

Informix Corporation
The mission of
Informix Corporation
Informix is to
Informix Corporation
provide, through
Informix Corporation
partnerships
Informix Corporation
worldwide, the best
Informix Corporation
technology and
Informix Corporation
services for
Informix Corporation
developing
Informix Corporation
enterprise-wide
Informix Corporation
data management
Informix Corporation
applications for
Informix Corporation
open systems.
Informix Corporation

About the cover

The Informix mission statement emphasizes the company's commitment to partnerships, quality products and services, and open systems. But a mission statement is only words unless it's embraced by those who carry it out from day to day. On the following pages, you'll meet some of the people who make the Informix mission a reality.

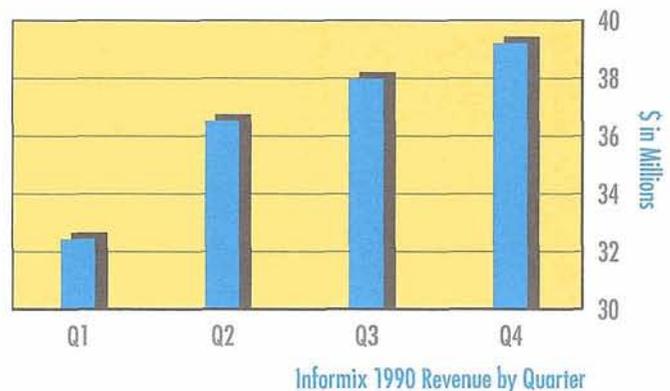
To our stockholders:



For Informix Corporation, 1990 was a year of significant change—and significant progress. We believe the decisions we made during the past year set the stage for the long-term success of the business, and strengthen the Company's position as a leading supplier of open systems software.

The major change of the year was the Company's voluntary adoption of a new—and more conservative—policy for recognizing revenue.

We have reported revenues for the full year and fourth quarter of 1990, and restated revenues from the first three quarters, in accordance with the new policy. The 1990 results also include the cumulative adjustment for all previous years of operation. These figures reflect a loss on the year, but our revenues grew each quarter in 1990, as shown in the chart here. While we cannot predict future results, we do believe this growth in revenue points to the overall health of our business. We also believe that now, with the new policy in place, we have a better view of our ongoing business as we move forward, enabling us to better manage the total Company.



It is important to realize that Informix has taken a leadership position within our segment of the industry by adopting this new policy. Current activity in the accounting profession indicates impending changes in revenue recognition standards for software companies, and we feel the Company's new policy proactively brings our reporting practices in line with the anticipated changes.

The change in revenue recognition policy was the single greatest factor in the 1990 loss. However, our 1990 revenue growth was significantly lower than in prior years—and lower than we had expected at the beginning of the year. We believe that the slowing of the worldwide economy during 1990 adversely affected our 1990 revenues, and we expect that 1991 revenue growth will depend in part upon an improvement in the general economic outlook.

We have taken measures to bring expenses in line with our current revenue expectations under the new policy and in light of current economic conditions. These measures include an organizational restructuring in early 1991—which resulted in a reduction of about 15 percent in our worldwide workforce—and a refocusing of our efforts in the areas of database technology, application development tools, and end-user desktop tools.

Informix continues to pursue strategic business partnerships, and 1990 marks the first year in the Company's history that an equity partnership strategy was implemented. Informix has recently signed agreements that go beyond simple equity investment by providing the Company with access to specific markets and/or technology.

During the fourth quarter of 1990, Informix signed the first such agreement with ASCII Corporation, our most visible marketing partner in Japan. For the past seven years, ASCII has distributed Informix's UNIX®-based database management systems (DBMS) software (as well as Wingz™), installing more than 32,000 Informix licenses into the Japanese market and attaining an estimated 65 percent market share. Under the agreement, ASCII purchased from Informix five percent (671,833 shares) of the Company's common stock at \$10 per share, for a total purchase price of approximately \$6.7 million.

The Company forged a similar agreement in early 1991 with Hewlett-Packard Company, another key Informix partner and a major open systems hardware vendor. HP has committed to buy up to five percent of Informix's outstanding common stock on the open market between April 17, 1991 and February 4, 1992. At Informix's option, HP can purchase up to an additional five percent equity interest in the form of newly issued shares of common stock directly from Informix, through February 4, 1992.

In conjunction with the above agreement, Informix and HP signed a joint development, marketing, and sales agreement that formalizes what has been an ongoing, yet informal, strategic relationship. The HP joint agreement underscores Informix's success in its mission to provide the best technology and services for open systems. In the agreement, HP designated Informix UNIX DBMS software products as "best-in-class" in the areas of on-line transaction processing (OLTP), high availability, trusted database, and computer-aided software engineering (CASE).

The first example of joint Informix-HP efforts is the Informix OpenCase/ToolBus, a new product based on HP's SoftBench™ technology. OpenCase/ToolBus is a key component of Informix's OpenCase™ CASE program, which was announced in June 1990.

Other product highlights for 1990 include the fulfillment of our Wingz graphical spreadsheet strategy. With the shipment of Wingz for Windows 3.0 and OS/2® Presentation Manager™ in the second quarter, Wingz is now available for all major desktop platforms, including UNIX systems supporting Motif™, OPEN LOOK®, and NextStep™ graphical environments.

Wingz-DataLink is now shipping on all major UNIX platforms, providing connectivity from Wingz on the desktop to any Informix SQL database. As of the first quarter of this year, DataLink is available for DOS in SmartWare® II version 1.5, which shipped in early 1991.

In 1990, Informix implemented an equity partnership strategy. Two recent agreements go beyond simple equity investment, providing the Company with access to specific computer markets and technology.



Roger Sippl, Informix founder and chairman,
and Phil White, Informix president and CEO.

The INFORMIX-OnLine mainframe-replacement database engine, which first began shipping in December 1989, became available on a wide range of UNIX platforms in 1990. OnLine was included in a number of significant installations, including Hyatt Hotels' new UNIX-based reservation system. We announced OnLine for NetWare® in the third quarter of 1990, and the product has since been named Product of the Year by *LAN Magazine*.

The Company announced the resignations of Dan Sully and Mark Callegari from of the board of directors during 1990. Mr. Sully had served on the Informix board since 1982 and was instrumental during the Company's formative years. Mr. Callegari, a co-founder of Innovative Software, was with Informix for more than 10 years and was a key force in the launch of our SmartWare and Wingz products. We are grateful to both for their significant contributions to the Company.

Informix Corporate Headquarters
Menlo Park, California



We are pleased to welcome two new members to the board: William V. Campbell, president and chief executive officer of GO Corporation, who joins us in April 1991; and Cyril J. Yansouni, chief executive officer and chairman of Read-Rite Corporation, who has been nominated for election at the 1991 annual meeting. These additions bring to our board a wealth of experience and insight into the computer industry.

In 1990 we took a long, hard look at the worldwide business environment in which we must operate. In response to indications of a slowing world economy, we wanted to focus on the core pieces of our business—that is, on what we do best.

We created a mission statement to reflect that focus and to lead us into 1991 and beyond. And though it's difficult to forecast success, with the people and products you'll see on the following pages, we believe we are positioned as well as—if not better than—anyone else in the industry.

Roger J. Sippl
Chairman

Phillip E. White
President and
Chief Executive Officer

April 1, 1991

The mission of Informix...

Informix Corporation, based in Menlo Park, Calif., has long been a leading supplier of DBMS software for the UNIX operating environment. Since its founding in 1980, Informix has maintained the largest installed base of UNIX DBMS software.

In recent years, the UNIX operating system has become the key component of a new approach to computing called open systems—an approach that meets the growing demand for increased interoperability, flexibility, and price/performance within commercial computing environments.

It's not surprising that Informix has led the way as an open systems supplier, developing UNIX-based software and helping forge standards for open systems information management.

With its broad scope of software—including products that accelerate transaction processing, empower application developers, enhance end-user productivity, and connect an organization from one end to the other—



Margaret Reilly
Finance
Menlo Park

Informix is able to provide enterprise-wide data management solutions across a wide range of open computing platforms.

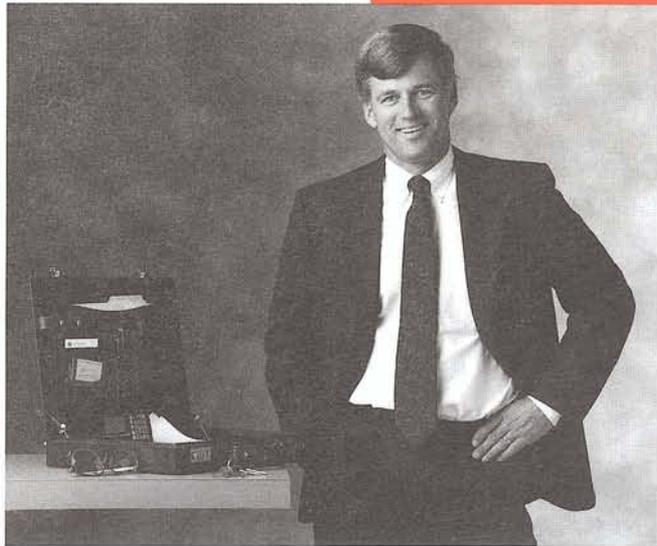
In short, Informix's goal is to meet the evolving needs of our customers. Through partnerships. Through leading-edge technology. Through quality products and services. Through industry standards. And most of all, through the people who make the Company's mission statement a day-to-day business reality.

"Confidence in a company increases with consistent access to senior executives. As a spokesperson to the investor community, I have the opportunity to make Informix's goals clearly known—and to make a positive impact on the company's behalf."



"The company's success begins with finding the right person to do each job. With programs for building sound employee partnerships, we provide the foundation for fulfilling Informix's mission."

Tony Newbome
Human Resources
Menlo Park



Don Kirk
OEM Sales
Menlo Park

"Software is just one part of the total open systems solution. Our relationships with OEM partners enable them to deliver the hardware/software combinations that address each customer's needs."

... is to provide, through partnerships worldwide...

The world of open systems is so multi-faceted that it's imperative for technology companies to work together to provide the various elements—hardware, software, and services—required for complete solutions. Informix is keenly aware of the need to cultivate strong

partnerships that effectively meet the specific needs of customers implementing open systems solutions.

Partnership is an important part of our business philosophy. Informix is committed to working with companies whose expertise—when combined with our own—helps to provide total solu-

"There is a growing demand for open systems in the European market—including the need for a standards-based CASE architecture. As a member of Informix's CASE team, I can contribute directly to meeting that need."

Rhiannon Williams
Product Development
United Kingdom



tions for our customers. In fact, Informix does more business through its partners than any other software company focused on UNIX data management.

Over the years, Informix has built a broad base of joint development, marketing, and sales partners. Today, Informix partners include thousands of value-added resellers (VARs), scores of hardware vendors (OEMs) and distributors, and more than 100 third-party partners.

Informix has development sites in Menlo Park and Lenexa, Kansas, as well as more than 20 sales offices throughout the United States and Canada. In addition, the Company has wholly owned subsidiaries located in Australia, Canada, France, Germany, Hong Kong, Italy, the Netherlands, Singapore, Spain, Sweden, and the United Kingdom. These offices are staffed with professionals who localize Informix products and provide marketing and services programs tailored specifically for their respective markets.

Informix's partnership philosophy extends to corporate customers as well. We work with our customers with a long-term relationship in mind, knowing that successful solutions involve much more than just installing product. Thousands of corporate customers—such as Charterhouse Bank, Hyatt Hotels and Resorts, Motorola, and Siemens—have discovered that working with Informix means working with people who are committed to providing long-term solutions to information management needs.

The Informix organization spans the globe to support its partnerships worldwide. The Company has sales headquarters in Menlo Park, London, and Singapore to serve the Americas, Europe, and Asia/Pacific.



"Telemarketing support enables Informix to respond more quickly to the needs of our VARs — and every phone call can make a big difference."

Cheryl Jennings
VAR Telemarketing
Lenexa

Informix
OEM Partners
(partial list)

Altos

Amdahl

AT&T

Bull

Data General

DEC

Fujitsu

Hewlett-Packard

IBM

ICL

Intergraph

Motorola

NCR

NEC

Nokia

Olivetti

Philips

Pyramid

Sequent

Siemens/Nixdorf

Silicon Graphics

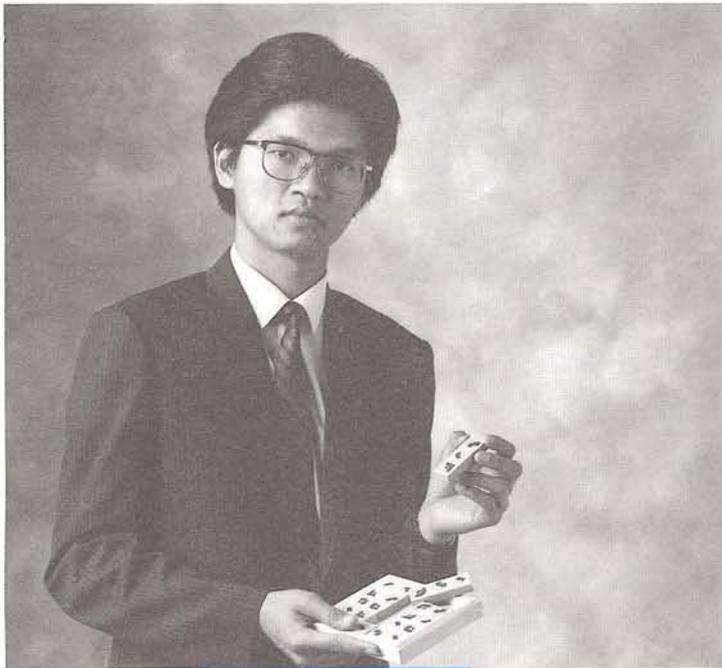
Sun Microsystems

Tandem

Texas Instruments

Unisys

"Answering questions and solving problems for Informix customers allows me to help the company better serve our business partners throughout the Asia/Pacific region."



Teck Cheong Soh
Technical Support
Singapore

The wide range of information management software and services available from Informix includes:

Server Software

Informix has two database servers for powering database applications built with Informix application development software.

INFORMIX-OnLine, our OLTP database engine, provides high performance, high availability, distributed database, and multimedia support for large-scale UNIX applications.

INFORMIX-SE is the best-selling UNIX database engine, ideal for small-

generation language environment for efficient and powerful application development and execution.

INFORMIX-QuickStep®—an interactive report writer and INFORMIX-4GL code generator—allows programmers to build queries and reports without writing any code.

INFORMIX-SQL features five built-in, integrated tools that provide the speed, power, and security required in both large and small database applications.

With Informix embedded SQL (ESQL) products, SQL statements can be embedded into existing C, COBOL, FORTRAN, or Ada® programs, creating

... the best technology and services ...

medium-range applications with low maintenance requirements.

Application Development Software

Informix application development software provides power and flexibility to create large-scale, commercial database applications.

The INFORMIX-4GL Family—

including INFORMIX-4GL Rapid Development System, INFORMIX-4GL Interactive Debugger, and INFORMIX-4GL Compiler—is a complete fourth-

generation bridge from third-generation applications to any Informix DBMS.

Informix's new OpenCase program is designed to provide MIS departments with an adaptable, open systems CASE architecture. A key component of this program is OpenCase/ToolBus, a development environment for UNIX applications that will integrate multiple CASE products from Informix—including INFORMIX-4GL—and other suppliers.

End-User Productivity Software

Informix provides easy-to-use end-user software for every major desktop platform.

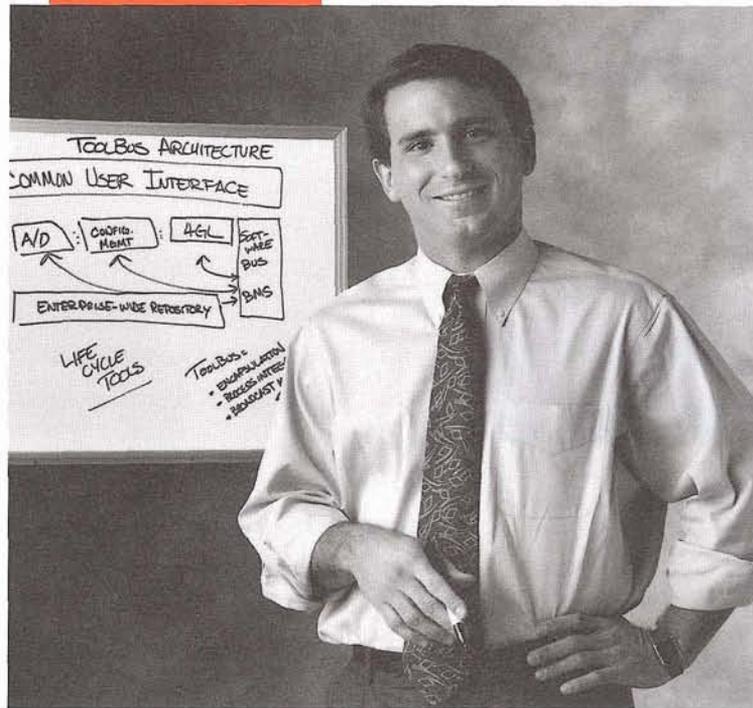
Wingz is a high-performance graphical spreadsheet with the HyperScript® command language for customizing applications, and DataLink

for accessing and updating data stored in Informix SQL databases. Wingz is available for Macintosh®, Windows 3.0, OS/2 Presentation Manager, and all significant UNIX graphical user interfaces.

SmartWare II is integrated character-based software for DOS that includes a spreadsheet with graphics, a database, and a word processor, as well as the Smart Programming Language. Like Wingz, SmartWare II includes DataLink, providing SQL database access from within SmartWare.

Connectivity Software

Informix's connectivity software ranges from client/server processing to main-frame data retrieval.



Tony Rodoni
Product Marketing
Menlo Park

INFORMIX-NET provides client/server processing capabilities, allowing users to utilize the power and speed of *both* client workstations and database servers while sharing data on local and wide area networks.

INFORMIX-STAR, the distributed database companion product for OnLine, allows you to join and view multiple databases at different locations as if they were one common database.

INFORMIX-OpenView® works in conjunction with Sterling Software's Answer®/Extractor to allow UNIX computers to retrieve data residing in a mainframe, providing users with seamless access to corporate data repositories.

Customer Services

Informix is committed to achieving a high degree of customer satisfaction.

We dedicate people, resources, and programs to ensure that each of our partners receives their required level of service. Informix customer services include Standard Maintenance, Regency SupportSM, Informix Client Services (consulting), Informix training services, and the InformixLinkTM electronic information service.

"Time to market is an important issue for customers. Through joint marketing and technology, we can quickly deliver solutions to our customers—and penetrate new markets as well."

"InformixLink keeps our customers in touch with people and activities in and around Informix—and enables me to provide a unique advantage to our business partners worldwide."

Trina Clickner
InformixLink
Menlo Park



... for developing...

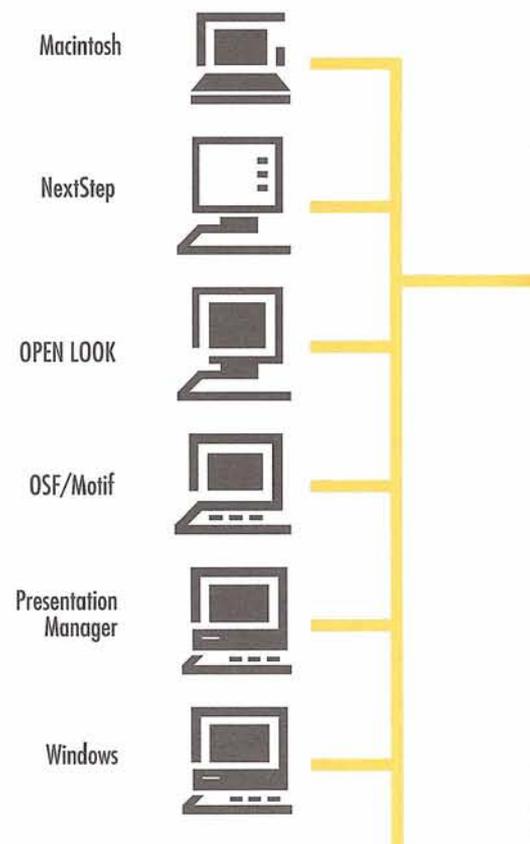
Data management is a critical success factor for any enterprise. Whether a company manufactures products, sells ideas, or provides services, easy and reliable access to information is an absolute necessity for sound business decisions and efficient operations.

Over the past 10 years, Informix has delivered software with the power, flexibility, and interoperability required for developing enterprise-wide data management applications for open systems. Informix's suite of SQL-based application development software—including INFORMIX-4GL, QuickStep, INFORMIX-SQL, INFORMIX-ESQL, and HyperScript, as well as the products that will be integrated into Informix's OpenCase/ToolBus framework—provides programmers with a variety of tools for creating a wide range of applications.

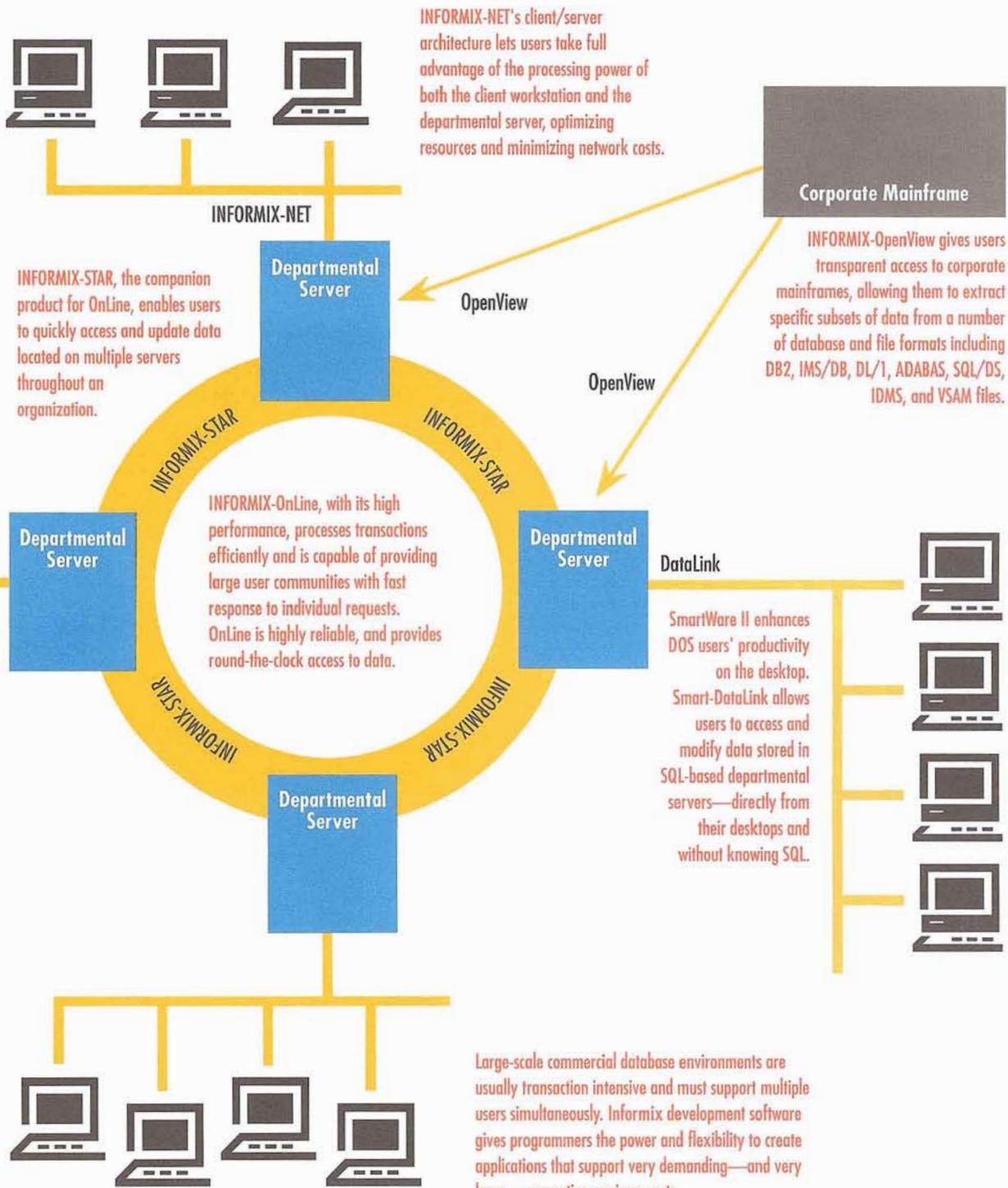
From easy-to-use executive information systems to transaction-intensive, on-line processing applications, Informix software helps deliver information to users when and where they need it, regardless of their desktop environment.

The diagram to the right depicts an enterprise-wide computing environment developed with Informix software, and shows how Informix products—based on a client/server technology—work together to facilitate the flow of data throughout an enterprise.

The Wingz graphical spreadsheet travels easily between different desktop platforms, allowing users to utilize the same Wingz applications regardless of their graphical user interface. With Wingz-DataLink, users can easily access and update SQL-based departmental databases from within their spreadsheet applications.



...enterprise-wide data management applications ...



Tim Shetler
Informix Representative
Transaction Processing
Performance Council

"Industry-standard TPC benchmarks allow objective comparisons of different computer systems and DBMS products. UNIX hardware vendors have overwhelmingly chosen Informix when running benchmarks—which speaks for the quality of our products and the success of our partnerships."



wide open systems standards, and is committed to adhering to those standards in product development. The Company has designated representatives to a number of standards committees for groups such as X/Open, UNIX International, the SQL Access Group, the Transaction Processing Council (TPC), and the Object Management Group.

Informix realizes that the key to the future of information management is providing the means to share informa-

... for open systems.

Pam Whitmore
Informix Representative
SQL Access Group



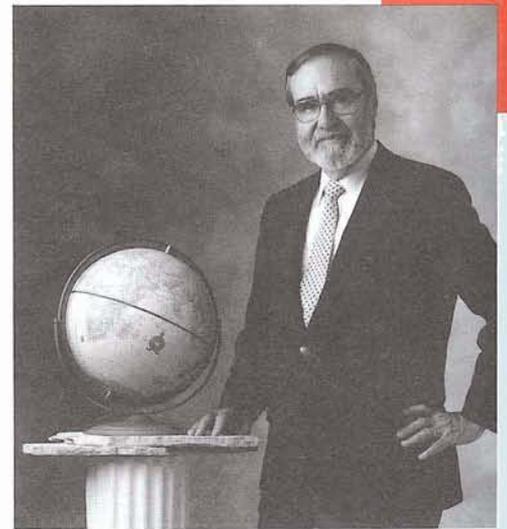
"Informix has long been a driving force in developing standards for vendor and product interoperability. The SQL Access Group enables Informix and other database vendors to work together to make it happen."

Open systems environments are becoming more prevalent as companies of all sizes demand more effective and cost-efficient solutions for corporate computing. Open UNIX-based solutions provide a valuable alternative to strictly proprietary architectures by bringing data closer to the user, providing much more freedom of choice, and delivering substantial cost savings in information management.

Open systems enable customers to use products from multiple vendors—seamlessly and transparently—through technology standards. Standards are essential to the success of the open systems equation—they make the promise of open systems a reality.

Informix has been very active in developing and supporting industry-

tion regardless of the particular hardware or operating environment. With the right people, products, and partners, Informix continues to develop information management solutions that deliver on the promise of open solutions.



"Informix is continually promoting standards. It's rewarding for me to be involved personally in a process that brings open systems solutions into the mainstream of computing."

Dick Curtis
Informix Representative
UNIX International, X/Open

Informix
Five-Year
Summary
Information

(in thousands, except per share data)	1990	1989	1988	1987	1986
Net Revenues	\$ 146,107	\$ 145,000	\$ 103,505	\$ 68,471	\$ 36,184
Income (Loss) Before Extraordinary Item and Cumulative Effect of Change in Accounting Principle	(23,123)	6,379	371	8,894	3,601
Cumulative Effect on Prior Years of a Change in Revenue Recognition Method	(23,287)	—	—	—	—
Net Income (Loss)	(46,410)	6,379	1,458	9,308	4,616
Income (Loss) Per Share Before Extraordinary Item and Cumulative Effect of Change in Accounting Principle (Fully Diluted)	(1.82)	.48	.03	.74	.39
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)	(3.65)	.48	.12	.77	.48
Total Assets	109,534	143,181	116,417	105,792	35,932
Long-Term Obligations	30,062	30,536	24,563	29,161	1,108

(in thousands, except per share data)	1990	1989	1988	1987	1986
Net Revenues	\$ 146,107	\$ 130,210	\$ 89,807	\$ 65,629	\$ 35,619
Income (Loss) Before Extraordinary Item	(23,123)	(3,932)	(11,387)	7,391	3,274
Net Income (Loss)	(23,123)	(3,932)	(9,688)	7,805	4,289
Income (Loss) Per Share Before Extraordinary Item (Fully Diluted)	(1.82)	(.32)	(.97)	.61	.34
Net Income (Loss) Per Share (Fully Diluted)	(1.82)	(.32)	(.82)	.65	.45
Total Assets	109,534	111,079	99,244	102,381	35,359
Long-Term Obligations	30,062	30,536	24,563	29,161	1,108

Pro Forma Amounts
Assuming the Change
in Revenue
Recognition Applied
Retrospectively
(See Also Note 2 to
the Consolidated
Financial Statements)

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. For 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 1988 and 1989. The Company believes that year-to-year comparisons of financial results are not necessarily indicative of future results.

	% of Net Revenue Year Ended December 31,			% Increases	
	1990	1989 Pro Forma	1988 Pro Forma	1990 Compared to 1989	1989 Compared to 1988
Net revenues	100%	100%	100%	12%	45%
Costs and expenses:					
Cost of software distribution	15	15	14	11	58
Sales and marketing	67	65	75	16	26
Research and development	10	7	7	64	35
General and administration	18	15	18	34	19
Restructuring costs	4	—	—	n/a	n/a
Total costs and expenses	114	102	114	25	29
Operating loss	(14)	(2)	(14)	n/a	n/a
Net loss	(32)	(3)	(11)	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 be reduced due to the Company's new revenue recognition policy.

In prior years, 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, the Company announced that it was adopting a more conservative revenue recognition policy effective January 1, 1990. Under this new policy, 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. If certain criteria are met, 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 will revenue be recognized prior to initial delivery of the product master or first copy.

Revenues increased 12% to \$146.1 million from 1989 to 1990, and 45% from 1988 to 1989. The growth has generally resulted from increased license volume for the Company's database products and increased customer support services from an expanded customer base. The Company believes the slower growth rate in 1990

is due to overall economic conditions and industry trends. 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. In 1990, database products accounted for approximately 80% of license revenue, up from about 70% in 1989. The proportion of office automation products has declined despite new product introductions and the effect of higher foreign currency rates in Europe, where the majority of office automation revenue is recognized. The Company expects that database products will continue to represent a substantial majority of revenues in the future. Approximately 45%, 42%, and 39% of the Company's revenue was derived from sales to foreign customers for 1990, 1989, and 1988, respectively.

Revenue growth in 1991 is expected to be similar to that of 1990 in light of the current economic outlook and severe competitive conditions. However, as described above, revenue is subject to fluctuation and is inherently difficult to predict.

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 Company will continue to evaluate its employee needs as part of its efforts to control expenses.

Cost of Software Distribution

Software distribution costs consist of media, documentation, and product assembly and purchasing costs. In 1990, amortization of previously capitalized software was reclassified as a cost of software distribution for all periods presented. Costs of software distribution as a percentage of revenue were relatively constant at 15% for both 1990 and 1989 and 14% for 1988.

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

Excluding amortization, costs of software distribution as a percentage of revenue declined to 11% in 1990 from 13% in 1989 and 12% in 1988, 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 product, whether the product is reproduced by the Company or by customers, the proportion of domestic versus international revenues, and the success of cost reduction programs planned for 1991.

Sales and Marketing Expenses

During the three-year period, sales and marketing expenses increased each year in absolute amount as such efforts increased with higher revenue. These expenditures, which represented 67% of net revenues in 1990 and 65% in 1989, decreased from 75% in 1988. In 1988 sales and marketing costs included the expansion of international and domestic sales offices as well as marketing expenditures incurred in the preparation of two new products, Wingz and SmartWare II. In 1989, sales and marketing expenditures continued to increase, but as a percentage of revenues declined relative to 1988. The 16% year-to-year growth in expenses in 1990 was due to an increase in the number of people devoted to sales and marketing in the first half of 1990 as well as the effect of stronger European currencies on sales subsidiary expenses.

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 are net of amounts capitalized of \$6,452,000 in 1990, \$5,050,000 in 1989, and \$3,293,000 in 1988 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)	Year Ended December 31,			% Increases	
	1990	1989	1988	1990 Compared to 1989	1989 Compared to 1988
Incurred product development costs	\$ 21,081	\$ 14,015	\$ 9,916	50%	41%
Expenditures capitalized	6,452	5,050	3,293	28	53
Expenditures capitalized as a % of incurred	31%	36%	33%	n/a	n/a
Amortization	\$ 5,275	\$ 2,153	\$ 1,210	145	78

Research and development expenses increased to \$14,629,000 in 1990, from \$8,965,000 in 1989 and \$6,623,000 in 1988. As a percentage of revenues, research and development expenditures increased to 10% in 1990 from 7% in 1989 and 1988. 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 1990 included SmartWare II version 1.5 (released in the first quarter of 1991), Wingz 1.1A, INFORMIX-OnLine 4.0., INFORMIX-OpenView, and multilevel security (MLS) software. The Company believes that research and development expenditures are essential to maintaining its competitive position in its primary markets but expects to stabilize 1991 expenditure levels at about current levels.

Capitalization as a percentage of incurred expenses was 31% in 1990, 36% in 1989, and 33% in 1988 and reflects fluctuations as new programs are added and current programs are completed.

General and Administrative Expenses

General and administrative expenses increased 34% from 1989 to 1990, and 19% from 1988 to 1989. Relative to net revenues, these expenses were 18% in 1990, compared to 15% in 1989 and 18% in 1988. The 1988 expenditures included increased facilities costs due to expansions in the Menlo Park, California and Lenexa, Kansas locations and \$800,000 in expense related to the merger of Informix Software with Innovative Software. The 1989 expenditures increased due to increases in staff levels and other employee-related costs. The increase in 1990 general and administrative expenses reflects 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. These higher expenses were partially offset by a \$1,902,000 gain resulting from the translation of certain intercompany receivables at higher currency rates.

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 other expense of \$2,321,000 and \$492,000 in 1990 and 1989 respectively, and other income of \$892,000 in 1988. The change from net income to net expense during the three years primarily reflects a reduction in cash and investments and an increase in capital leases over that period. In 1990 the Company recorded a loss of approximately \$400,000 related to its interest in the partnership from which it leases its Lenexa, Kansas facilities. Other expense in 1990 and 1989 consisted primarily of interest expense on the convertible subordinated debentures and interest expense associated with capital leases. Other income in 1988 consisted principally of interest income earned on excess cash balances, which was more than the interest expense associated with the convertible subordinated debentures.

Extraordinary Items

Results of operations in 1988 include the open market repurchase and retirement of certain of the Company's outstanding convertible subordinated debentures, achieving a gain due to the discounts at which the debentures were repurchased. This item is reported net of its related income tax effect.

Income

Net losses on a pro forma basis increased from \$3.9 million or \$0.32 per share in 1989 to a loss of \$23.1 million or \$1.82 per share in 1990. The effect of adopting the new method of accounting for 1990 was to increase the net loss before the cumulative effect of the accounting change by \$18.7 million or \$1.47 per share and the net loss (including cumulative effect) by \$42.0 million or \$3.30 per share.

The effective tax rate in 1990 was 2.0%. The revenue recognition change resulted in a large loss in the first quarter of 1990 as a cumulative adjustment for prior years, net of previously accrued deferred taxes of \$5.6 million. Therefore, there was no tax benefit for the 1990 loss from operations. The provision included in the Statement of Operations results from taxes withheld in certain foreign jurisdictions upon the payment of royalties. These amounts withheld will only be recoverable if there is U.S. taxable income in future periods.

Liquidity and Capital Resources

The change in the revenue recognition policy 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 1990, and on a pro forma basis 1989 and 1988 are shown below:

(in thousands)	Year Ended December 31,		
	1990	1989	1988
Cash and cash equivalents	\$ 20,509	\$ 25,018	\$ 15,223
Accounts receivable, net	39,861	40,398	26,362
Total current assets	69,307	75,302	65,680
Property and equipment, net	25,474	21,710	23,493
Total assets	109,534	111,079	99,244
Total current liabilities	41,401	29,780	21,070
Convertible debentures	23,750	23,750	24,000
Total liabilities	71,463	60,316	45,634
Stockholders' equity	38,071	50,763	53,610

The Company's net loss before cumulative effect of accounting change was offset by non-cash charges to income from depreciation expense and a portion of the restructuring costs and by increases in accounts payable and deferred maintenance contracts, resulting in cash of \$2.7 million from operations. The increase in deferred maintenance is due to the Company's continued emphasis on support services.

In 1990, the Company acquired \$12 million of capital equipment consisting primarily of data processing, manufacturing, and office equipment. Certain items were financed by \$4.6 million of additional capital leases. The 1989 capital expenditures of \$6.6 million were reduced significantly from the \$17.6 million expended in 1988 which primarily consisted of acquisitions of data processing equipment. In 1989, the Company entered into sale/leaseback financing of approximately \$8.9 million, involving certain office furniture and data processing equipment. The Company expects to invest a similar amount in property and equipment in 1991 as in 1990. See discussion under Research and Development Expenses regarding expenditures for capitalized software costs.

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 and Informix announced an agreement which (among other terms) will result in Hewlett-Packard's acquisition of up to 10% of the Company's common stock. Hewlett-Packard is 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 has a right but not the obligation to require Hewlett-Packard to buy an additional 5% of newly issued common stock during the one-year period which ends on February 4, 1992. The terms of the agreement specify the method of determining the stock price.

In December 1990, the Company entered into a one-year committed, unsecured revolving credit agreement with Bank of America N.T. & S.A. and Boatmen's First National Bank of Kansas City. The Company elected to cancel the agreement in early March 1991; at no time did the Company borrow under the credit agreement. The decision to cancel the credit agreement was made due to the decision to change the revenue recognition policy and the resulting balance sheet changes, the cash generated from operations during the fourth quarter of 1990, the net proceeds of the sale of stock to ASCII, and the projected cash needs of the Company.

The Company believes that its banks remain supportive, and that adequate credit should be available from commercial banks or other lenders if the need should arise. In addition, the Company's agreement with Hewlett-Packard described above can provide additional funds at the Company's election. The Company expects cash balances and available funds will be sufficient to fund anticipated levels of operations through 1991.

Consolidated
Balance
Sheets

(in thousands)	December 31, 1990	December 31, 1989
Assets		
Current Assets:		
Cash and cash equivalents	\$ 20,509	\$ 25,018
Short-term investments	—	143
Accounts receivable, less allowances for doubtful accounts of \$1,265 in 1990 and \$1,575 in 1989	39,861	72,500
Inventories	4,746	5,281
Other current assets	4,191	4,462
Total current assets	69,307	107,404
Property and Equipment, at cost		
Computer equipment	23,942	16,926
Office equipment and leasehold improvements	18,125	13,843
	42,067	30,769
Less accumulated depreciation and amortization	(16,593)	(9,059)
	25,474	21,710
Software Costs, less accumulated amortization of \$8,876 in 1990 and \$3,990 in 1989		
	13,849	12,490
Other	904	1,577
Total Assets	\$ 109,534	\$ 143,181
Liabilities and Stockholders' Equity		
Current Liabilities:		
Note payable to bank	\$ 335	\$ 1,242
Accounts payable	7,036	8,671
Accrued expenses	10,631	9,093
Accrued employee compensation	5,674	5,521
Restructuring costs	4,039	—
Deferred income taxes	—	3,646
Deferred maintenance contracts	9,188	5,956
Current portion of capital lease obligations	3,882	2,342
Other liabilities	616	30
Total current liabilities	41,401	36,501
Convertible Subordinated Debentures	23,750	23,750
Capital Lease Obligations, less current portion	6,052	6,561
Deferred Income Taxes	—	2,140
Other Liabilities, less current portion	260	225
Stockholders' Equity:		
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 13,446,407 and 12,328,588 in 1990 and 1989, respectively	134	123
Additional paid-in capital	63,073	53,392
Retained earnings (deficit)	(25,412)	20,998
Foreign currency translation adjustment	276	(509)
Total stockholders' equity	38,071	74,004
Total Liabilities and Stockholders' Equity	\$ 109,534	\$ 143,181

See Notes to
Consolidated
Financial
Statements.

Consolidated
Statements of
Operations

Years Ended
December 31,
1990, 1989,
and 1988

(in thousands except per share data)

	1990	1989	1988
Net Revenues:			
Licenses	\$ 121,438	\$ 128,448	\$ 92,366
Services	24,669	16,552	11,139
	146,107	145,000	103,505
Costs and Expenses:			
Cost of software distribution	21,437	20,335	13,226
Sales and marketing	98,618	85,944	67,941
Research and development	14,629	8,965	6,623
General and administrative	25,673	19,138	16,027
Restructuring costs	6,092	—	—
	166,449	134,382	103,817
Operating income (loss)	(20,342)	10,618	(312)
Other Income (Expense), net	(2,321)	(492)	892
Income (loss) before income taxes, extraordinary item and cumulative effect of change in accounting principles	(22,663)	10,126	580
Income Taxes	460	3,747	209
Income (loss) before extraordinary item and cumulative effect of change in accounting principles	(23,123)	6,379	371
Extraordinary Item:			
Gain on repurchase of convertible subordinated debentures, net of \$612 in related income taxes	—	—	1,087
Cumulative Effect on Prior Years of a Change in Revenue Recognition Method, net of income tax benefit of \$5,646	(23,287)	—	—
Net Income (Loss)	\$ (46,410)	\$ 6,379	\$ 1,458
Net Income (Loss) Per Common Share and Common Equivalent Share			
Primary:			
Income (loss) before extraordinary item and cumulative effect of change in accounting principles	\$ (1.82)	\$ 0.50	\$ 0.03
Extraordinary item	—	—	0.09
Cumulative effect on prior years of a change in revenue recognition method	(1.83)	—	—
Net income (loss)	\$ (3.65)	\$ 0.50	\$ 0.12
Fully Diluted:			
Income (loss) before extraordinary item and cumulative effect of change in accounting principles	\$ (1.82)	\$ 0.48	\$ 0.03
Extraordinary item	—	—	0.09
Cumulative effect on prior years of a change in revenue recognition method	(1.83)	—	—
Net income (loss)	\$ (3.65)	\$ 0.48	\$ 0.12
Weighted Average Number of Common and Common Equivalent Shares Outstanding:			
Primary	12,712	12,777	12,554
Fully diluted	12,712	13,223	12,554
Pro Forma Amounts Assuming the Change in Revenue Recognition Method is Applied Retroactively:			
Net revenues	\$ 146,107	\$ 130,210	\$ 89,807
Loss before extraordinary item	(23,123)	(3,932)	(11,387)
Net loss	(23,123)	(3,932)	(9,688)
Loss per share before extraordinary item, primary and fully diluted	(1.82)	(0.32)	(0.97)
Net loss per share, primary and fully diluted	(1.82)	(0.32)	(0.82)

See Notes to Consolidated Financial Statements.

Consolidated
Statements of
Stockholders'
Equity

(in thousands)	Common Stock		Additional Paid-in Capital	Notes Receivable From Stockholders	Deferred Compensation	Retained Earnings (Deficit)	Foreign Currency Translation Adjustment	Total
	Shares	Amount						
Balances at January 1, 1988	11,574	\$ 115	\$ 48,139	\$ (118)	\$ (221)	\$ 13,161	\$ (44)	\$ 61,032
Exercise of stock options	361	4	733					737
Payments received on notes				88				88
Payments on ESOP liability					110			110
Sale of stock to employees under employee stock purchase plan	52	1	591					592
Income tax benefit from stock options			2,444					2,444
Foreign currency translation adjustment							(32)	(32)
Net income						1,458		1,458
Balances at December 31, 1988	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
Balances at December 31, 1989	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)
Balances at December 31, 1990	13,446	\$ 134	\$ 63,073	\$ —	\$ —	\$ (25,412)	\$ 276	\$ 38,071

See Notes to Consolidated Financial Statements.

Consolidated Statements of Cash Flows	(in thousands)	1990	1989	1988
Operating Activities				
	Net income (loss)	\$ (46,410)	\$ 6,379	\$ 1,458
	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	12,809	8,431	5,194
	Provision for deferred income taxes	—	4,329	1,609
	Gain on repurchase of convertible subordinated debentures	—	—	(1,699)
	Cost of restructuring	2,053	—	—
	Changes in operating assets and liabilities:			
	Accounts receivable	(2,873)	(28,661)	(22,311)
	Inventories and other current assets	944	251	(2,724)
	Accounts payable and accrued expenses	9,832	5,821	7,395
	Income taxes payable	—	—	(1,355)
	Deferred maintenance contracts	3,106	2,336	1,719
	Net cash and cash equivalents provided by (used in) operating activities	2,748	(1,114)	(10,714)
Investing Activities				
	Decrease in short-term investments	143	12,457	17,544
	Purchase of property and equipment	(6,578)	(6,584)	(17,504)
	Proceeds from sale of property and equipment	176	2,274	35
	Proceeds from sale/leaseback	564	8,865	—
	Additions to software costs	(8,687)	(6,258)	(6,238)
	Other	673	(190)	275
	Net cash and cash equivalents provided by (used in) investing activities	(13,709)	10,564	(5,888)
Financing Activities				
	Repurchase of convertible subordinated debentures	—	(250)	(2,607)
	Proceeds from issuances of stock	9,692	1,488	1,329
	Payments received on notes receivable from stockholders	—	30	88
	Principal payments on capital leases	(3,604)	(778)	(175)
	Proceeds from (payments on) other liabilities	552	(30)	(491)
	Proceeds from note payable to bank	—	948	1,119
	Payments on note payable to bank	(991)	(895)	—
	Net cash and cash equivalents provided by (used in) financing activities	5,649	513	(737)
	Effect of exchange rate changes on cash and cash equivalents	803	(168)	(32)
	Increase (decrease) in cash and cash equivalents	(4,509)	9,795	(17,371)
	Cash and cash equivalents at beginning of year	25,018	15,223	32,594
	Cash and cash equivalents at end of year	<u>\$ 20,509</u>	<u>\$ 25,018</u>	<u>\$ 15,223</u>

See Notes to Consolidated Financial Statements.

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, 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 the statements of operations. In 1990, the Company recognized a \$1,902,000 gain on foreign currency transactions on short-term intercompany receivables which was included as an offset to general and administrative expenses. In 1989 and 1988 the net transaction gains or losses were immaterial.

Revenues. 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 a master or first copy is delivered and if such computer hardware manufacturers and end-user licensees meet certain criteria established by the Company, or at the time amounts become payable within 12 months. 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. All other product revenue is recognized upon shipment. License fee revenues recognized upon shipment of a master or first copy amounted to \$30,509,000 in 1990, \$73,247,000 in 1989, and \$40,402,000 in 1988. Accounts receivable include \$14,102,000 and \$44,038,000 at December 31, 1990 and 1989 respectively, representing the balance not yet due under such licensing agreements. The 1989 and 1988 amounts have not been adjusted for the change in accounting principle discussed in Note 2.

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. In 1988, a single customer accounted for 12% of the Company’s consolidated revenues. No single customer accounted for 10% of consolidated revenues in 1990 and 1989.

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.

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 \$5,275,000, \$2,153,000 and \$1,210,000 of software costs in 1990, 1989, and 1988, respectively, in cost of software distribution. In 1990, previously capitalized software development and purchased software costs of approximately \$2,100,000 and \$400,000 were written off and included in the restructuring costs in the fourth quarter and in cost of software distribution in the third quarter, respectively.

Property and Equipment. Depreciation of property and equipment is calculated using the straight-line method over the estimated useful life 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, Cash Equivalents, and Short-Term Investments. The Company considers liquid investments purchased within three months of maturity to be cash equivalents. Other short-term investments are recorded at cost, which approximates fair market value.

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 prior years have been reclassified to conform to the current year's presentation.

Note 2—Change in Accounting Method

Previously, 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 fourth quarter 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 or shipment of the software media on a per-unit basis. The Company believes that in light of recent trends in the industry and changes in the

economy, its new policy is preferable because it more accurately reflects the earnings process in the current business environment. The Company's new policy is in accordance with the draft Statement of Position, Software-Revenue Recognition, issued by a committee of the American Institute of Certified Public Accountants.

The cumulative effect of \$23.3 million resulting from the application of the new accounting method to years prior to 1990 is included in net income (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).

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 borrowings of \$335,000 outstanding under this credit line at December 31, 1990, compared with \$1,242,000 at December 31, 1989.

In 1990, 1989, and 1988 the Company made interest payments on notes payable to banks, convertible subordinated debentures, and other obligations aggregating \$2,387,000, \$2,086,000, and \$2,449,000, respectively and incurred interest expense of \$3,012,000, \$1,803,000, and \$3,236,000, respectively.

At December 31, 1990 the Company had unused lines of credit with banks aggregating \$20,000,000 with interest rates approximating the banks' prime rate. Subsequent to year end the Company elected to cancel the agreement.

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, 1990 the Company had reserved approximately 727,000 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 and the note payable to bank, aggregated \$10,269,000 at December 31, 1990.

During 1988, the Company repurchased for \$2,607,000 and subsequently retired convertible debentures with a face value of \$4,500,000. The gain realized thereby, net of related unamortized bond issuance costs and income taxes, amounted to \$1,087,000 (\$.09 per share) and is reported as an extraordinary item in the Consolidated Statement of Operations for the year ended December 31, 1988.

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, 1990, 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 officers 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, 1990:

	Number of Shares	Options Price per Share
Outstanding at January 1, 1988	1,407,535	\$ 1.00 to \$ 24.33
Options granted	940,322	6.75 to 24.25
Options exercised	(360,418)	1.00 to 12.16
Options cancelled	(99,058)	1.00 to 24.33
Outstanding at December 31, 1988	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 exercisable at December 31, 1990	701,647	
Available for grant at December 31, 1990	730,391	

The Company also has a qualified Employee Stock Purchase Plan under which employees may purchase up to 650,000 shares in the aggregate (300,000 additional shares have been reserved by the Board, subject to approval at the 1991 Annual Meeting of Stockholders). 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 1990, 1989, and 1988, the Company issued 131,112 shares, 117,691 shares, and 51,142 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, 1990	December 31, 1989
Computer equipment (at cost)	\$ 9,245	\$ 5,418
Office equipment	5,099	4,368
	14,344	9,786
Less: accumulated amortization	2,740	691
	<u>\$ 11,604</u>	<u>\$ 9,095</u>

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

In 1990 and 1989 the Company entered into sale/leaseback agreements whereby the Company sold certain computer and office equipment for \$564,000 and \$8,865,000, respectively, and leased back the same equipment under agreements accounted for as capital leases. The 1989 transaction resulted in a gain of \$188,000 which was deferred and is being amortized over the lease term. 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 1990 the Company financed approximately \$4.6 million of equipment purchases under capital lease arrangements.

The Company leases certain of its office facilities and equipment under non-cancellable operating leases. Total rent expense under such operating leases aggregated \$10,157,000, \$8,511,000, and \$4,125,000 in 1990, 1989, and 1988, respectively.

Future minimum payments, by year and in the aggregate, under the capital and non-cancellable operating leases with remaining terms of one year or more as of December 31, 1990, are as follows:

Year Ending December 31 (in thousands)	Capital Leases	Non-cancellable Operating Leases
1991	\$ 4,587	\$ 9,579
1992	4,726	7,394
1993	1,810	4,521
1994	455	2,749
1995	41	2,348
Thereafter	—	4,599
Total payments	11,619	<u>\$ 31,190</u>
Less: amount representing interest	<u>1,685</u>	
Present value of minimum lease payments	9,934	
Less current portion	<u>3,882</u>	
	<u>\$ 6,052</u>	

In November 1989, the Company subleased a portion of its operating facilities which are accounted for as an operating lease above. The Company will receive a total of \$698,000 of sublease rental through 1992 under this agreement. The amounts presented above are net of the sublease revenue. The Company's Lenexa, Kansas office and warehouse facilities are leased under an initial ten-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 \$987,000 annually through 1993 and \$1,086,000 through 1998, exclusive of maintenance costs for common areas. This related commitment is included in the above schedule of non-cancellable operating lease payments.

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
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
1988:					
Net revenues	\$ 88,750	\$ 20,678	\$ —	\$ (5,923)	\$ 103,505
Operating income (loss)	3,228	(4,612)	—	1,072	(312)
Identifiable assets	116,362	22,931	—	(22,876)	116,417

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, Canada, and Australia aggregated \$15,060,000, \$15,468,000, and \$24,334,000 in 1990, 1989, and 1988, 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)	1990	1989	1988
Currently payable (refundable):			
Federal	\$ (82)	\$ (1,381)	\$ (1,218)
State	—	—	(182)
Foreign	542	799	—
	460	(582)	(1,400)
Deferred:			
Federal	—	1,880	207
State	—	251	79
Foreign	—	2,198	1,323
	—	4,329	1,609
	<u>\$ 460</u>	<u>\$ 3,747</u>	<u>\$ 209</u>

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

(in thousands)	1990	1989	1988
Domestic	\$ (12,365)	\$ (4)	\$ 5,285
Foreign	(10,298)	10,130	(4,705)
	<u>\$ (22,663)</u>	<u>\$ 10,126</u>	<u>\$ 580</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)	1990	1989	1988
Net operating loss carryforward generated	\$ —	\$ (1,702)	\$ —
Cash versus accrual basis of reporting taxable income	—	(482)	(455)
Software development costs capitalized for financial reporting purposes	—	1,642	1,122
Installment sales method used for tax purposes	—	—	(119)
Profit recognition on license fee commitments	—	6,627	1,702
Profit in foreign subsidiary inventory	—	(132)	(495)
Expense accruals and valuation allowances not currently deductible	—	(305)	(412)
Depreciation	—	(779)	430
Research and development credit utilized	—	(777)	(122)
Capitalized leases	—	226	13
Other, net	—	11	(55)
	<u>\$ —</u>	<u>\$ 4,329</u>	<u>\$ 1,609</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 item are as follows:

(in thousands of dollars)	1990		1989		1988	
	Amount	Percent	Amount	Percent	Amount	Percent
Computed tax at federal statutory rate	\$ (7,705)	(34.0%)	\$ 3,443	34.0%	\$ 197	34.0%
Losses which resulted in no current tax benefit	7,623	33.6	—	—	—	—
Merger expense	—	—	—	—	265	45.7
Research and development credit	—	—	(645)	(6.4)	(715)	(123.3)
Effect of foreign income and related taxes	542	2.4	987	9.7	636	109.6
State income taxes (benefit), net of federal tax benefit	—	—	166	1.7	(68)	(11.7)
Tax-exempt interest	—	—	(83)	(.8)	(162)	(27.9)
Non-deductible business expenses	—	—	48	.5	47	8.1
Foreign sales corporation benefit	—	—	(243)	(2.4)	—	—
Other, net	—	—	74	.7	9	1.5
	<u>\$ 460</u>	<u>2.0%</u>	<u>\$ 3,747</u>	<u>37.0%</u>	<u>\$ 209</u>	<u>36.0%</u>

Income taxes paid amounted to \$820,000, \$197,000, and \$2,415,000 in 1990, 1989, and 1988, respectively. The Company received income tax refunds of \$1,391,000 in 1990.

At December 31, 1990 the Company had net operating loss carryforwards of approximately \$15,000,000 for federal income tax purposes expiring in the year 1999 through 2005. The Company has additional loss carryforwards of approximately \$7,000,000 for financial reporting purposes substantially all of which will expire in 2006. The reason for 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 are not recognized for financial reporting purposes, offset by the deduction of software development costs for tax purposes which are capitalized for financial reporting purposes. In addition, the Company has foreign net operating loss carryovers of approximately \$16,000,000 which will expire at various times, depending on the applicable foreign tax law.

The Company has research and development tax credit carryforwards of approximately \$2,200,000 available to offset future federal income tax liabilities. The credit carryforwards will expire beginning in 1995 through 2005.

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.

Note 10—Selected Quarterly Financial Data (Unaudited)

(in thousands)	Fiscal Quarter Ended			
	April 1	July 1	September 30	December 31
1990:				
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)
1989:				
Net revenues	\$ 31,002	\$ 33,608	\$ 37,178	\$ 43,212
Gross profit	26,667	28,027	31,776	38,195
Net income	482	1,113	2,078	2,706
Net income per share	.04	.09	.16	.20
1989 Pro Forma*:				
Net revenues	\$ 26,146	\$ 34,300	\$ 32,197	\$ 37,567
Gross profit	22,338	28,540	27,170	32,843
Net income (loss)	(3,636)	2,139	(1,351)	(1,084)
Net income (loss) per share	(.30)	.17	(.11)	(.09)

* Computed as though new revenue recognition policy had been in effect.

Information regarding the first three quarters of 1990 differs with that previously reported in Form 10-Q due to restatement in accordance with the change in accounting principle (see Note 2). Costs of software distribution and research and development for the first three quarters of 1990 and 1989 differ from amounts reported in Form 10-Q due to the reclassification of the amortization of capitalized software.

We have audited the accompanying consolidated balance sheets of Informix Corporation as of December 31, 1990 and 1989, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 1990. 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, 1990 and 1989, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 1990 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
March 8, 1991

Corporate Information

Board of Directors

Roger J. Sippl,
Chairman,
Informix Corporation

William V. Campbell,*
President and Chief Executive Officer,
GO Corporation

John L. deBenedetti, III,
President,
Cypress Properties, Inc.

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

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

Bank of America, N.T. & S.A.
San Francisco, California

Independent Public Auditors

Ernst & Young,
San Jose, California

* Effective April 1, 1994

** Nominee for election at the 1994
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

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

Richard C. Blass,
Vice President, Corporate Controller

D. Kenneth Coulter,
Vice President, Europe

Richard B. Curtis,
Vice President, Strategic Programs

Ira H. Dorf,
Vice President, Human Resources

Roy V. Harrington, III,
Vice President,
Advanced Product Research

Howard Haythornthwaite,
Vice President, Asia/Pacific

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

Robert J. Macdonald
Vice President, Corporate Marketing

Christopher W. Maloney,
Vice President, Product Development

Margaret C. Reilly,
Corporate Treasurer

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

Gilbert C. Wai,
Vice President, Product Marketing

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 Tuesday, May 14, 1991 at the Stanford Park Hotel, 100 El Camino Real, Menlo Park.

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.

1989	High	Low
1st quarter	\$11.375	\$7.75
2nd quarter	11.625	8.75
3rd quarter	11.25	8.375
4th quarter	15.375	9.875
1990	High	Low
1st quarter	\$17.25	\$12.00
2nd quarter	16.875	11.00
3rd quarter	17.375	4.75
4th quarter	6.25	3.625

At February 28, 1991, there were approximately 1,594 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	Montreal
Boston	New York
Chicago	Newport Beach
Dallas	Pittsburgh
Denver	San Francisco
Detroit	Seattle
Edison, NJ	St. Louis
Los Angeles	Toronto
Minneapolis	Washington, D.C.

International

Australia	The Netherlands
Canada	Singapore
France	Spain
Germany	Sweden
Hong Kong	United Kingdom
Italy	

Corporate Headquarters

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

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This annual report was written, designed, and produced by the Informix creative services department.

Principal photography: Julie Chase
Location photography: Colin McRae

Printed in USA.
000-20154-76

