The emerging products and markets technology center is geared specifically to provide technologies that meet the unique, evolving needs of specific markets. This group's task is to provide specialized extensions to Informix products that reduce the complexity of both end-user and developer access to information management systems.

**Cash Balances by Quarter**  
(in millions)



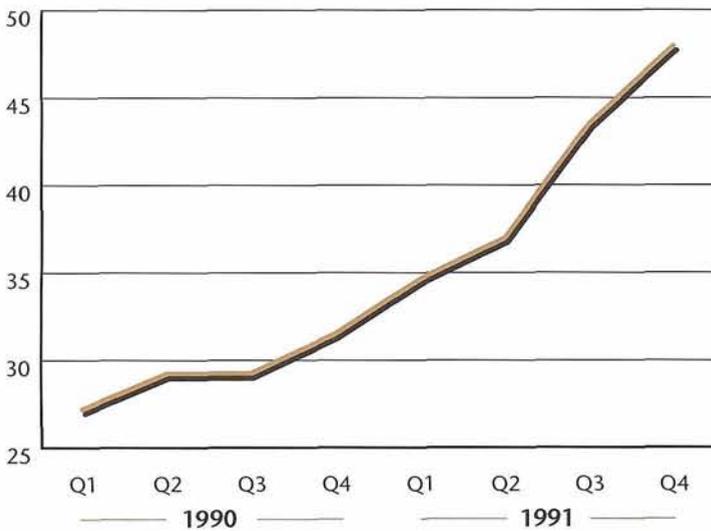
Timely delivery of products is a high priority for the Company, and we have created the product delivery center to facilitate consistent worldwide delivery. This unit's mission is to ensure the availability of products on a variety of computer systems around the world and to implement consistent policies and strategies concerning product release, maintenance, and version upgrades. The product delivery center's international strategy focuses on ensuring that our products are adaptable for languages and cultures around the world.

The Company renewed its long-standing commitment to quality with the formation of the Informix Quality Council in 1991. Directed by Vice President Richard B. Curtis, the council's charter is to identify and set new standards relating to the quality of Informix products, services, and companywide processes.

We took further measures towards improved quality and reduced costs by consolidating our two domestic manufacturing and distribution operations — located in Menlo Park, Calif. and Lenexa, Kan. — into one centralized operation in Lenexa. We also established a new manufacturing site in Ashford, England to speed delivery of our products to the European market while reducing delivery costs.

In early January 1991, Informix and Hewlett-Packard Company signed a joint development, marketing, and sales agreement that serves as an integral part of our application development tools and environments strategy. Under the terms of this agreement, HP also became an equity investor in Informix through the purchase of our stock in the open market.

**Revenue Per Employee**  
(in thousands)



Informix made some key personnel decisions during 1991, including the selection of Charles H. House as the Company's senior vice president of product management and development. Chuck comes to Informix after many years of experience in the software industry. As general manager of Hewlett-Packard's Software Engineering Systems Division, he was instrumental in HP's success as a leading hardware supplier to the open systems market. Since joining us last summer, Chuck has contributed greatly to the design of our product strategies.

Also in 1991, Edwin C. Winder was named senior vice president of Americas sales, corporate marketing, and service, and Stephen E. Hill was named vice president of strategic planning and corporate development. Steve will also oversee the direction of the emerging products and technologies business unit.

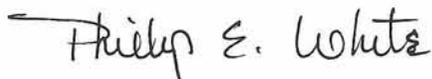
The Company's Board of Directors also underwent some changes last year. At the annual meeting of stockholders in May, Cyril J. Yansouni, chairman of Read-Rite Corporation, was elected to the Board. John deBenedetti III, who had been a director since 1984, retired from the Board in order to devote more time to his business and personal interests. We are grateful to Jay for his dedication and salute the significant contributions he made to the Company's growth over the past seven years. We are pleased to welcome James L. Koch, dean of the Leavey School of Business and Administration at Santa Clara University, who was elected to the Board in July. Also in July, William V. Campbell, president and chief executive officer of Go Corporation, resigned from the Board due to a business conflict stemming from the interest of his corporation to remain software neutral.

Moving forward in 1992, we are excited about our strong financial turnaround and continue to work towards the long-term success of the business. We believe the efforts and decisions we made during the past year have helped strengthen Informix as a leading supplier of open systems software. We have also set very ambitious goals for both product introductions and profitability in 1992, and we remain optimistic about achieving them.

The first of many 1992 product deliveries came in January when we announced and shipped INFORMIX-OnLine 5.0, our newest high-performance RDBMS for high-volume, distributed on-line transaction processing (OLTP) and client/server computing environments. OnLine 5.0 features an impressive combination of speed and functionality built on a foundation of industry standards.

We realize that the key to Informix's continued success is our ability to deliver real solutions to real customer needs. The companies highlighted on the following pages are just a few of the many businesses throughout the world whose mission-critical solutions run on Informix software. Though they represent diverse industries, business needs, and computing environments, you'll find there's a common thread — they all have come to rely on Informix to meet their information management needs.

Sincerely,

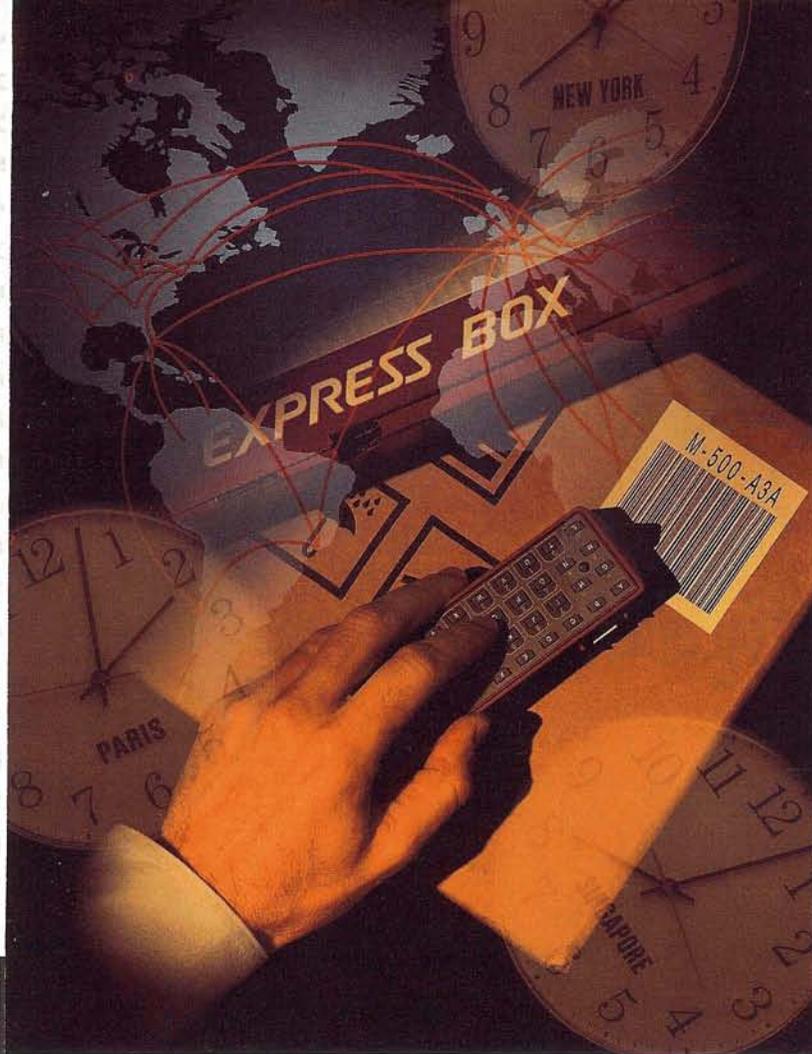


Phillip E. White  
*President and  
Chief Executive Officer*



Roger J. Sippl  
*Chairman*





## Informix and DHL

Every day, DHL Worldwide Express, a leader in the air express market, delivers packages via thousands of flights to over a half million customers around the globe. To expedite the movement of each package through customs and to improve customer service, DHL Systems Inc. developed and deployed Track and Trace, a worldwide package tracking system available to virtually every DHL office. Developed with the INFORMIX-4GL Product Family and INFORMIX-ESQL/C, with technical support available through Regency Support, this transaction-intensive application complements DHL's other systems and enables employees to quickly determine package locations and expected arrival times. At the heart of this high-volume, OLTP application is OnLine, helping to speed the flow of information throughout DHL's global network.

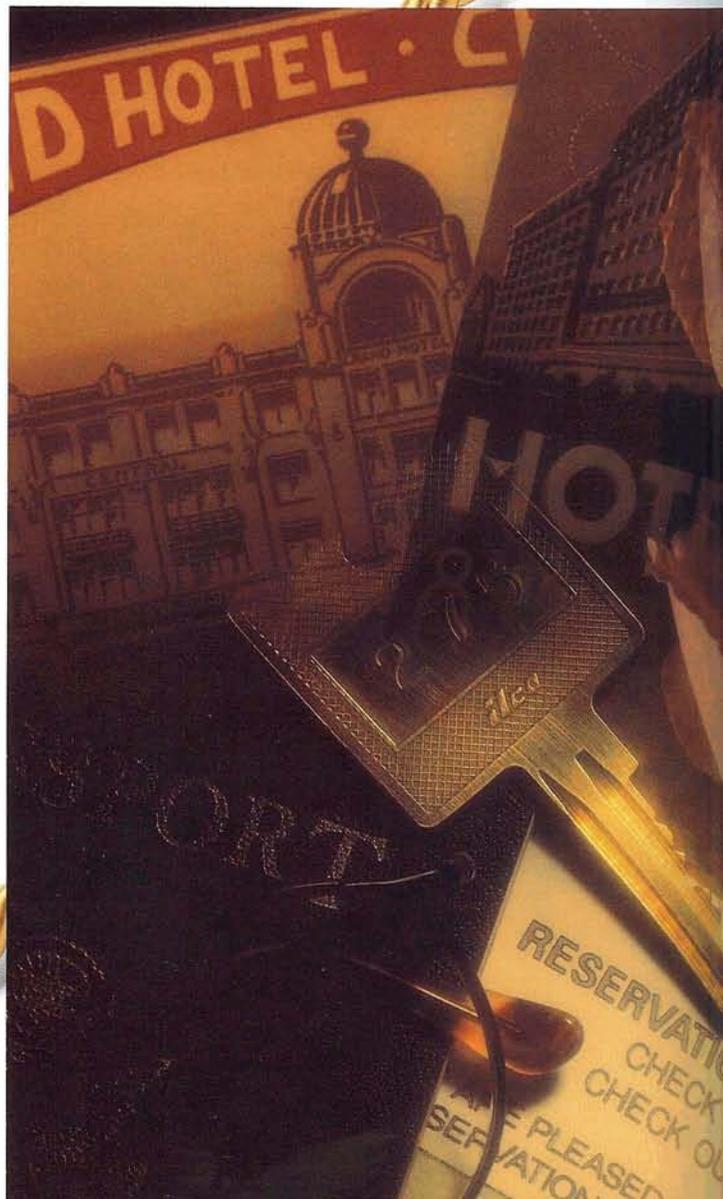
According to Len Hanlock, DHL's chief information officer, "Informix is one of the selections that we've made consistent with our strategic direction of adopting industry standards as they emerge and using third-party products that support these standards. We are developing an architecture that enables our development teams to focus on the applications with all other tasks being handled by standard interfaces and standard products. Informix is an example of that."

## Informix and Hyatt Hotels and Resorts

Hyatt Hotels and Resorts has implemented a new central reservation system and executive information system (EIS) to service its worldwide network of over 160 luxury hotels and resorts using a wide range of Informix products and services running on AT&T Computer Systems hardware. This collaborative development venture is perhaps the largest UNIX-deployed commercial installation for an OLTP application.

Hyatt's worldwide reservation system and EIS were developed with the INFORMIX-4GL Product Family, INFORMIX-SQL, INFORMIX-ESQL/C, and Wingz. A powerful, flexible database server was required, so Hyatt chose OnLine and INFORMIX-STAR to provide mainframe-caliber performance at a fraction of the cost, and give end users faster response times so they can give consistently superior service to Hyatt customers. Informix Client Services, Regency Support, and Training Services were critical in providing Hyatt developers with the UNIX expertise necessary to design and implement an efficient, distributed database.

According to Dan Amedro, vice president of MIS for Hyatt Hotels Corporation, "We looked at a number of 4GL RDBMS vendors, and Informix met all of our requirements. The power and flexibility of Informix products outperformed the others and Informix was selected as Hyatt's long-term software product of choice."



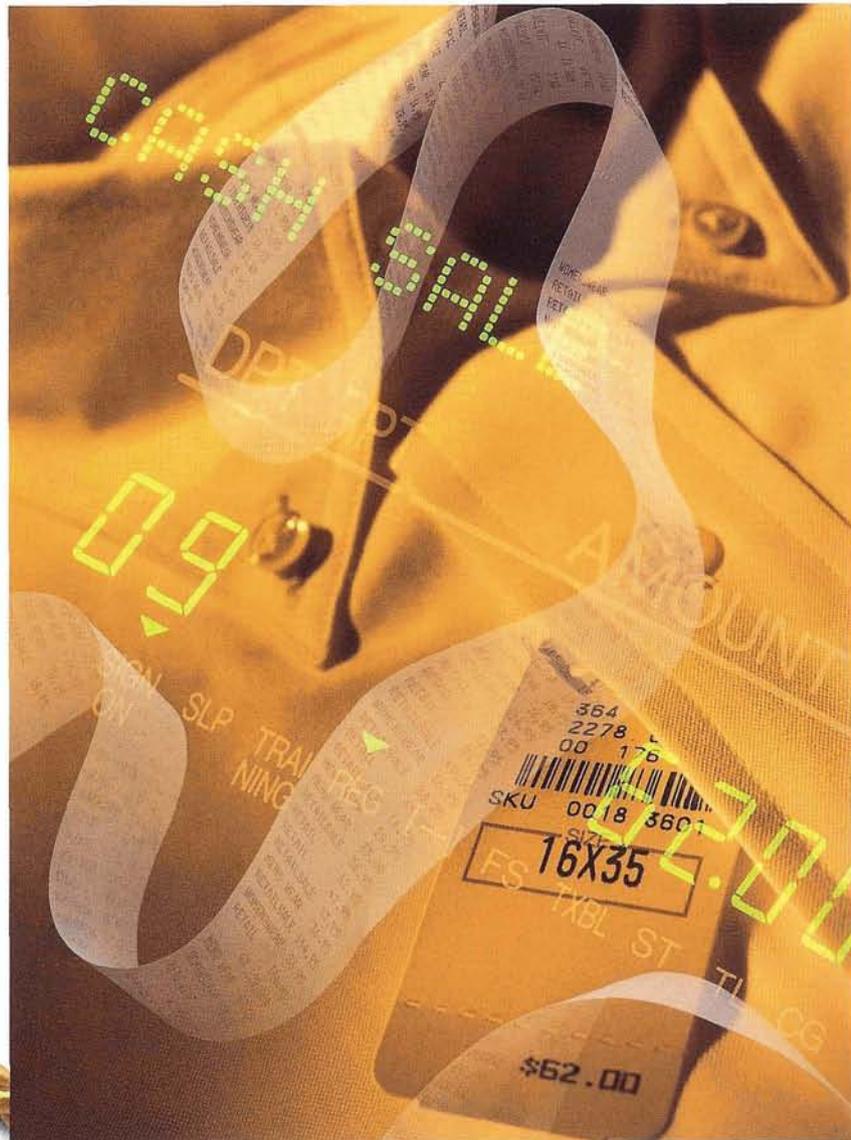
## Informix and Osakaya

For over 40 years, Osakaya has been one of Japan's largest book wholesalers, buying over 400,000 new publications annually and distributing them to 2,000 retailers on a consignment basis. Because customers are able to return any unsold books or magazines, Osakaya must be able to accurately forecast retailer sales in order to minimize the time and labor involved with handling returns.

Osakaya needed a transaction-intensive, high-volume user environment, so they chose an open systems solution — Informix RDBMS products running on Sequent Symmetry computers — for mainframe-class performance at a better price/performance ratio. This combination gives them the speed, reliability, and performance they require for accurately forecasting retailer trends as well as for increasing the effectiveness of their buying decisions concerning new publications.

"We needed a system that could control large amounts of data, with over 700,000 publication master records and 80 million account transaction records," says Hideo Watanabe, MIS manager of Osakaya.

"We trust the Informix and Sequent combination with excellent reliability, OLTP capabilities, price/performance, and scalability will fulfill our needs."



## Informix and Kmart

Kmart, America's second-largest mass merchandiser with over 2,500 stores nationwide, uses Informix as its strategic in-store database and the backbone of its new store system, Kmart Information Network II (KIN II).

Using advanced, hand-held computers and radio frequency technology, Kmart's employees can scan a product's Universal Product Code (UPC), verify and update its shelf price, and place new orders right from the sales floor — in a fraction of the time it once required and with a high degree of accuracy. This new technology gives Kmart a strategic advantage in the fiercely competitive mass merchandise industry.

"One of Kmart's fundamental objectives is to have the right product, at the right time, at the right place, at the right price," says David M. Carlson, Kmart's senior vice president of corporate information systems. "With nearly 200,000 regularly stocked items and thousands of different items sold every day, KIN II allows Kmart to make better decisions that keep products on shelves, check-out clerks at the registers, and excess inventory at a minimum."

Designed to run on UNIX computer systems and DOS hand-held computers, KIN II was developed with the INFORMIX-4GL Product Family, which includes the new tool for developing radio frequency applications, INFORMIX-4GL/RF. KIN II uses OnLine and INFORMIX-STAR as its database component to give easy access to users wherever they may be located.

"Informix RDBMS is a key part of Kmart's renewal and competitive strategy," says Carlson "and will continue to play this important role in the coming years as we expand its use to include our layaway, receiving, and automotive service centers."

## Informix and The Home Depot

Founded in 1978, Atlanta-based Home Depot is America's largest home center retailer with 174 full-service, warehouse-sized stores and sales of \$5.1 billion in 1991.

To support its continuing growth, The Home Depot has made a long-term commitment to open systems by converting its do-it-yourself home center stores systems to UNIX-based platforms and applications developed with the INFORMIX-4GL Product Family. The company views this open systems approach as a means to achieve greater independence from specific vendor hardware as well as to reduce system development life cycles and enable better system performance — all at reduced costs.

The Home Depot specifically chose the INFORMIX-4GL Product Family because it wanted a flexible and powerful 4GL development environment that would help the company reduce deployment times and improve productivity.

The Home Depot is now developing approximately a half dozen applications with Informix products, including inventory, labor management, and other customer service-driven applications. The Home Depot plans to eventually migrate all store applications to UNIX-based open systems. Over the short term, system users will include approximately 3,000 to 4,000 management employees. That number is expected to grow in line with the company's projected new store opening rate of approximately 25 percent per year.

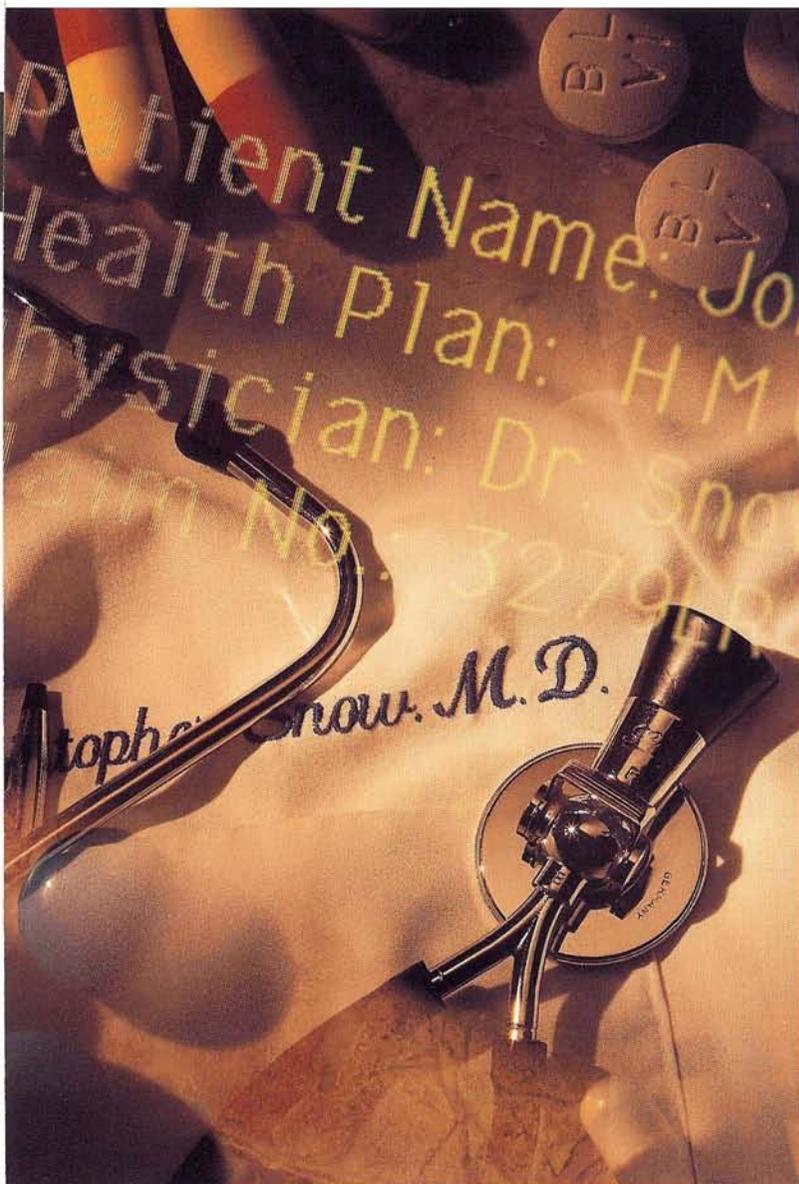
## Informix and Bay State Health Care

Based in Cambridge, Mass., Bay State Health Care, Inc. (BSHC) is the fourth largest IPA-model HMO in the United States with almost 400,000 members. After successfully implementing several major projects, including a 30 gigabyte decision-support system and an on-line physician referral system, BSHC selected Informix as their strategic RDBMS and programming platform running on DEC and Sequent Computers.

BSHC needed a more effective solution to its end-user and corporate reporting needs, so they chose OnLine to extract data from their old mainframe-based database system into a relational database — making it more easily available to over 100 authorized users. INFORMIX-SQL was installed to allow financial and utilization analysts access to BSHC's provider, claim, and patient information virtually any way they want. Security features were also implemented to ensure the confidentiality of patient medical information.

BSHC selected the INFORMIX-4GL Product Family to develop and implement an on-line physician referral system for members to locate physicians by location, office hours, language, and other demographic requirements.

"BSHC is an information based organization and strategic information is its greatest asset," says James Carmona Jr., vice president of MIS for BSHC. "Our strategy is to provide all levels of users and management with the right information, at the right time, so quality decisions can be made in support of corporate objectives. Informix software and the commitment of its organization enabled us to bridge the gap between business and technology and meet these objectives."





## Informix and World Vision

Calif.-based World Vision is an organization with a mission: to meet the needs of hungry, hurting people — wherever they may be. To fulfill their mission, World Vision is using Informix RDBMS products running on Unisys® computers to manage their large-scale fundraising activities and other applications including telemarketing, donor servicing, market analysis, and EIS applications.

Needing to share information more effectively and reduce costs, World Vision chose Informix to develop and implement the Genesis/Pledge System, a donor-matching relief and development application. Genesis/Pledge manages World Vision's donor/recipient data and hundreds of millions of dollars in contributions — representing 10 million donation postings and more than one million donors.

"Informix was by far the best choice for our needs," says Bob Willcox, system conversion manager for World Vision. "The most telling impact of the Genesis/Pledge System is in the saved dollars that are no longer needed to manage information and can be put to relieve hunger, sickness, and poverty around the world."

World Vision developed this system using the INFORMIX-4GL Product Family and OnLine. With OnLine's support for multimedia datatypes, World Vision plans to incorporate millions of children's photographs into its on-line recipient file. Says Willcox, "When we combine this optical data with the background text information, we'll greatly increase the speed with which we can make a donor/child match."

## Informix and MELTE

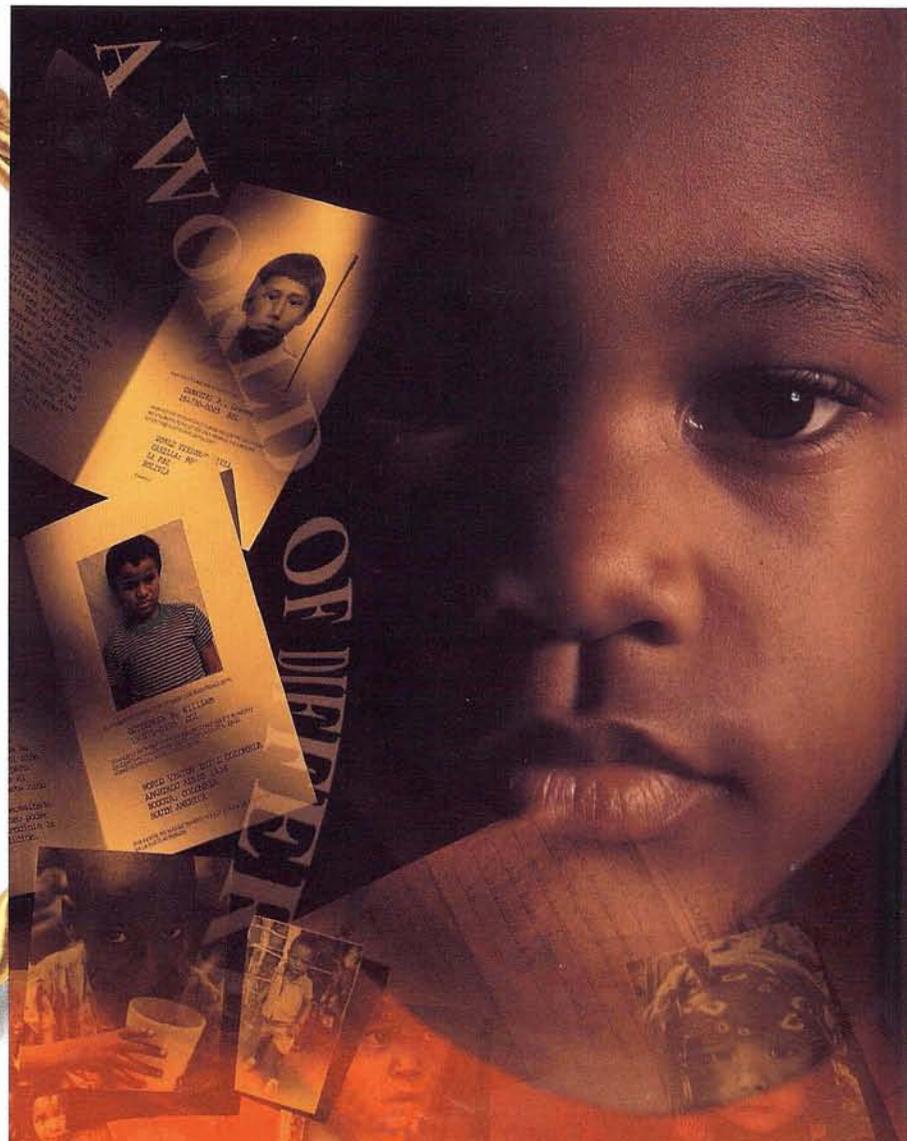
In January 1991, the French Ministry of Equipment, Housing, Transportation, and Space (MELTE) signed a site license contract with Informix.

As it sought to thoroughly update its 150 different departments' information systems, the Ministry's main concerns were to ensure that its current and future applications could evolve; to provide a RDBMS runtime version for its new applications; and to capitalize on its developers' training as well as on their experience and practice.

According to Bernard Laffargue, central logistics and information management officer at the Ministry, "Informix was chosen because it met blueprint specifications, it showed its proven ability to work under UNIX, and because of the quality of its development tools."

The Ministry decided to work with INFORMIX-4GL and the database servers OnLine and INFORMIX-SE. The project hardware included some 700 UNIX machines (BULL/Zenith, Hewlett Packard, NCR, and others), running mainly under SCO UNIX.

The system will be used to develop nationwide management applications that should be completed in 1994, and will address the needs of about 3,000 users. Among the completed or ongoing developments are applications for personnel management, general administrative accounting, and a general and analytical accounting system designed for the Ministry's vehicle fleet.



It's not surprising that many of the world's largest and most highly respected organizations rely on Informix products and services. For 12 years Informix has been a leading open systems software supplier and has maintained the largest installed base of UNIX RDBMS software across a wide range of markets.

Informix offers complete RDBMS solutions designed to meet our customers' evolving information management needs. From easy-to-use executive information systems to transaction-intensive, OLTP applications, Informix database servers provide quality information to users when and where they need it, regardless of their desktop environment. Informix also offers a complete set of connectivity products that give users access to information — no matter where that information is located.

Informix's fourth-generation language (4GL) product family is the most popular 4GL available for UNIX today — supporting programmers using our 4GL as a stand-alone tool, or in enterprisewide, distributed client/server environments. Informix's desktop productivity tools are designed to easily integrate end users into the corporatwide computing system, allowing quicker access to critical information.

Informix continues to develop specialized products designed to provide leading solutions to business problems as they emerge. From the evolution of pen-based and radio frequency technologies, to the growing demands for creating integrated imaging applications, Informix offers specialized products that address these unique programming needs.

Partnerships are an important component in our strategy. Informix works with thousands of value-added resellers (VARs), hardware vendors (OEMs), and third-party partners to provide comprehensive data management solutions to our customers

To ensure the long-term success of our customers, we provide quality support services — allowing both business partners and end-user customers to receive a high level of technical support. Informix customer services include Standard Maintenance, Regency Support<sup>SM</sup>, Informix Client Services (consulting), Informix training services, and the InformixLink<sup>TM</sup> electronic bulletin board service.

Informix has sales headquarters in Menlo Park, Ashford, and Singapore to serve the Americas, Europe, and Asia/Pacific regions respectively. With over 20 domestic sales offices and 12 international subsidiaries, Informix provides marketing and service programs that are tailored to specific markets. We've also established a strong worldwide distribution network to bring our products to market.

With our broad scope of software and services, Informix is able to provide information management solutions across a wide range of open computing platforms. In short, we are able to meet the goals of our mission statement — to provide, through partnerships worldwide, the best technology and services for developing enterprisewide data management applications for open systems.

#### Application Development Tools and Environments

- *Language Products*
  - INFORMIX-4GL
  - INFORMIX-4GL Rapid Development System
  - INFORMIX-4GL Interactive Debugger
  - INFORMIX-4GL/GX<sup>TM</sup>
  - INFORMIX-4GL/RF
- *Productivity Tools*
  - INFORMIX-4GL Forms
  - INFORMIX-Menus
  - INFORMIX-SQL
  - INFORMIX-ESQL
  - Wingz<sup>®</sup> with HyperScript<sup>®</sup>
  - SmartWare<sup>®</sup> II
- *Informix OpenCase<sup>TM</sup> Products*
  - INFORMIX-OpenCase/ToolBus<sup>TM</sup>
  - INFORMIX-4GL for ToolBus<sup>TM</sup>
  - INFORMIX-OpenCase/Encapsulator

#### Servers and Connectivity

INFORMIX-OnLine  
 INFORMIX-OnLine/Optical  
 INFORMIX-OnLine/Secure  
 INFORMIX-OnLine Workstation Manual  
 INFORMIX-SE  
 INFORMIX-TURBO  
 INFORMIX-STAR  
 INFORMIX-NET  
 INFORMIX-NET/API  
 INFORMIX-TP/XA  
 INFORMIX-DataExtract<sup>TM</sup>  
 C-ISAM<sup>®</sup>

**Informix Five-Year Summary Information**

(in thousands, except per share data)	1991	1990	1989	1988	1987
Net Revenues	\$ 179,811	\$ 146,107	\$ 145,000	\$ 103,505	\$ 68,471
Income (Loss) Before Extraordinary Item and Cumulative Effect of Change in Accounting Principle	12,189	(23,123)	6,379	371	8,894
Cumulative Effect on Prior Years of a Change in Revenue Recognition Method	—	(23,287)	—	—	—
Net Income (Loss)	12,610	(46,410)	6,379	1,458	9,308
Income (Loss) Per Share Before Extraordinary Item and Cumulative Effect of Change in Accounting Principle (Fully Diluted)	.81	(1.82)	.48	.03	.74
Cumulative Effect Per Share on Prior Years of a Change in Revenue Recognition Method (Fully Diluted)	—	(1.83)	—	—	—
Net Income (Loss) Per Share (Fully Diluted)	.84	(3.65)	.48	.12	.77
Total Assets	132,924	109,534	143,181	116,417	105,792
Long-Term Obligations	25,383	30,062	30,536	24,563	29,161

**Pro Forma Amounts Assuming the Change in Revenue Recognition Applied Retroactively**

(in thousands, except per share data)	1991	1990	1989	1988	1987
Net Revenues	\$ 179,811	\$ 146,107	\$ 130,210	\$ 89,807	\$ 65,629
Income (Loss) Before Extraordinary Item	12,189	(23,123)	(3,932)	(11,387)	7,391
Net Income (Loss)	12,610	(23,123)	(3,932)	(9,688)	7,805
Income (Loss) Per Share Before Extraordinary Item (Fully Diluted)	.81	(1.82)	(.32)	(.97)	.61
Net Income (Loss) Per Share (Fully Diluted)	.84	(1.82)	(.32)	(.82)	.65
Total Assets	132,924	109,534	111,079	99,244	102,381
Long-Term Obligations	25,383	30,062	30,536	24,563	29,161

See Note 2 to Consolidated Financial Statements.

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

**Results of Operations**

Selected elements of the Company's financial statements are shown below for the last three years as a percentage of revenue and as a percentage change from year to year. In 1990, the Company voluntarily elected to adopt a more conservative revenue recognition policy and elected to reclassify amortization of previously capitalized software as a cost of software distribution. (See Revenues and Cost of Software Distribution sections below). In providing comparative information, pro forma amounts incorporating these changes are used throughout this discussion for 1989. The Company believes that year-to-year comparisons of financial results are not necessarily indicative of future results.

	% of Net Revenue			% Increase (Decrease)	
	Year Ended December 31,			1991 Compared to 1990	1990 Compared to 1989
	1991	1990	Pro Forma 1989		
Net revenues	100%	100%	100%	23%	12%
<b>Costs and expenses:</b>					
Cost of software distribution	13	15	15	7	11
Sales and marketing	52	67	65	(4)	16
Research and development	9	10	7	11	64
General and administration	17	18	15	18	34
Restructuring costs	—	4	—	n/a	n/a
Total costs and expenses	91	114	102	(1)	25
Operating income (loss)	9	(14)	(2)	n/a	n/a
Net income (loss)	7	(32)	(3)	n/a	n/a

**Revenues**

The Company derives revenues principally from licensing its software. Such revenues may involve the shipment of product by the Company or the granting of a license to manufacture products. From time to time Informix has recognized substantial net revenue from large software license agreements. These transactions, which are difficult to predict, have caused fluctuations in net revenues and net income because of the relatively high gross margin on such revenues. The Company expects this sort of transaction and the resultant fluctuations to continue, although such effects should generally be reduced as a result of the Company's new revenue recognition policy.

Prior to 1990, the Company generated a substantial and increasing portion of its revenues through contractual commitments from resellers for minimum non-refundable license fees payable within 12 months. In 1990, some of the Company's reseller customers found it increasingly difficult to predict future business levels with the accuracy required to make new commitments and in some instances were reluctant to meet existing commitments at current business levels.

In response to this situation, and in consideration of other factors, the Company announced that it was adopting a more conservative revenue recognition policy effective January 1, 1990. Under this new policy, license revenues from resellers are generally recognized upon the earlier of unit shipment of media to the reseller, performance of duplication by the reseller, or payment of a contractual minimum license fee where initial delivery of a master or first copy has been made. If certain criteria are met, license revenue from computer hardware OEMs and end users is recognized based upon a commitment for a minimum non-refundable fee payable or becoming payable within 12 months. In no case is license revenue recognized prior to initial delivery of the product master or first copy. Maintenance revenue is deferred and recognized ratably over the term of the maintenance agreement, which is typically 12 months. Revenue for customer training and support is recognized as the service is performed. This policy is in compliance with Statement of Position 91-1 (SOP 91-1) entitled "Software Revenue Recognition," dated December 12, 1991, issued by the American Institute of Certified Public Accountants.

The Company plans to adopt SOP 91-1 in the first quarter of 1992. At such time the amounts for 1990 and prior years will be restated to those amounts shown on a pro forma basis in the consolidated statement of operations.

Revenues increased 23% to \$179.8 million in 1991 from \$146.1 million in 1990 and 12% from 1989 to 1990. The growth in 1991 revenues was generally attributed to healthy business growth in the second half domestically and in Informix's markets abroad for the full year. The slower growth rate in 1990 was due to overall economic conditions and industry trends.

License revenue increased by 22% from \$121.4 million in 1990 to \$148.7 million in 1991. This increase was primarily due to increased licensing of the Company's database products. In 1991, database products accounted for approximately 84% of license revenue, up from about 80% and 70% in 1990 and 1989, respectively. The proportion of office automation products, represented by SmartWare and the Wingz spreadsheet products, while remaining flat in absolute dollars in 1991 and 1990, has declined as a percentage of revenue due to the Company's shift in product strategy focusing more on database products. Wingz will continue to be enhanced and reach more platforms; however, it will be positioned as a front end for the Company's database products. Development of the SmartWare product line has been curtailed and it is anticipated that no major product enhancements will be made unless a partner is found to participate in the development. The Company expects that database products will continue to represent a substantial majority of revenues in the future.

Service revenue increased by 26% from \$24.7 million in 1990 to \$31.1 million in 1991 and by 49% from \$16.6 million in 1989 to 1990. These increases were primarily attributable to continued growth of the installed customer base and the renewal of maintenance contracts. The Company continues to emphasize support services as a source of revenue and expects that service revenue may continue to increase as a proportion of total revenue in the future.

Approximately 51%, 45%, and 42% of the Company's revenue was derived from sales to foreign customers for 1991, 1990, and 1989, respectively. The increase in foreign revenue in absolute dollars and as a percentage of total revenues in 1991 is partially attributable to the addition of new subsidiaries and sales offices in Europe and Asia. The Company expects that foreign sales will continue to provide a significant portion of total revenues.

In 1991, the Company was selected to provide the database component of a decision support system for the Army National Guard and Army Reserves. As a result of the Reserve Component Automation System (RCAS) contract, the Company will receive \$26.8 million for license fees and support. The Company received a \$5.0 million payment in February 1992, with the balance of \$21.8 million due in October 1992. In accordance with the Company's revenue recognition policy, \$21.8 million is expected to be recorded as license revenue in 1992, and the remaining \$5.0 million of support revenue will be deferred and recognized over an 11-year support period. The payment due in October 1992 is contingent upon the project receiving funding from the U.S. government for fiscal year 1993. In the event this payment is not made, only the initial \$5.0 million non-refundable payment will be recognized.

### **Costs and Expenses**

In January 1991, the Company implemented a program of operating cost reductions, including a reduction in its work force of approximately 15%, to bring costs more in line with current and anticipated revenues. The related severance and restructuring costs were accrued in the fourth quarter of 1990. The result of the reduction in work force and other cost control measures implemented in early 1991 is evidenced by the Company's improved operating margins in the last three quarters of 1991.

In 1990 and 1991, the Company's revenues in the first half of the year generally remained flat compared to the second half of the preceding year. The Company expects this trend to continue in 1992, and anticipates that operating income in the first half of 1992 as a percentage of net revenue, excluding the revenue from the RCAS contract as discussed earlier in the Results of Operations, will be lower than the percentage operating income in the second half of 1991. In addition, since the Company's expenses are relatively fixed in the near term, unexpected variances in planned revenue, which are difficult to forecast, can result in variations in expense ratios.

## Cost of Software Distribution

Software distribution costs consist of media, documentation, product assembly and purchasing costs, freight, and amortization of previously capitalized software development costs. Costs of software distribution as a percentage of revenue were 13% for 1991 and 15% for both 1990 and 1989.

Amortization of capitalized software increased to \$7.7 million in 1991 from \$5.3 million in 1990 and \$2.2 million in 1989 as new products were released and the corresponding amortization periods were begun. Also, approximately \$1,456,000 and \$400,000 of previously capitalized software was written off in 1991 and 1990, respectively.

Excluding amortization, costs of software distribution as a percentage of revenue declined to 9% in 1991 from 11% in 1990 and from 13% in 1989, reflecting design and manufacturing cost reductions and increased database versus office automation product mix. In the future, cost of software distribution as a percentage of revenue may vary depending upon the proportion of office automation versus database products, whether the product is reproduced by the Company or by customers, the proportion of domestic versus international revenues, the proportion of service revenues versus license revenues, and the continued successful implementation of ongoing cost reduction programs.

## Sales and Marketing Expenses

Sales and marketing expenses decreased to \$94.8 million in 1991 from \$98.6 million in 1990, or 4%. This decrease resulted primarily from the reduction in workforce in January 1991 and the control of trade show and advertising expenses in 1991, offset in part by increased commission expenses resulting from the increase in sales in 1991. Sales and marketing expenses represented 52% of net revenues in 1991, 67% in 1990 and 65% in 1989. In the future, the Company expects sales and marketing expenses to increase in absolute dollars as headcount grows, but to remain constant or decline as a percentage of revenues.

## Research and Development Expenses

The Company accounts for its research and development expenses in accordance with Statement of Financial Accounting Standards No. 86. This statement requires that once technological feasibility of a developing product has been established, all subsequent costs incurred in developing that product to a commercially acceptable level be capitalized and amortized ratably over the revenue life of the product. The Company's research and development expenses exclude capitalized software costs of \$5,203,000 in 1991, \$6,452,000 in 1990, and \$5,050,000 in 1989, and exclude amortization costs of previously capitalized software. See Note 1 of Notes to Consolidated Financial Statements. The following table summarizes research and development costs for the prior three years:

(in thousands)	Years Ended December 31,			% Increase (Decrease)	
	1991	1990	1989	1991 Compared to 1990	1990 Compared to 1989
Incurring product development costs	\$21,405	\$ 21,081	\$ 14,015	2%	50%
Expenditures capitalized	5,203	6,452	5,050	(19)	28
Expenditures capitalized as a % of incurred	24%	31%	36%	n/a	n/a
Amortization	\$ 7,660	\$ 5,275	\$ 2,153	45	145

Research and development expenses, exclusive of capitalized software costs, increased to \$16,202,000 in 1991 from \$14,629,000 in 1990 and from \$8,965,000 in 1989. As a percentage of revenues, research and development expenditures decreased to 9% in 1991 from 10% in 1990, but increased in 1990 from 7% in 1989. The large increase in 1990 was caused primarily by an increase in staff levels and other employee-related costs needed to support new programs as well as to maintain existing ones. Major new programs under development in

1991 included Informix 5.0 servers and connectivity products, as well as object-oriented 4GL technology. The Company believes that research and development expenditures are essential to maintaining its competitive position in its primary markets, and expects to maintain 1992 expenditure levels as a percentage of revenue at about current levels.

Capitalization as a percentage of incurred expenses was 24% in 1991, 31% in 1990, 36% in 1989, and reflects fluctuations as new programs are added and current programs are completed.

### **General and Administrative Expenses**

General and administrative expenses increased 18% from 1990 to 1991 and 34% from 1989 to 1990. Relative to net revenues, these expenses were 17% in 1991 compared to 18% in 1990 and 15% in 1989. Included in general and administrative expenses is a foreign exchange loss of \$1.3 million in 1991 and a foreign exchange gain of \$1.9 million in 1990, resulting from translation of certain current intercompany receivables denominated in foreign currencies, and hedging activities. In 1989, the gain or loss in foreign exchange was immaterial.

Excluding foreign exchange gains or losses, general and administrative expenses increased slightly in absolute dollars from \$27.6 million in 1990 to \$29.0 million in 1991, or 5%. This increase was primarily due to an increase in the costs of supporting the Company's European operations as new subsidiaries were opened and existing subsidiaries were expanded, and to an increase in personnel and investments in order processing and management information systems. In 1990, general and administrative expenses, excluding the \$1.9 million foreign exchange gain, increased by \$8.5 million or 44% from 1989, reflecting the addition of administrative personnel internationally, the establishment of a new Asia/Pacific region headquarters in Singapore, and the effect of stronger European currencies on local operating expenses.

### **Restructuring Costs**

A charge of \$6.1 million was provided in the fourth quarter of 1990 for restructuring, including severance and related employee benefits resulting from a reduction in work force in January 1991. The restructuring was made in order to reduce costs and better support the Company's fundamental focus on database technology, application development tools, and end-user desktop tools. Also included in the restructuring charge were the write-offs of certain previously capitalized software development costs and purchased software costs related to discontinued programs, and the carrying costs of certain excess facilities.

### **Other Income and Expense**

The Company recognized net other expense of \$1,635,000, \$2,321,000 and \$492,000 in 1991, 1990, and 1989, respectively. In 1991 and 1990, the Company recorded losses of approximately \$100,000 and \$400,000, respectively, related to its interest in the partnership from which it leases its Lenexa, Kansas facilities. Other expense consisted primarily of interest expense on the convertible subordinated debentures and interest expense associated with capital leases, net of interest income from cash and cash equivalents, and a gain on the sale of an investment. Other expense decreased from \$2,321,000 in 1990 to \$1,635,000 in 1991, primarily due to a gain on the sale of an investment and interest generated from higher cash balances at the end of 1991.

### **Extraordinary Items**

Results of operations in 1991 include an extraordinary gain of \$421,000, net of unamortized bond issuance costs and the applicable income tax effects, resulting from the open market repurchase and retirement of certain of the Company's outstanding convertible subordinated debentures with a face value of \$1,175,000. The Company may continue to repurchase convertible subordinated debentures on the open market from time to time.

## Provision for Income Taxes

The effective tax rate in 1991 was 12.0%. The provision for income taxes included in the consolidated statement of operations resulted from state income taxes from jurisdictions where net operating loss carryovers are not allowed, federal alternative minimum taxes, income taxes from profitable foreign subsidiaries and taxes withheld in certain foreign jurisdictions upon the payment of royalties. The amounts of foreign tax withheld will only be recoverable if there is U.S. taxable income after recovery of net operating loss in future periods. See Note 8 of Notes to Consolidated Financial Statements.

## Income

Net income increased to \$12.6 million or \$.84 per share (fully diluted) in 1991 from the pro forma net loss of \$23.1 million or \$1.82 per share in 1990. The increase in 1991 resulted from an increase in revenues while maintaining operating expenses at 1990 levels. The Company expects revenues to continue to grow in 1992, but anticipates that headcount and employee related expenses, including capital expenditures, will also grow.

## Liquidity and Capital Resources

The change in the revenue recognition policy in 1990 resulted in the deferral of the recognition of a substantial amount of revenue and related receivables, along with a related reduction of accrued liabilities for the fulfillment of the affected contracts. Thus a comparison of working capital levels from that previously reported for 1989 to the 1990 level is not meaningful. Selected elements of the balance sheets for 1991 and 1990, and on a pro forma basis 1989 are shown below:

(in thousands)	Year Ended December 31,		
	1991	1990	1989
Cash and cash equivalents	\$ 41,854	\$ 20,509	\$ 25,018
Accounts receivable, net	47,267	39,861	40,398
Total current assets	96,563	69,307	75,302
Property and equipment, net	21,805	25,474	21,710
Total assets	132,924	109,534	111,079
Total current liabilities	53,362	41,401	29,780
Convertible debentures	22,575	23,750	23,750
Total liabilities	78,745	71,463	60,316
Stockholders' equity	54,179	38,071	50,763

Cash and cash equivalents increased by \$21.3 million during 1991. This increase was attributable to strong cash collections, expense controls, and improved asset management.

Accounts receivable increased by \$7.4 million in 1991, principally as a result of increased sales. The effect of the increased sales volume was partially offset by strong cash collections. Days sales outstanding decreased from approximately 92 days in the fourth quarter of 1990 to 80 days in the fourth quarter of 1991. The Company expects this ratio to fluctuate within the range it has experienced for the last eight quarters; however, this is dependent on many factors, including the mix of contract-based revenue with significant OEMs and large corporate end users versus revenue recognized on shipments to VARs and distributors.

The Company's working capital increased from \$27.9 million at December 31, 1990 to \$43.2 million at December 31, 1991. The \$15.3 million increase in working capital was primarily due to an increase in cash and accounts receivable partially offset by an increase in accounts payable, accrued expenses, and deferred revenue. The increase in deferred revenue is due to the Company's continued emphasis on support services.

In 1991, 1990, and 1989, the Company acquired \$5.6 million, \$12 million, and \$6.6 million of capital equipment consisting primarily of data processing, manufacturing, and office equipment, respectively. The decrease of capital equipment purchases in 1991 resulted

from tight control of purchases of capital equipment made possible by no net increase in headcount. Certain items in 1991 and 1990 were financed by \$1.5 million and \$4.6 million of additional capital leases, respectively. The Company expects to increase investments in capital equipment in 1992 as headcount growth resumes.

In November 1990, ASCII Corporation, a company headquartered in Tokyo, Japan, purchased approximately 672,000 newly issued shares of the Company's common stock at \$10 per share. ASCII and Informix have a long-standing strategic relationship; ASCII is the exclusive distributor of Informix products in Japan. After giving effect to the newly issued shares associated with this transaction, ASCII held 5% of the Company's stock. Capital funds generated for the Company as a result of this transaction were approximately \$6.6 million net of related expenses.

In February 1991, Hewlett-Packard Company and the Company entered into an agreement under which (among other terms) Hewlett-Packard was obligated to purchase up to 5% of the Company's common stock on the open market during the period April 17, 1991 through February 4, 1992. In addition to this required open market purchase, Informix had the right but not the obligation to require Hewlett-Packard to buy an additional 5% of newly issued common stock at a predetermined price during the one-year period ending on February 4, 1992; however, the Company elected not to exercise that right.

The Company expects current cash balances will be sufficient to fund anticipated levels of operations at least through 1992.

(in thousands)	December 31, 1991	December 31, 1990
<b>Assets</b>		
<b>Current Assets:</b>		
Cash and cash equivalents	\$ 41,854	\$ 20,509
Accounts receivable, less allowances for doubtful accounts of \$3,204 in 1991 and \$1,265 in 1990	47,267	39,861
Inventories	3,637	4,746
Other current assets	3,805	4,191
<b>Total current assets</b>	<b>96,563</b>	<b>69,307</b>
<b>Property and Equipment, at cost</b>		
Computer equipment	26,890	23,942
Office equipment and leasehold improvements	19,974	18,125
	46,864	42,067
Less accumulated depreciation and amortization	(25,059)	(16,593)
	21,805	25,474
<b>Software Costs, less accumulated amortization of</b>		
\$13,783 in 1991 and \$8,876 in 1990	13,710	13,849
Other	846	904
<b>Total Assets</b>	<b>\$ 132,924</b>	<b>\$ 109,534</b>
<b>Liabilities and Stockholders' Equity</b>		
<b>Current Liabilities:</b>		
Note payable to bank	\$ —	\$ 335
Accounts payable	7,768	7,036
Accrued expenses	15,824	10,631
Accrued employee compensation	11,498	5,674
Restructuring costs	—	4,039
Deferred revenue	13,436	9,188
Current portion of capital lease obligations	4,836	4,498
<b>Total current liabilities</b>	<b>53,362</b>	<b>41,401</b>
Convertible subordinated debentures	22,575	23,750
Capital lease obligations, less current portion	2,808	6,312
Commitments and contingencies		
<b>Stockholders' Equity:</b>		
Preferred stock, par value \$.01 per share— 5,000,000 shares authorized, none issued	—	—
Common stock, par value \$.01 per share— 20,000,000 shares authorized, issued 14,041,519 and 13,446,407 in 1991 and 1990, respectively	140	134
Additional paid-in capital	66,101	63,073
Retained earnings (deficit)	(12,802)	(25,412)
Foreign currency translation adjustment	740	276
<b>Total stockholders' equity</b>	<b>54,179</b>	<b>38,071</b>
<b>Total Liabilities and Stockholders' Equity</b>	<b>\$ 132,924</b>	<b>\$ 109,534</b>

See Notes to  
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(in thousands, except per share data)	Years ended December 31,		
	1991	1990	1989
<b>Net Revenues:</b>			
Licenses	\$ 148,675	\$ 121,438	\$ 128,448
Services	31,136	24,669	16,552
	<u>179,811</u>	<u>146,107</u>	<u>145,000</u>
<b>Costs and Expenses:</b>			
Cost of software distribution	23,003	21,437	20,335
Sales and marketing	94,818	98,618	85,944
Research and development	16,202	14,629	8,965
General and administrative	30,294	25,673	19,138
Restructuring costs	—	6,092	—
	<u>164,317</u>	<u>166,449</u>	<u>134,382</u>
Operating income (loss)	15,494	(20,342)	10,618
<b>Other Income (Expense), net</b>	<u>(1,635)</u>	<u>(2,321)</u>	<u>(492)</u>
Income (loss) before income taxes, extraordinary item and cumulative effect of change in accounting principle	13,859	(22,663)	10,126
<b>Income Taxes</b>	<u>1,670</u>	<u>460</u>	<u>3,747</u>
Income (loss) before extraordinary item and cumulative effect of change in accounting principle	12,189	(23,123)	6,379
<b>Extraordinary Item:</b>			
Gain on repurchase of convertible subordinated debentures, net of \$44 of unamortized bond issuance costs and \$30 in related income taxes	421	—	—
<b>Cumulative Effect on Prior Years of a Change in Revenue Recognition Method, net of income tax benefit of \$5,646</b>	<u>—</u>	<u>(23,287)</u>	<u>—</u>
<b>Net Income (Loss)</b>	<u>\$ 12,610</u>	<u>\$ (46,410)</u>	<u>\$ 6,379</u>
<b>Net Income (Loss) Per Common Share and Common Equivalent Share</b>			
<b>Primary:</b>			
Income (loss) before extraordinary item and cumulative effect of change in accounting principle	\$ 0.85	\$ (1.82)	\$ 0.50
Extraordinary item	0.03	—	—
Cumulative effect on prior years of a change in revenue recognition method	—	(1.83)	—
Net income (loss)	<u>\$ 0.88</u>	<u>\$ (3.65)</u>	<u>\$ 0.50</u>
<b>Fully Diluted:</b>			
Income (loss) before extraordinary item and cumulative effect of change in accounting principle	\$ 0.81	\$ (1.82)	\$ 0.48
Extraordinary item	0.03	—	—
Cumulative effect on prior years of a change in revenue recognition method	—	(1.83)	—
Net income (loss)	<u>\$ 0.84</u>	<u>\$ (3.65)</u>	<u>\$ 0.48</u>
<b>Weighted Average Number of Common and Common Equivalent Shares Outstanding:</b>			
Primary	14,337	12,712	12,777
Fully diluted	15,068	12,712	13,223
<b>Pro Forma Amounts Assuming the Change in Revenue Recognition Method is Applied Retroactively to 1990 and 1989:</b>			
Net revenues		\$ 146,107	\$ 130,210
Loss before extraordinary item		(23,123)	(3,932)
Net loss		(23,123)	(3,932)
<b>Primary and Fully Diluted:</b>			
Loss per share before extraordinary item		(1.82)	(0.32)
Net loss per share		(1.82)	(0.32)

*See Notes to Consolidated Financial Statements.*

(in thousands)	Common Stock Shares	Stock Amount	Additional Paid-in Capital	Notes Receivable From Stockholders	Deferred Compensation	Retained Earnings (Deficit)	Foreign Currency Translation Adjustment	Total
<b>Balances at December 31, 1988</b>	11,987	\$ 120	\$51,907	\$ (30)	\$ (111)	\$ 14,619	\$ (76)	\$ 66,429
Exercise of stock options	224	2	624					626
Payments received on notes				30				30
Payments on ESOP liability					111			111
Sale of stock to employees under employee stock purchase plan	118	1	861					862
Foreign currency translation adjustment							(433)	(433)
Net income						6,379		6,379
<b>Balances at December 31, 1989</b>	12,329	123	53,392	—	—	20,998	(509)	74,004
Exercise of stock options	314	3	2,038					2,041
Proceeds from equity investment from ASCII, net of issuance expense of \$143	672	7	6,569					6,576
Sale of stock to employees under employee stock purchase plan	131	1	1,074					1,075
Foreign currency translation adjustment							785	785
Net loss						(46,410)		(46,410)
<b>Balances at December 31, 1990</b>	13,446	134	63,073	—	—	(25,412)	276	38,071
Exercise of stock options	353	4	1,809					1,813
Sale of stock to employees under employee stock purchase plan	243	2	1,112					1,114
Tax benefits related to disqualifying dispositions of stock options			107					107
Foreign currency translation adjustment							464	464
Net income						12,610		12,610
<b>Balances at December 31, 1991</b>	14,042	\$ 140	\$66,101	\$ —	\$ —	\$ (12,802)	\$ 740	\$ 54,179

See Notes to  
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**CONSOLIDATED STATEMENT OF CASH FLOWS**

(in thousands)	Years ended December 31,		
	1991	1990	1989
<b>Operating Activities</b>			
Net income (loss)	\$ 12,610	\$ (46,410)	\$ 6,379
Adjustments to reconcile income (loss) to net cash and cash equivalents provided by (used in) operating activities:			
Cumulative effect of a change in accounting principle	—	23,287	—
Depreciation and amortization	16,499	12,809	8,431
Provision for losses on accounts receivable	2,475	864	1,601
Provision for deferred income taxes	—	—	4,329
Foreign currency transaction (gain) loss	793	(1,902)	—
Gain on repurchase of convertible subordinated debentures	(421)	—	—
Restructuring costs	—	2,053	—
Changes in operating assets and liabilities:			
Accounts receivable	(9,875)	(1,835)	(30,262)
Inventories and other current assets	1,425	944	251
Accounts payable and accrued expenses	7,802	9,832	5,821
Deferred revenue	4,198	3,106	2,336
Net cash and cash equivalents provided by (used in) operating activities	35,506	2,748	(1,114)
<b>Investing Activities</b>			
Decrease in short-term investments	—	143	12,457
Purchase of property and equipment	(4,231)	(6,578)	(6,584)
Proceeds from sale of property and equipment	136	176	2,274
Proceeds from sale/leaseback	—	564	8,865
Additions to software costs	(7,521)	(8,687)	(6,258)
Other	58	673	(190)
Net cash and cash equivalents provided by (used in) investing activities	(11,558)	(13,709)	10,564
<b>Financing Activities</b>			
Repurchase of convertible subordinated debentures	(754)	—	(250)
Proceeds from issuances of stock	3,034	9,692	1,488
Principal payments on capital leases	(4,732)	(3,052)	(778)
Proceeds from note payable to bank	—	—	948
Repayment of note payable to bank	(303)	(991)	(895)
Net cash and cash equivalents provided by (used in) financing activities	(2,755)	5,649	513
Effect of exchange rate changes on cash and cash equivalents	152	803	(168)
Increase (decrease) in cash and cash equivalents	21,345	(4,509)	9,795
Cash and cash equivalents at beginning of year	20,509	25,018	15,223
Cash and cash equivalents at end of year	<u>\$ 41,854</u>	<u>\$ 20,509</u>	<u>\$ 25,018</u>

*See Notes to Consolidated Financial Statements.*

## Accounting Policies

### Note 1 — Summary of Significant Accounting Policies

**Operations.** Informix Corporation, a Delaware corporation, through its wholly owned subsidiary Informix Software, Inc., and its foreign subsidiaries (collectively "the Company") designs, develops, manufactures, markets, and supports computer software systems to perform general purpose data management functions on various computer systems; modularly integrated business application software (featuring word processor, database manager, and spreadsheet with graphics) operating under the DOS operating system; and a graphical spreadsheet application for the Apple Macintosh and A/UX, DOS, Windows, OS/2, and UNIX operating systems.

**Principles of Consolidation.** The consolidated financial statements include the accounts of Informix Corporation and its wholly owned subsidiaries. All material intercompany accounts, transactions, and profits have been eliminated in consolidation.

**Foreign Currency Translation.** The local currency is the functional currency for substantially all of the Company's foreign subsidiaries. The translation of the functional currencies into U.S. dollars is performed at the exchange rate in effect at the balance sheet date for balance sheet accounts, and at a weighted average exchange rate for revenue and expense accounts. Exchange gains or losses resulting from such translation are included as a component of stockholders' equity. Transaction exchange gains or losses are included in general and administrative expenses in the statements of operations. In 1991 and 1990, the Company recognized a \$1,309,000 loss and \$1,902,000 gain on foreign currency transactions on short-term intercompany receivables, respectively. In 1989 the net transaction gains or losses were immaterial.

In 1991 the Company began hedging certain portions of its exposure to foreign currency fluctuations through a variety of strategies and financial instruments, including the use of forward exchange contracts. At December 31, 1991, the Company had approximately \$5.3 million of foreign exchange contracts outstanding. The gains and losses associated with currency rate changes on forward foreign exchange contracts are recorded currently as income or loss as they offset corresponding gains and losses on the foreign currency-denominated assets and liabilities being hedged.

**Revenues.** The Company generally recognizes revenue upon unit delivery of the software. In no case will revenue be recognized unless a master or first copy is delivered.

The Company recognizes revenue from computer hardware manufacturers and end-user licensees for amounts payable within 12 months at the time the customer makes a contractual commitment for a minimum non-refundable license fee, if such computer hardware manufacturers and end-user licensees meet certain criteria established by the Company. Revenues from resellers (such as distributors and value-added resellers) and from other computer hardware manufacturers and end users are recognized at the earliest of either pre-payment of the license fee or shipment of the software media on a per-unit basis. Maintenance contract revenue is recognized over the term of the contract. Other service revenues, primarily consulting and training, are generally recognized at the time the service is performed. No single customer accounted for 10% of consolidated revenues in 1991, 1990, and 1989.

In December 1991, the American Institute of Certified Public Accountants issued Statement of Position 91-1 (SOP 91-1), entitled "Software Revenue Recognition." The Company's policy is in compliance with the Statement.

The Company plans to adopt SOP 91-1 in the first quarter of 1992. At such time the amounts for 1990 and prior years will be restated to those amounts shown on a pro forma basis in the consolidated statement of operations.

**Income Taxes.** The Company adopted the provisions of the Financial Accounting Standards Boards issued Statement of Financial Accounting Standard No. 96, "Accounting for Income Taxes" in its 1990 financial statements, effective as of January 1, 1990. The effect of such adoption was immaterial to the current year as well as to prior years.

In February 1992, the Financial Accounting Standards Board issued Statement 109 "Accounting for Income Taxes," which supersedes FAS 96. The Company is required to adopt the statement by the year ending December 31, 1993. The Company is currently in the process of analyzing the impact of the adoption of the FAS 109.

**Inventories.** Inventories, which consist primarily of software product components, finished software products, and marketing and promotional materials, are carried at the lower of cost (first in, first out) or market value.

**Software Costs.** The Company capitalizes software development costs incurred in developing a product once technological feasibility of the product has been determined. Software costs also include amounts paid for purchased software and outside development on products which have reached technological feasibility. All software costs are amortized to the cost of software distribution on the basis of each product's projected revenues or straight-line over the remaining estimated economic life of the product, whichever is greater. The Company recorded amortization of \$7,660,000, \$5,275,000, and \$2,153,000 of software costs in 1991, 1990, and 1989, respectively, in cost of software distribution. In 1991 and 1990, previously capitalized software development and purchased software costs of approximately \$1,456,000 and \$400,000 were written off and included in cost of software distribution, respectively. In addition, \$2,100,000 of previously capitalized software development and purchased software were written off and included in the restructuring costs in the fourth quarter of 1990.

**Property and Equipment.** Depreciation of property and equipment is calculated using the straight-line method over the estimated useful life, generally the shorter of the lease term or three to seven years, for financial reporting purposes, and by accelerated methods for tax purposes.

**Net Income (Loss) Per Common Share.** Net income (loss) per common share is based on the weighted average of common and dilutive common equivalent shares outstanding during each year. All stock options are considered common stock equivalents and are included in the weighted average computations when the effect is dilutive. The convertible subordinated debentures are not considered in the weighted average computations because they are neither common stock equivalents nor dilutive to per share earnings.

**Concentration of Credit Risk.** The Company designs, develops, manufactures, markets, and supports computer software systems to customers in diversified industries. The Company performs ongoing credit evaluations of its customers' financial condition and generally requires no collateral.

The Company invests its excess cash in accordance with its short-term investments policy which is set by the Board of Directors. The policy authorizes the investment of excess cash in government securities, time deposits, or certificates of deposit with approved financial institutions, commercial paper rated A-1/P-1 (a small portion of the portfolio may consist of commercial paper rated A-2/P-2), and other specific money market instruments of similar liquidity and credit quality. Generally, the investments mature within 180 days. The Company has not experienced losses related to these investments.

**Cash and Cash Equivalents.** The Company considers liquid investments purchased within three months of maturity to be cash equivalents.

**Restructuring Costs.** A charge of \$6.1 million was provided in the fourth quarter of 1990 for restructuring, including severance and related employee benefits resulting from a reduction in work force in January 1991. The restructuring was made in order to reduce costs and better support the Company's fundamental focus on database technology, application development tools, and end-user desktop tools. Also included in the restructuring charge were the write-offs of certain previously capitalized software development costs and purchased software costs related to discontinued programs, and the carrying costs of certain excess facilities.

**Reclassifications.** Certain items shown in 1990 and 1989 have been reclassified to conform to the current year's presentation.

## **Note 2 — Change in Accounting Method**

Prior to the fourth quarter of 1990, revenues were recognized for amounts payable within 12 months at the time a customer made a contractual commitment for a minimum non-refundable license fee, or at the time amounts became payable within 12 months. Prior to the release of 1990 results, the Company approved a change in its revenue recognition method, retroactive to January 1, 1990. The Company changed its policy to recognize revenue on this basis only from computer hardware manufacturers and end-user licensees when a master or first copy is delivered and if such computer and hardware manufacturers

meet criteria established by the Company. Revenue from resellers (such as distributors and value-added resellers) and from other computer hardware manufacturers and end users is recognized at the earliest of either pre-payment of the license fee (as long as delivery has been made of a master or first copy of the software), or upon shipment of the software media on a per-unit basis.

The cumulative effect of \$23.3 million resulting from the application of the new accounting method to years prior to 1990 is included in the net loss in the first quarter of 1990. The Company's previously reported annual consolidated financial statements have not been restated to reflect this change. The effect of adopting the new method on results of operations for the year ended December 31, 1990 was to increase by \$18.7 million (\$1.47 per share) the net loss before cumulative effect of the accounting change and to increase the net loss by \$42.0 million (\$3.30 per share).

## Bank Note

### Note 3 — Note Payable to Bank

The Company's wholly owned German sales subsidiary has an uncommitted, unsecured credit line with a German bank. From time to time the bank has made credit available to the subsidiary on a short-term basis at interest rates determined by local market conditions. There were no borrowings against the line of credit at December 31, 1991 compared with \$335,000 at December 31, 1990.

In 1991, 1990, and 1989, the Company made interest payments on notes payable to banks, convertible subordinated debentures, and other obligations aggregating \$2,869,000, \$2,387,000, and \$2,086,000, respectively and incurred interest expense of \$2,829,000, \$3,012,000, and \$1,803,000, respectively.

## Debentures

### Note 4 — Convertible Subordinated Debentures

The Company's 7.75% convertible subordinated debentures, due in 2012, are convertible into Informix Corporation common stock at any time prior to maturity, unless previously redeemed, at \$32.67 per share. At December 31, 1991 the Company had reserved approximately 691,000 shares of Informix common stock for issuance upon conversion. The debentures are redeemable at any time at the Company's option, upon at least 15 days' notice, at prices declining from 105.425% of the principal amount. Annual sinking fund payments commencing July 15, 1998 are calculated to retire 70% of the debentures prior to maturity. The debentures are subordinated to all existing and future superior indebtedness, as defined in the indenture under which the debentures are issued. Such superior indebtedness consisting primarily of capital lease obligations aggregated \$7,644,000 at December 31, 1991.

During 1991, the Company repurchased for \$679,000 and subsequently retired convertible debentures with a face value of \$1,175,000. The gain realized thereby, net of related unamortized bond issuance costs of \$44,000 and income taxes of \$30,000, amounted to \$421,000 (\$.03 per share) and is reported as an extraordinary item in the consolidated statement of operations for the year ended December 31, 1991.

## Stock Options

### Note 5 — Employee Stock Option and Purchase Plans

Under the Company's 1986 option plan, options are granted at fair market value on the date of the grant. Options are generally exercisable in cumulative annual installments over three to five years. Payment for shares purchased upon exercise of options may be by cash or, with Board approval, by full recourse promissory note or by exchange of shares of the Company's common stock at fair market value on the exercise date. Options expire 10 years after the date of grant. At December 31, 1991, 4,100,000 shares were authorized for issue under the Plan.

Additionally, 100,000 shares were authorized for issue under the 1989 Directors Option Plan whereby non-employee directors are automatically granted non-qualified stock options upon election or re-election to the Board of Directors.

On December 5, 1990, the Board authorized non-officer employees to cancel certain stock options in exchange for options to be granted for a price of \$5.375 per share, the closing price of the Company's stock on that day. Additionally, the Board authorized officer employees of the Company to convert outstanding options to new non-qualified options equal to 80% of the shares subject to existing outstanding options, at a price of \$5.375 per share. Pursuant to this authorization, options representing 2,033,194 shares have been cancelled and 1,809,611 reissued.

Following is a summary of activity for both stock option plans for the three years ended December 31, 1991:

	Number of Shares	Options Price per Share
Outstanding at January 1, 1989	1,888,381	\$ 1.00 to \$ 24.33
Options granted	1,120,950	7.88 to 14.25
Options exercised	(223,871)	1.00 to 11.33
Options cancelled	(364,583)	1.65 to 24.33
Outstanding at December 31, 1989	2,420,877	\$ 1.00 to \$ 24.33
Options granted	2,580,441	3.88 to 15.63
Options exercised	(314,874)	1.00 to 14.75
Options cancelled	(2,408,968)	1.38 to 24.33
Outstanding at December 31, 1990	2,277,476	\$ 1.00 to \$ 24.33
Options granted	801,887	3.13 to 15.25
Options exercised	(352,805)	1.75 to 10.13
Options cancelled	(444,888)	3.38 to 24.33
Outstanding at December 31, 1991	2,281,670	\$ 1.00 to \$ 15.25
Options exercisable at December 31, 1991	616,352	
Available for grant at December 31, 1991	373,392	

The Company also has a qualified Employee Stock Purchase Plan under which employees may purchase up to 950,000 shares in the aggregate. Under the terms of the Plan, employees may contribute via payroll deductions up to 10% of their base pay and purchase up to 250 shares per quarter (with the limitation of purchases of \$25,000 annually in fair market value of the shares). Employees may elect to withdraw from the Plan during any quarter and have their contributions for the period returned to them. Also, employees may elect to reduce the rate of contribution one time in each quarter. The price at which employees may purchase shares is 85% of the lower of the fair market value of the stock at the beginning or end of the quarter. The Plan is qualified under Section 423 of the Internal Revenue Code. During 1991, 1990, and 1989, the Company issued 242,307 shares, 131,112, shares and 117,691 shares, respectively, under this plan.

#### Note 6 — Leases

The Company leases certain computer and office equipment under capital leases having terms of three to five years. Amounts capitalized for such leases are included on the consolidated balance sheets as follows:

(in thousands)	December 31, 1991	December 31, 1990
Computer equipment (at cost)	\$ 10,621	\$ 9,245
Office equipment	4,950	5,099
	15,571	14,344
Less: accumulated amortization	6,841	2,740
	<u>\$ 8,730</u>	<u>\$ 11,604</u>

Amortization with respect to leased equipment is included in depreciation expense.

In 1990, the Company entered into sale/leaseback agreements whereby the Company sold certain computer and office equipment for \$564,000, and leased back the same equipment under agreements accounted for as capital leases. The lease terms range from 48 to 60 months and the future obligations thereunder are included in the following schedule of future minimum payments. The Company has the option to purchase the leased equipment at fair market value following the third year of the lease term. Additionally, during 1991 and 1990, the Company financed approximately \$1.5 million and \$4.6 million of equipment purchases under capital lease arrangements.

#### Leases

The Company leases certain of its office facilities and equipment under non-cancellable operating leases. Total rent expense under such operating leases aggregated \$11,166,000, \$10,157,000, and \$8,511,000 in 1991, 1990, and 1989, respectively.

Future minimum payments, by year and in the aggregate, under the capital and non-cancellable operating leases as of December 31, 1991, are as follows:

Year Ending December 31 (in thousands)	Capital Leases	Non-Cancellable Operating Leases
1992	\$ 5,375	\$ 9,541
1993	2,380	7,491
1994	696	5,487
1995	70	4,736
1996	—	4,414
Thereafter	—	5,923
Total payments	8,521	<u>\$ 37,592</u>
Less: amount representing interest	<u>877</u>	
Present value of minimum lease payments	7,644	
Less current portion	<u>4,836</u>	
	<u>\$ 2,808</u>	

The Company's Lenexa, Kansas office and warehouse facilities are leased under an initial 10-year operating lease term (with two five-year renewal options) from a partnership in which Informix Software, Inc. is a 50% partner. Rental payments are approximately \$953,000 annually through 1992 and \$1,049,000 through 1998, exclusive of maintenance costs for common areas. This related commitment is included in the above schedule of non-cancellable operating lease payments.

## Geographic Information

### Note 7 — Geographic Information

Net revenues, operating income (loss), and identifiable assets for the Company's U.S., European, and other foreign operations are summarized below by year:

(in thousands)	United States	European	Other	Eliminations	Total
1991:					
Net revenues	\$ 138,091	\$ 71,649	\$ 3,342	\$ (33,271)	\$ 179,811
Operating income (loss)	12,603	2,875	(1,487)	1,503	15,494
Identifiable assets	117,226	25,610	(1,581)	(8,331)	132,924
1990:					
Net revenues	\$ 113,471	\$ 49,071	\$ 1,977	\$ (18,412)	\$ 146,107
Operating income (loss)	(9,795)	(9,321)	(4,828)	3,602	(20,342)
Identifiable assets	113,626	30,180	2,858	(37,130)	109,534
1989:					
Net revenues	\$ 106,163	\$ 49,302	\$ 3,139	\$ (13,604)	\$ 145,000
Operating income (loss)	996	(118)	(1,755)	11,495	10,618
Identifiable assets	123,319	47,568	3,144	(30,850)	143,181

Transfers between U.S. and foreign operations are generally recorded at a standard percentage of retail prices, and all intercompany profit is eliminated in consolidation.

Export revenues, consisting of sales from the Company's U.S. operating subsidiary to non-affiliated customers primarily in Europe, Asia, and Canada aggregated \$17,407,000, \$15,060,000, and \$15,468,000 in 1991, 1990, and 1989, respectively.

**Note 8— Income Taxes**

The provision for income taxes applicable to income before extraordinary item and cumulative effect of change in accounting principles consists of the following:

(in thousands)	1991	1990	1989
Currently payable (refundable):			
Federal	\$ 199	\$ (82)	\$ (1,381)
State	427	—	—
Foreign	1,044	542	799
	<u>1,670</u>	<u>460</u>	<u>(582)</u>
Deferred:			
Federal	—	—	1,880
State	—	—	251
Foreign	—	—	2,198
	<u>—</u>	<u>—</u>	<u>4,329</u>
	<u>\$ 1,670</u>	<u>\$ 460</u>	<u>\$ 3,747</u>

Pre-tax income (loss) consists of the following:

(in thousands)	1991	1990	1989
Domestic	\$ 13,220	\$ (12,365)	\$ (4)
Foreign	639	(10,298)	10,130
	<u>\$ 13,859</u>	<u>\$ (22,663)</u>	<u>\$ 10,126</u>

Deferred income taxes result from differences in the timing of recognition of certain revenue and expense items for tax and financial reporting purposes.

(in thousands)	1991	1990	1989
Net operating loss carryforward generated	\$ —	\$ —	\$ (1,702)
Cash versus accrual basis of reporting taxable income	—	—	(482)
Software development costs capitalized for financial reporting purposes	—	—	1,642
Profit recognition on license fee commitments	—	—	6,627
Expense accruals and valuation allowances not currently deductible	—	—	(305)
Depreciation	—	—	(779)
Research and development credit utilized	—	—	(777)
Capitalized leases	—	—	226
Other, net	—	—	(121)
	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 4,329</u>

The reasons for the difference between tax expense and the amount computed by applying the statutory federal income tax rate to income before income taxes and extraordinary items are as follows:

(in thousands of dollars)	1991		1990		1989	
	Amount	Percent	Amount	Percent	Amount	Percent
Computed tax at federal statutory rate	\$ 4,712	34.0%	\$(7,705)	(34.0%)	\$ 3,443	34.0%
Losses which resulted in no current tax benefit	385	2.7	7,623	33.6	—	—
Research and development credit	—	—	—	—	(645)	(6.4)
Effect of foreign income and related taxes	608	4.4	542	2.4	987	9.7
State income taxes, net of federal tax benefit	427	3.1	—	—	166	1.7
Federal alternative minimum taxes	199	1.4	—	—	—	—
Net operating loss benefit	(4,661)	(33.6)	—	—	—	—
Other, net	—	—	—	—	(204)	(2.0)
	<u>\$ 1,670</u>	<u>12.0%</u>	<u>\$ 460</u>	<u>2.0%</u>	<u>\$ 3,747</u>	<u>37.0%</u>

Income taxes paid amounted to \$197,000 in 1989. The Company received net income tax refunds of \$1,320,000 and \$571,000 in 1991 and 1990, respectively.

At December 31, 1991 the Company had net operating loss carryforwards of approximately \$15,000,000 for federal income tax purposes expiring in the year 1999 through 2006. The Company has additional loss carryforwards of approximately \$4,000,000 for financial reporting purposes. The difference between the amounts of net operating loss carryforwards for income tax and financial reporting purposes arises primarily from the reporting of certain income and expenses in different years for income tax purposes than for financial reporting purposes. The most significant differences relate to the establishment of various reserves which are not deductible for tax purposes, and the recognition of income on certain contracts for income tax purposes which is not recognized for financial reporting purposes, offset by the deduction of software development costs for tax purposes which are capitalized for financial reporting purposes.

The Company has research and development tax credit carryforwards of approximately \$1,700,000 available to offset future federal income tax liabilities. The credit carryforwards will expire beginning in 1998 through 2006.

In addition, the Company has foreign tax credit carryforwards of approximately \$700,000 available to offset future federal income tax liabilities. These credit carryforwards will expire beginning in 1993 through 1995.

## Litigation

### Note 9 — Litigation

On August 10, 1988, a purported class action complaint was filed against the Company and certain of its then-current and former officers and directors and a former stockholder in the U.S. District Court for the Northern District of California. After defendants' motions to dismiss were granted, an amended complaint was filed alleging that defendants violated federal securities laws and state law by making false and misleading statements in reports to stockholders and that certain directors and officers traded the Company's common stock on the basis of inside information. In March 1990, the defendants' motions to dismiss the amended complaint were granted in part and denied in part. A discovery order was entered by the court in September 1990 providing for a discovery process to be conducted in phases, the first phase of which was concluded on March 1, 1991. In February 1991, the court entered an order conditionally certifying a class of plaintiffs consisting of the Company's stockholders during the period October 15, 1987 to October 24, 1988. Because of the preliminary status of these proceedings, the ultimate outcome cannot presently be determined. The Company intends to vigorously defend this matter.

From time to time, litigation occurs in the normal course of business. It is the Company's opinion that the resolution of such pending litigation will not have a material effect on the Company's financial position.

**Note 10 — Selected Quarterly Financial Data (Unaudited)**

**Quarterly  
Data**

(in thousands)	Fiscal Quarter Ended			
	April 1	June 30	September 30	December 31
<b>1991:</b>				
Net revenues	\$ 37,845	\$ 39,826	\$ 48,338	\$ 53,802
Gross profit	32,730	34,241	42,874	46,963
Income (loss) before extraordinary item	(2,197)	1,358	4,712	8,316
Net income (loss)	(2,197)	1,358	5,119	8,330
Income (loss) per share before extraordinary item	(0.16)	0.10	0.32	0.55
Net income (loss) per share	(0.16)	0.10	0.35	0.55
<b>1990:</b>				
Net revenues	\$ 32,427	\$ 36,513	\$ 37,967	\$ 39,200
Gross profit	28,052	31,182	31,568	33,868
Loss before cumulative effect of change in accounting principles	(4,518)	(3,774)	(4,273)	(10,558)
Net loss	(27,805)	(3,774)	(4,273)	(10,558)
Loss per share before cumulative effect of change in accounting principles	(0.36)	(0.30)	(0.34)	(0.81)
Net loss per share	(2.23)	(0.30)	(0.34)	(0.81)

**Board of Directors  
Informix Corporation**

**Report of  
Ernst &  
Young,  
Independent  
Auditors**

We have audited the accompanying consolidated balance sheets of Informix Corporation as of December 31, 1991 and 1990, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 1991. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, based on our audits, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Informix Corporation at December 31, 1991 and 1990, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 1991 in conformity with generally accepted accounting principles.

As discussed in Note 2 to the financial statements, in 1990 the Company changed its method of recognizing revenue with respect to product license revenue.

*Ernst & Young*

San Jose, California  
February 12, 1992

**Corporate  
Information**

**Board of Directors**

**Roger J. Sippl,**  
*Chairman,  
Informix Corporation*

**Albert F. Knorp, Jr.,**  
*Partner, Lewis, Knorp, Walsh,  
McBride and Kavalaris*

**James L. Koch,\***  
*Dean, Leavey School of Business and  
Administration, Santa Clara University*

**Thomas A. McDonnell,\***  
*Vice Chairman and Chief Executive Officer,  
DST Systems, Inc.*

**Phillip E. White,**  
*President and Chief Executive Officer,  
Informix Corporation*

**Cyril J. Yansouni,**  
*Chief Executive Officer and Chairman,  
Read-Rite Corporation*

**Transfer Agent**

**First National Bank of Boston**  
*Boston, Massachusetts*

**Independent Public Auditors**

**Ernst & Young,**  
*San Jose, California*

*\* Nominee for re-election at the 1992  
Annual Stockholders Meeting*

**Corporate Officers**

**Roger J. Sippl,**  
*Chairman*

**Phillip E. White,**  
*President and Chief Executive Officer*

**Howard H. Graham,**  
*Senior Vice President, Finance and  
Chief Financial Officer*

**Charles H. House,**  
*Senior Vice President,  
Product Management and Development*

**Edwin C. Winder,**  
*Senior Vice President, Americas Sales,  
Corporate Marketing and Service*

**Richard C. Blass,**  
*Vice President, Corporate Controller and  
Chief Accounting Officer*

**D. Kenneth Coulter,**  
*Vice President, Europe*

**Richard B. Curtis,**  
*Vice President, Quality and  
Strategic Programs*

**Ira H. Dorf,**  
*Vice President, Human Resources*

**Howard Haythornthwaite,**  
*Vice President, Asia/Pacific*

**Stephen E. Hill,**  
*Vice President, Strategic Planning and  
Corporate Development*

**Wynne R. Jennings,**  
*Vice President, Operations and  
Lenexa Site General Manager*

**David H. Stanley,**  
*Vice President, Legal,  
General Counsel and Secretary*

**Form 10-K**

A copy of the Company's 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:

Margaret C. Reilly  
Treasurer  
Informix Corporation  
4100 Bohannon Drive  
Menlo Park, California 94025

**Annual Meeting**

The Annual Meeting of Stockholders will be held at 5:00 P.M. on Thursday, May 14, 1992 at the Company's Corporate Headquarters, 4100 Bohannon Drive, 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 prices on the NASDAQ National Market System.

1990	High	Low
1st quarter	\$ 17.250	\$ 12.000
2nd quarter	16.875	11.000
3rd quarter	17.375	4.750
4th quarter	6.250	3.625

1991	High	Low
1st quarter	\$ 6.125	\$ 2.625
2nd quarter	7.500	5.250
3rd quarter	7.875	5.500
4th quarter	15.625	8.000

**Common Stockholders of Record**

At February 28, 1992, there were approximately 1,033 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 anticipated future growth.

**Sales Offices****Domestic**

Atlanta	Boston	Chicago
Dallas	Denver	Des Plaines
Detroit	Somerset, NJ	Los Angeles
Minneapolis	Montreal	New York
Newport Beach	Pittsburgh	Portland
Sacramento	San Francisco	Seattle
St. Louis	Tampa	Toronto
Washington, D.C.		

**International**

Australia	Belgium	Canada
Czechoslovakia	France	Germany
Hong Kong	Italy	The Netherlands
New Zealand	Philippines	Singapore
Spain	Sweden	Taiwan
United Kingdom		

**Corporate Headquarters**

4100 Bohannon Drive  
Menlo Park, California 94025  
(415) 926-6300

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