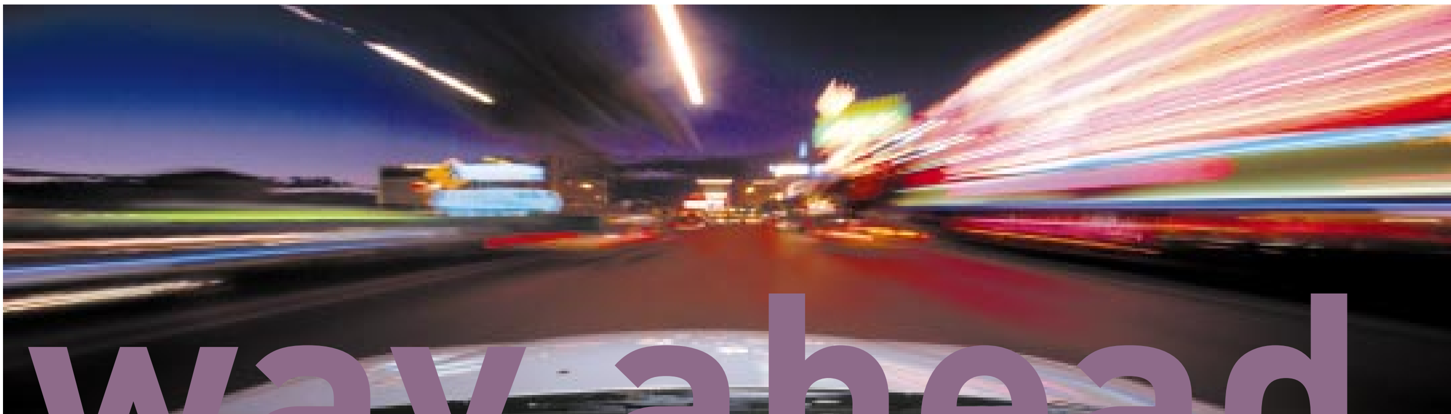
1999

ANNUAL

REPORT



way ahead

Informix® SOFTWARE

way to web™

business intelligence

Visionary™
Informix Decision Solution Suite™
Data Integration Solutions

web solutions

Media360™
i.Reach™
i.Sell™

solutions

infrastructure

Foundation.2000™ (Web Solutions)
Cloudscape™ (Distributed Web Environment)
Red Brick® Decision Server™ (Web Analytics)
Ardent™ DataStage® and Ardent DataStage XE (Data Integration)
Extended Parallel Server™ (Very Large Data Warehouses)

Informix Software is the technology leader in software infrastructure solutions for the Internet. Informix is the first and only company to integrate e-commerce and business intelligence on a true Internet infrastructure. We provide a fast, simple and complete way to bring businesses to the Web. Our solutions can personalize content management and analyze information real-time. This, with our highly scalable Web engines and media asset management capabilities, gives our customers a unique competitive advantage.

TO OUR STOCKHOLDERS,

1999 was a pivotal and very successful year for Informix — a year of significant achievements.

The Company was challenged with a formidable task: transforming ourselves from a traditional relational database company into a leading provider of software infrastructure and solutions for the new Internet economy. We set our vision and strategy for the Internet, leveraging the power of our exclusive object-relational technology with the Web's growing convergence with media and entertainment. We moved closer to becoming a truly market-driven, customer-focused organization. We completed or announced a series of acquisitions: Red Brick, a leading provider of data warehouse and data mart engines; Cloudscape, the leader in distributed e-business infrastructure; and, Ardent Software, the leader in data integration systems.

Through the process we did not lose our technical roots. Instead, we leveraged our technical strength and launched the most powerful product and solution portfolio in our company's history. Today, we combine twenty years of experience in highly scalable, reliable database systems with true Internet technology. We are well positioned for the year 2000.

All of this contributed to our record year.

REACHING new heights

Revenues rose to $871.5 million in 1999, achieving an 18.5 percent increase over the previous year — a growth rate that led our industry. Operating income and operating margin (excluding merger and restructuring charges) increased to $100.7 million and 11.6 percent in 1999 compared to $45.6 million and 6.2 percent, respectively, in 1998. Headcount at year-end was 3,672, bringing annual revenue per employee to approximately $237,000 compared with approximately $185,000 a year ago. And during the fourth quarter, which was the first quarter with a full portfolio of products and solutions for the new economy, only 73 percent of our revenues came from our traditional database business.

Performance was strong across all of Informix's geographic operating segments. North America posted revenue of $423.0 million in 1999, up 19 percent from revenue of $356.1 million in 1998. Revenue growth in the Europe, Middle East and Africa region increased 18 percent from a year ago to $283.6 million, despite adverse foreign exchange conditions. Revenue in the Asia/Pacific region was $96.2 million, up 18 percent from a year ago, while Latin America posted revenue of $68.8 million, up 20 percent from 1998.

A FASTER, more responsive ORGANIZATION

Informix has a reputation for building the best database software products in the marketplace. Demand is moving from a commodity software infrastructure market to a premium technology environment, which is where Informix excels. The Internet is fundamentally a multimedia channel, where information is visual and intuitive. When Informix acquired Illustra Technology in 1996, Informix gained a unique competitive advantage — a high performance, object-relational technology — the same technology that became the core technology of the Internet. That acquisition marked the beginning of our transformation.

The plan set in motion in 1999 leverages that foundation and reflects our ongoing commitment to speed of execution, market responsiveness and mass-customizable solutions. The stakes are high in this segment of the new economy. The changes in technology are occurring at a speed that is unparalleled in any previous economy.

Our challenge is to execute the plan, retool our organization, and get our message to the market. Transforming the company and charting our new direction requires us to be bold and decisive. Internally, speed of execution is our biggest challenge. We have a unique technological advantage that is way ahead of our competitors. Our success hinges on our ability to reeducate our workforce and communicate that message to the marketplace. Externally, our mission is to give our customers the ultimate competitive advantage by being the fastest, simplest, most technologically superior way to web.

In order to accelerate the execution of our strategies and to streamline our operations, we have organized our business into four market groups:

- i.Informix:Web solutions, encompassing content product/management and e-commerce
- i.Foundation™: Web infrastructure, encompassing all the requirements of the Internet including the remote and occasionally connected users
- i.Intelligence™: Business intelligence, encompassing infrastructure and solutions
- TransAct Systems™: Our traditional client-server OLTP database systems

Our goal is to be the technology leader in Internet solutions. To fulfill this, we will continue to combine internal research and development with external growth through mergers and acquisitions. Speed to market and availability of development resources make acquiring new technology a viable complement to developing components internally. In 1998 and 1999 we acquired Red Brick, Cloudscape and Ardent. Mergers and acquisitions will continue to play an important role in our future.

FOCUSING ON THE customer

Informix today is more customer-focused than ever before. All functions are now consolidated into one seamless integrated organization, where the account executive is fully responsible for the relationship with the customer, from sales and fulfillment to continued support and customer satisfaction.

Product development is guided by four customer-focused principles:

- Listen to our customer
- Be relevant: develop solutions that meet their needs
- Speed to market: focus on quick implementation of our product
- Minimize the total cost of ownership

new opportunity IN THE NEW ECONOMY

The new economy has created a booming market for software — one that some experts predict will reach $100 billion a year in just a few years. New dot-com companies are created everyday, betting their entire business on the Internet. Other examples of the new growth wave are emerging companies such as Incubators and Application Service Providers coming into the market to help small to mid-sized companies leverage the Internet without having to incur a massive investment. This is a unique opportunity for Informix, as those newcomers have no existing relationships with other software vendors.

The Internet has changed the world. And the Internet is changing itself everyday. Getting up and running with a Web site is not enough anymore. More than ever, technology and performance matter. Over the past year, fundamental market trends have been defining the Internet software market far beyond the look and feel of Web sites:

- Explosion of content and growing complexity of Web sites has driven the demand for database-driven solutions instead of traditional flat files.
- New applications, such as e-CRM, supply chain management, front-office automation, and on-line procurement, have increased the demand for highly reliable, highly scalable data management systems.
- Information and communication on the Internet has changed the nature of data exchanged to visual and intuitive format; this is the convergence of the Internet with the media and entertainment market.

- Business intelligence has become mission critical for everyone who is betting the business on the Internet; in the time of real-time commerce, it is essential to know what customers need before they appear on your Web site.
- Mobile and occasionally connected users are increasing rapidly on the Internet, to a point where experts predict that more than 50% of Internet devices will be wireless within 2 years.
- Speed to market requires more and more integrated solutions; customers are looking for pre-packaged, mass-customizable solutions that quickly and easily adapt to their requirements with a minimal amount of consulting, and still will scale with their business to infinity.


For the Internet, the ultimate competitive advantage is the ability to integrate e-commerce and business intelligence solutions on a highly scalable, highly reliable, object-relational infrastructure. In addition, this infrastructure must be optimized for a distributed environment, using occasionally connected Web devices.

To leverage our Internet opportunities, Informix developed a new portfolio of products and solutions designed specifically for the Internet, or acquired the missing technologies. Informix's vision is to be the ultimate competitive advantage of the Internet. All of our components offer high scalability and high reliability. And when visual information is necessary, our components utilize our object-relational technology, making our product and solution set the only one available that meets the requirements of multimedia high capacity and high reliability systems.

We believe in open architecture. We are committed to our open component strategy. Open components provide companies with existing technologies an opportunity to choose only the pieces they need — providing the best solution. We believe in giving our customers the choices, guidance and assurance they expect and need to run a successful e-business.

In 1999, we deployed an impressive portfolio of products and solutions for the Internet. In several instances, there are no comparable solutions that are available to provide the level of flexible, scalable and reliable performance required on the Internet. Early market acceptance for those products and solutions has been strong both domestically and internationally.

- Informix Internet Foundation.2000™, in production in September, is the first database built from the ground up for the Internet; fully object-relational, today it powers sites that accept tens of millions of hits every day with unsurpassed reliability.
- Cloudscape, added to the Informix portfolio in October, is the fundamental technology for occasionally connected Web devices.
- i.Reach, introduced in January, has become a popular corporate repository and Web publishing solution by leveraging the power of object-relational technology.

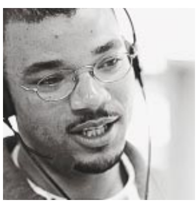
- i.Sell, introduced in April, delivers the first integrated personalized publishing, transaction and business intelligence solution for electronic commerce, business-to-consumer and moving into business-to-business in 2000.
- Media360, announced in September and soon to come into production, is the only end-to-end media asset management solution in the market.
- Red Brick Decision Server 6.0, in production since September, is the only server that can store URL's, making it the next generation foundation for all types of Web analytics applications.
- Extended Parallel Server 8.3, in production since September, has been pushing even further the limits of multi-terabyte scalability.
- Visionary, introduced in January, is the only purely visual, easy-to-use, easy-to-deploy enterprise portal technology.

INFORMIX SOFTWARE — way to web

In today's market environment, decisions are made quickly and are often based on perception more than fact. Now more than ever, marketing and communications are key to our success. We have the right technology and solutions for the Internet and we are going to get the message out.

In 2000, we initiated the largest marketing and branding campaign in our history. It emphasizes our technological leadership in the marketplace. Customers need to know that they have a choice and that our technology can accomplish tasks no other technology can match. Marketing is often a perception game. Our strength is in reality, not in perception. Our goal is to communicate the truth to the marketplace and to back it up with technological innovation and outstanding customer support.

We are committed to making "Informix Software — way to web" the recognized technology leader in the Internet marketplace.



ready
FOR THE FUTURE

Our solid financial foundation and our record results in 1999 allow us to focus exclusively on executing our business plans. We do not discount the adverse factors. Our competition continues to be formidable and I expect them to respond aggressively to our push. The marketplace is still confused in determining what is the right technology to satisfy the Internet requirements. We are still at the beginning of our new portfolio life cycle and we need to successfully integrate our acquisitions in order to create a new whole greater than the parts. But, we are focused, determined and we know how to fight tough battles.

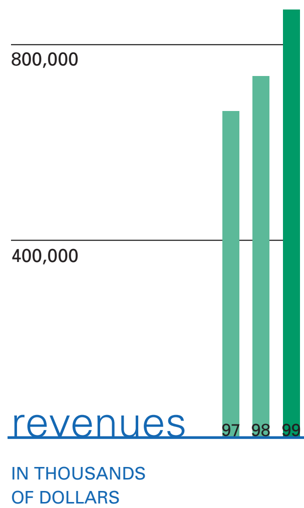
We encourage enthusiasm and creativity among our employees. Our greatest strength is our workforce. They are talented, vision-driven professionals with profound energy and excitement about our future. They are focused on providing the best products and the best support in the marketplace.

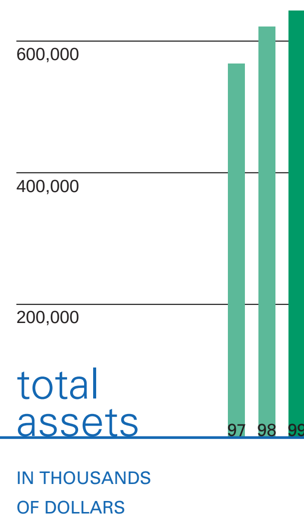
Finally, and most importantly, we are committed to increasing your stockholder value.

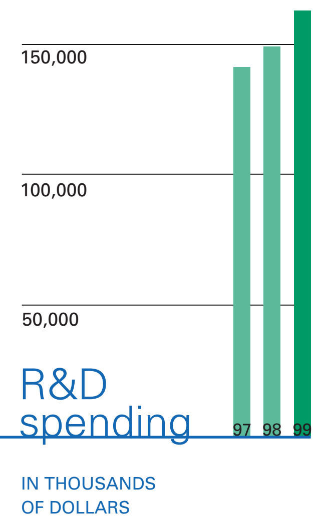
Thank you for your continued support.

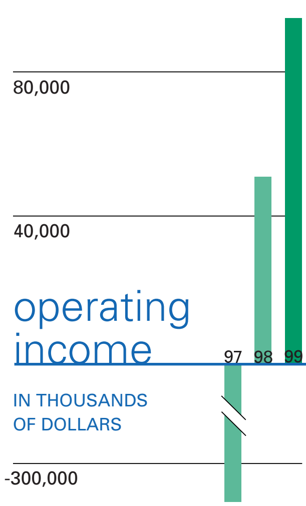
Sincerely,

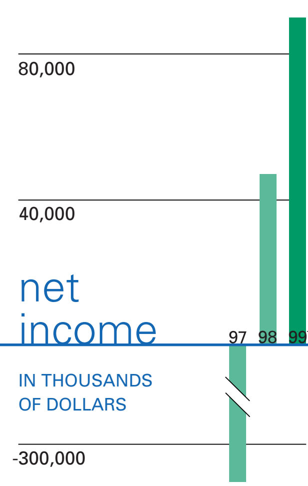
Jean-Yves Dexmier
President and CEO



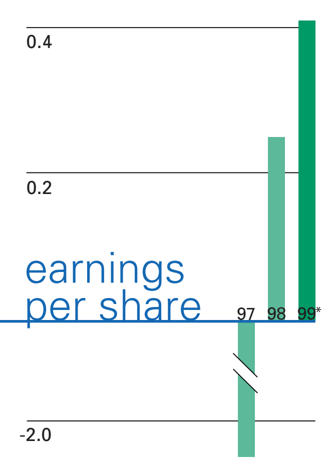








*excludes the non-recurring charge of $97,016 associated with the settlement of the private securities litigation



*excludes the non-recurring charge of $97,016 associated with the settlement of the private securities litigation

FINANCIAL OVERVIEW five-year summary

IN THOUSANDS, EXCEPT PER SHARE DATA

YEAR ENDED DECEMBER 31,	1999[1]	1998[2]	1997[3]	1996	1995
Net revenues	$ 871,536	$ 735,506	$ 663,892	$734,540	$636,547
Net income (loss)	(11,164)	50,184	(360,388)	(74,019)	38,600
Preferred stock dividend	(995)	(3,478)	(301)	—	—
Value assigned to warrants	—	(1,982)	(1,601)	—	—
Net income (loss) applicable to common stockholders	(12,159)	44,724	(362,290)	(74,109)	38,600
Net income (loss) per common share:					
Basic	(0.06)	0.26	(2.37)	(0.49)	0.27
Diluted	(0.06)	0.25	(2.37)	(0.49)	0.26
Total assets	646,212	622,065	566,021	883,259	682,445
Long-term obligations	1,420	3,759	6,544	2,394	2,846
Retained earnings (accumulated deficit)	(241,078)	(231,934)	(282,118)	78,269	154,098

[1] In 1999, we recorded restructuring-related adjustments that increased operating income by $0.6 million and, in connection with our acquisition of Cloudscape in October 1999, recorded a charge to operations of $2.8 million for merger related expenses. In addition, we recorded a charge of $97.0 million related to the settlement of private securities and related litigation against us.

[2] In 1998, we recorded restructuring-related adjustments that increased operating income by $10.3 million and, in connection with our acquisition of Red Brick in December 1998, recorded a charge to operations of $2.6 million for in-process research and development which had not yet reached technological feasibility and had no alternative future uses.

[3] In 1997, we recorded a restructuring charge of $108.2 million, a write-down of certain assets in Japan of $30.5 million and a write-down of capitalized software of $14.7 million.

management's discussion and analysis

OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following Management's Discussion and Analysis of Financial Condition and Results of Operations contains forward-looking statements relating to future events or the future financial performance of Informix, which involve risks and uncertainties. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of certain factors, including those set forth under "Factors That May Affect Future Results," "Business" and elsewhere in this annual report on Form 10-K.

OVERVIEW

Informix Corporation is a leading supplier of information management software and solutions to governments and enterprises worldwide. We design, develop, manufacture, market and support

- Object-relational and relational database management systems
- Connectivity interfaces and gateways
- Graphical and character-based application development tools for building database applications that allow customers to access, retrieve and manipulate business data

We also offer complete solutions, which include our database management software, our own and third-party software, and our consulting services, to help customers design and deploy data warehouses, Web-based enterprise repositories and electronic commerce applications.

On November 30, 1999, we reached a definitive agreement (the "Ardent Agreement") to acquire Ardent Software, Inc. ("Ardent"), a leading provider of data integration infrastructure software for data warehouse, business intelligence, and e-business applications. In accordance with the Ardent Agreement, 3.5 shares of our common stock will be exchanged for each outstanding Ardent share. The transaction is expected to be accounted for as a pooling-of-interests and completion of the transaction, which is subject to the approval of stockholders of both companies, is expected to occur in the first quarter of 2000.

On October 8, 1999, we completed our acquisition of Cloudscape, Inc. ("Cloudscape"), a privately-held provider of synchronized database solutions for the remote and occasionally connected workforce. In the acquisition, the former shareholders of Cloudscape received shares of our common stock in exchange for their shares of Cloudscape at the rate of approximately 0.56 shares of our common stock for each share of Cloudscape common stock (the "Cloudscape Merger"). The Cloudscape Merger was accounted for as a pooling-of-interests. An aggregate of 9,583,000 shares of our common stock were issued pursuant to the Merger, and an aggregate of 417,000 options and warrants to purchase Cloudscape common stock were assumed by us.

On October 1, 1999, the Company reorganized its operating business divisions into four new business groups: the TransAct Business Group, which is responsible for delivering on-line transaction processing products; the i.Foundation Business Group, which is responsible for delivering products that provide the technological foundation for Internet-based electronic commerce solutions; the i.Informix Business Group, which is responsible for delivering Internet-based solutions for electronic commerce; and the i.Intelligence Business Group, which is responsible for delivering Internet-based data warehouse products and solutions.

On May 26, 1999, we entered into a memorandum of understanding regarding the settlement of pending private securities and related litigation against us, including a federal class action, a derivative action, and a state class action. In November 1999, the settlement was approved by the applicable Federal and state courts. The settlement resolves all material litigation arising out of the restatement of our financial statements that was publicly announced in November 1997. In accordance with the terms of the memorandum of understanding, we paid approximately $3.2 million in cash during the second quarter of 1999 and an additional amount of approximately $13.8 million of insurance proceeds was contributed directly by certain of our insurance carriers on behalf of certain of our current and former officers and directors. We will also issue a minimum of nine million shares of our common stock, which will have a guaranteed value of $91 million for a maximum term of one year from the date of final approval of the settlement by the courts. Our former independent auditors, Ernst & Young LLP, will pay $34 million in cash. The total amount of the settlement will be $142 million. As of December 31, 1999, we had issued 2.9 million of the minimum amount of 9 million shares issuable pursuant to the memorandum of understanding.

In July 1997, the Securities and Exchange Commission ("SEC") issued a formal order of private investigation of the Company and certain unidentified other entities and persons with respect to non-specified accounting matters, public disclosures and trading activity in the Company's securities. During the course of the investigation, the Company learned that the investigation concerned the events leading to the restatement of the Company's financial statements, including fiscal years 1994, 1995 and 1996, that was publicly announced in November 1997. The Company and the SEC have entered into a settlement of the investigation as to the Company. Pursuant to the settlement, the Company consented to the entry by the SEC of an Order Instituting Public Administrative Proceedings Pursuant to Section 8A of the Securities Act of 1933 and Section 21C of the Securities Exchange Act of 1934, Making Findings, and Imposing a Cease and Desist Order (the "Order"). The Order was issued by the SEC on January 11, 2000. Pursuant to the Order, the Company neither admitted nor denied the findings, except as to jurisdiction, contained in the Order. See "Factors Affecting Operating Results — Settlement of SEC investigation could harm our business."

RESULTS OF OPERATIONS

The following table and discussion compares the results of operations for the years ended December 31, 1999, 1998 and 1997.

PERCENT OF NET REVENUES

YEARS ENDED DECEMBER 31,	1999	1998	1997
Net revenues:			
Licenses	51%	52%	57%
Services	49	48	43
Total net revenues	100	100	100
Cost and expenses:			
Cost of software distribution	5	5	9
Cost of services	20	21	25
Sales and marketing	36	37	63
Research and development	19	20	21
General and administrative	9	10	13
Write-off of goodwill and long-term assets	—	—	5
Write-off of acquired research and development	—	—	1
Merger and restructuring charges	—	(1)	16
Total expenses	89	93	154
Operating income (loss)	11	7	(54)
Net income (loss)	(1)%	7%	(54)%

Our operating results for 1999 improved over the prior year due to revenue growth of 18% while costs and expenses increased by only 13% when compared to 1998. Growth in consolidated revenues was experienced by all regions during fiscal 1999 as sales increased by 20%, 19%, 18% and 18% in Latin America, North America, Europe and Asia/Pacific, respectively. As a percentage of net revenues, all operating expense categories for 1999 either decreased or remained consistent when compared to 1998 as we continued our effort to keep operating expenses in line with revenues. Revenue growth combined with lower operating costs resulted in an increase of $45.2 million, or 85%, in operating income to $98.5 million for 1999 from $53.3 million in 1998.

Revenues

We derive revenues from licensing software and providing post-license technical product support and updates to customers and from consulting and training services.

License Revenues. License revenues may involve the shipment of product by us or the granting of a license to a customer to manufacture products. Our products are sold directly to end-user customers or through resellers, including OEMs, distributors and value added resellers (VAR's). License revenues for 1999 increased 15% to $442.8 million from $383.9 million in 1998. The higher license revenue growth rate experienced in 1999 was due to continued demand for our established products and the introduction and market positioning of new products and versions including our Red Brick and Cloudscape product offerings. Each of our regions reported increased license revenues for fiscal 1999 when compared to fiscal 1998, as follows:

- Europe, Middle-East and Africa ("EMEA") license revenues increased to $148.4 million as compared to $125.2 million, an increase of 19%
- North America license revenues increased to $200.4 million as compared to $170.2 million, an increase of 18%
- Latin America license revenues increased to $36.3 million as compared to $33.9 million, an increase of 7%
- Asia/Pacific license revenues increased to $57.7 million as compared to $54.6 million, an increase of 6%

License revenues for 1998 increased slightly to $383.9 million from $378.2 million in 1997. This modest increase in license revenues reflected a number of factors which affected us during 1998, including an overall decrease in revenue growth rates in the RDBMS industry worldwide, continued uncertainty in the Asia/Pacific economies and financial markets as well as changes to our European management.

Our increased focus on reseller channels in 1996 resulted in a significant build-up of licenses that had not been resold or utilized by the resellers. As discussed in Note 1 to our Consolidated Financial Statements, revenue from license agreements with resellers is recognized as earned by us when the licenses are resold or utilized by the reseller and all of our related obligations have been satisfied. Accordingly, amounts received from customers and financial institutions in advance of revenue being recognized are recorded as a liability in "advances from customers and financial institutions" in our Consolidated Financial Statements. Advances in the amount of $34.3 million and $121.1 million had not been recognized as earned revenue as of December 31, 1999 and 1998, respectively. During the year ended December 31, 1999, we received $6.5 million in customer advances and recognized revenue from previously recorded customer advances of $82.0 million. Included in the $82.0 million recognized were $69.1 million of licenses which were resold or utilized by the reseller, $11.4 million related to contractual reductions in customer advances and $1.5 million related to previously-deferred revenue for solution sales which has now been recognized.

Contractual reductions result from settlements between us and resellers in which the customer advance contractually expires or a settlement is structured wherein the rights to resell our products terminate without sell through or deployment of the software. As of December 31, 1999, we had reached structured settlements with three resellers with remaining rights to resell a total of $1.0 million of our products, which will be utilized by December 31, 2000 pursuant to the minimum future reduction terms of the settlement.

Management believes that the level of licenses sold through these resellers is likely to continue; however, revenue may not be sustained following full utilization of the "advances from customers and financial institutions" because there may be less incentive for resellers to sell our products.

In order to properly recognize revenue on arrangements where the reseller has duplication rights, we rely on accurate and timely reports from resellers of the quantity of licenses that have been resold or utilized. In instances where a reseller does not submit a timely report, we accrue royalty revenue through the end of the reporting period provided we have vendor specific historical information. From time to time, late or inaccurate reports are identified or corrected for a variety of reasons, including resellers updating their reports or as a result of our proactive activities such as audits of the resellers' royalty reports. As a result, revenue from these late or updated reports, which was not previously accrued, is recognized in the period during which the reports are received. Such revenue amounted to approximately $6.0 million for 1998 and was not significant for 1999. We expect that the late or inaccurate reporting of resale or utilization of licenses by resellers and the resulting fluctuations will continue for the foreseeable future.

Our license transactions can be relatively large in size and difficult to forecast both in timing and dollar value. As a result, license transactions have caused fluctuations in net revenues and net income (loss) because of the relatively high gross margin on such revenues. As is common in the industry, a disproportionate amount of our license revenue is derived from transactions that close in the last weeks or days of a quarter. The timing of closing large license agreements also increases the risk of quarter-to-quarter fluctuations. We expect that these types of transactions and the resulting fluctuations in revenue will continue.

Service Revenues. Service revenues are comprised of maintenance, consulting and training revenues. Service revenues increased 22% to $428.7 million in 1999 and 23% to $351.6 million in 1998 from $285.7 million in 1997. Service revenues accounted for 49%, 48%, and 43% of total revenues in 1999, 1998 and 1997, respectively. The increase in service revenues, both in absolute dollars and as a percentage of total revenues, was attributable primarily to the renewal of maintenance contracts in connection with our growing installed customer base. As our products continue to grow in complexity, more support services are expected to be required. We intend to satisfy this requirement through internal support, third-party services and OEM support. Maintenance revenues increased 28% to $325.6 million for 1999 and 35% to $253.6 million for 1998 from $188.1 million for 1997. Consulting and training revenues increased 5% to $103.1 million for 1999 and remained flat at $97.9 million for 1998 as compared to $97.6 million in 1997.

Costs and Expenses

Cost of Software Distribution. Cost of software distribution consists primarily of: (1) manufacturing and related costs such as media, documentation, product assembly and purchasing costs, freight, customs and third party royalties; and (2) amortization of previously capitalized software development costs and any write-offs of previously capitalized software. Cost of software distribution increased $7.7 million, or 22%, to $43.1 million for 1999 compared to $35.4 million for 1998. This increase was primarily due to an increase in royalties related to new products and the write-off of capitalized software costs. During the third quarter of 1999, approximately $2.4 million of previously capitalized software costs were written down to the estimated net realizable value after it was determined that the projected sales of certain tools products and system management programs were not sufficient to realize the capitalized product development costs. Amortization of capitalized software remained relatively flat at $19.3 million in 1999 compared to $20.7 million and $21.4 million in 1998 and 1997, respectively. The amortization of capitalized software will vary from period to period as new products are released and other products become fully amortized. Cost of software distribution decreased to $35.4 million in 1998 from $63.0 million in 1997. This decrease was primarily caused by a write-down in 1997 of $14.7 million to net realizable value of certain of our database tool products related to our acquisition of CenterView Software, Inc. in the first quarter of 1997, a decrease in third party software royalties, the write-off of certain unused application software in the second quarter of 1997 and a reduction in labor, materials and shipping costs.

Cost of Services. Cost of services consists primarily of maintenance, consulting and training expenses. Cost of services for 1999 increased 11% to $173.7 million from $155.9 million in 1998 due primarily to a 10% increase in average headcount during 1999, a portion of which resulted from the addition of the Red Brick consulting team subsequent to the completion of the acquisition in December 1998. Cost of services decreased as a percentage of net service revenues to 41% for 1999 compared to 44% for 1998. The increase in gross service margins from 56% in 1998 to 59% during 1999 was due to a higher percentage of customer maintenance support revenue in 1999 which typically has a higher profit margin than consulting and training services revenue. Maintenance represented approximately 76% of service revenues in 1999 compared to 72% in 1998. Cost of services for 1998 decreased by 7% to $155.9 million as compared to $166.9 million in 1997 and decreased as a percentage of net service revenues to 44% for 1998 compared to 58% for 1997. These decreases were primarily attributable to decreases of 11% in average headcount for 1998 over the same period in 1997 as well as improved efficiency and better control of outsourced expenses.

Sales and Marketing Expenses. Sales and marketing expenses consist primarily of salaries, commissions, marketing and communications programs and related overhead costs. Sales and marketing expenses increased 15% to $312.1 million for 1999 from $271.9 million for 1998 due primarily to increased advertising and marketing efforts during 1999 in connection with the introduction of several new products and our new corporate logo and identity in order to increase brand awareness. This increase was in line with net revenue growth rates as sales and marketing expenses, as a percentage of net revenues, were 36% and 37% for 1999 and 1998, respectively. Sales and marketing expenses decreased 35% to $271.9 million for 1998 from $418.1 million for 1997. The decrease in sales and marketing expenses in 1998 as compared to 1997 was primarily the result of a significant reduction in average sales and marketing headcount worldwide. We intend to invest more resources in marketing and communications programs during 2000 than we have in recent years in order to attempt to create greater market awareness and visibility.

Research and Development Expenses. Research and development expenses consist primarily of salaries, project consulting and related overhead costs for product development. Research and development expenses increased 9% to $163.3 million for 1999 from $149.6 million for 1998 and $141.5 million for 1997. The increase in research and development expenses during 1999 was attributable primarily to increased amortization of intangible assets resulting from the acquisition of Red Brick and a slight increase in average headcount during 1999, offset by an increase of $4.0 million in the amount of product development expenditures capitalized in 1999 compared to 1998. The increase for 1998 was primarily due to increased salary and benefits and a 10% decrease in the amount of product development expenditures capitalized in 1998 compared to 1997. This decrease in capitalized expenditures was attributable to the fact that, during the first half of 1997, a large portion of expenditures incurred were on products that had reached technological feasibility but had not yet been commercially released. As a percentage of net revenues, research and development expenses have decreased slightly to 19% for 1999, from 20% and 21% for 1998 and 1997, respectively, which is the level that we believe is consistent with our long-term objectives for research and development spending.

General and Administrative Expenses. General and administrative expenses consist primarily of finance, legal, information systems, human resources, bad debt expense and related overhead costs. General and administrative expenses were $78.6 million in 1999 as compared with $77.0 million in 1998, an increase of 2%. During 1999, general and administrative expenses decreased as a percentage of net revenues to 9% from 10% in 1998. During 1998, general and administrative expenses decreased 13% to $77.0 million from $88.1 million for 1997. The decrease in 1998 in absolute dollars and as a percentage of net revenues was primarily the result of a reduction in bad debt expense due to our efforts to better manage both the amount and credit risk of our accounts receivable balances, offset by increases in legal and other professional service fees, consulting fees and average headcount.

Write-Off of Goodwill and Other Long-Term Assets. During the first quarter of 1997, our Japanese subsidiary experienced a significant sales shortfall and operating losses. Accordingly, we evaluated the ongoing value of the subsidiary's long-lived assets (primarily computer and other equipment) and goodwill. Based on this evaluation, we determined that the subsidiary's assets had been impaired and wrote them down by $30.5 million to their estimated fair values. Fair value was determined by using estimated future discounted cash flows and/or resale market quotes as appropriate.

Write-Off of Acquired Research and Development. In connection with our acquisition of Red Brick in December 1998, and our acquisition of Centerview Software, Inc. ("Centerview") in February 1997, we recorded charges of $2.6 million and $7.0 million in 1998 and 1997, respectively.

Our December 1998 acquisition of Red Brick has been accounted for as a purchase. We issued approximately 7.6 million shares of our Common Stock to acquire all of the outstanding shares of Red Brick common stock. We also reserved an additional 2.5 million shares of our Common Stock for issuance in connection with the assumption of Red Brick's outstanding stock options and warrants.

The purchase price was allocated to the fair value of the acquired assets and assumed liabilities based on their fair values at the date of acquisition. The total purchase price of $55.8 million included the issuance of stock and the assumption of stock options (together $35.9 million, net of issuance costs), direct acquisition costs of $1.0 million, accrued merger and integration costs of $7.9 million and liabilities assumed of $11.0 million. Of the total purchase price, $2.6 million was allocated to in-process research and development expense that had not yet reached technological feasibility and had no alternative future uses, $7.8 million was allocated to cash and short-term investments, approximately $10.2 million was allocated to other tangible assets, $7.4 million was allocated to capitalized software, $4.7 million was allocated to the acquired workforce and $23.1 million was allocated to goodwill. Goodwill, capitalized software and the acquired workforce are intangible assets which are being amortized over their estimated lives, which average five years.

The following two in-process research and development projects were acquired in the acquisition of Red Brick:

- *Red Brick Warehouse ("Warehouse")* — a high-performance, client/server RDBMS software product specifically designed for data warehousing, data mart, data mining, and OLAP applications. Warehouse has been Red Brick's core product and, as of December 31, 1998 (the "Valuation Date"), was being sold as version 5.1, which was released in January 1998. We released Informix Red Brick Warehouse version 5.1.7 on schedule during May 1999.
- *Red Brick Formation ("Formation")* — an ETML (Extract, Transfer, Move, Load) product which was originally released as version 1.3 in September 1998 (the current version as of the Valuation Date). Formation is considered to be in the early stages of its product life cycle. New features and functionality are currently under development and will be added in subsequent releases. We released Red Brick version 1.4 on schedule during May 1999 and we are currently in the process of evaluating the future use of Formation version 2.0 due to the acquisition of similar technology as a result of the pending merger with Ardent.

The fair value of the in-process technology was based on a discounted cash flow model, similar to the traditional Income Approach. The Income Approach involves five steps: (1) the annual after-tax cash flows the asset will generate over its remaining useful life are estimated; (2) these cash flows are converted to their present value equivalents using a required rate of return which accounts for the relative risk of not realizing the annual cash flows and for the time value of money; (3) the residual value, if any, of the asset at the end of its remaining useful life is estimated; (4) the estimated residual value is converted to its present value equivalent; and (5) the present value of the estimated annual after-tax cash flows is added to the present value of the residual value to obtain an estimate of the asset's fair value. The discount rate used in discounting the estimated cash flows is based on the risks associated with achieving such estimated cash flows upon successful completion of the acquired projects. Associated risks include the inherent difficulties and uncertainties in completing each project and thereby achieving technological feasibility, and risks related to the impact of potential changes in market conditions and technology.

In developing cash flow estimates, revenues were forecasted based on relevant factors, including aggregate revenue growth rates for the business as a whole, characteristics of the potential market for the technology and the anticipated life of the underlying technology. Projected annual revenues for the Warehouse and Formation projects were assumed to increase from product release through 2000, decline slightly in 2001 and decline significantly in 2002 which is estimated to be the end of the in-process technology's economic life. Cost of software distribution and services, sales and marketing expense, research and development expense and general and administrative expense were estimated as a percentage of revenues throughout the forecast period. Gross profit was assumed to be between 74% and 80% for both the Warehouse project and the Formation project.

As certain other assets contribute to the cash flow attributable to the two projects, returns to these other assets or capital charges were calculated and deducted from the after-tax operating income to isolate the cash flow solely attributable to the two projects. Accordingly, returns were deducted for working capital, fixed assets (i.e. property and equipment) and the workforce in place. Informix then discounted the estimated cash flows attributable to Warehouse and Formation using a 18.0% discount rate.

The fair value of the in-process research and development was allocated as approximately $2.0 million and $0.6 million to the Warehouse and Formation projects, respectively. The acquisition of Red Brick was a tax-free reorganization under the Internal Revenue Code. Therefore, the charge for in-process research and development and amortization of acquired intangible assets is not deductible for income tax purposes.

In February 1997, we acquired all of the outstanding capital stock of CenterView, a privately-owned company which developed and sold software application development tools. The aggregate purchase price paid was approximately $8.7 million, which included cash and direct acquisition costs. The transaction was accounted for as a purchase and, based on an independent appraisal of the assets acquired and liabilities assumed, the purchase price was allocated to the net tangible and intangible assets acquired including developed software technology, acquired workforce, in-process technology, and goodwill. The in-process technology, which, based on the independent appraisal, was valued at $7 million, had not reached technological feasibility at the date of acquisition and had no alternative future uses in other research and development projects. Consequently, its value was charged to operations in the first quarter of fiscal 1997, the period in which the acquisition was consummated. The remaining identifiable intangible assets are being amortized over three to five years.

The in-process research and development project acquired in the acquisition of CenterView consisted of the client/server software, "Data Director," that combines the functionality of high-end client/server tools with the price and openness of visual programming environments. Data Director is an integrated development extension for Microsoft Visual Basic that enables companies to build corporate Intranet and client/server applications in a single environment. As of the date of acquisition, Data Director Version 2.1 was considered developed technology while Data Director Versions 3.0 and 4.0 were considered in-process technology which had not reached technological feasibility and did not have any alternative future uses. Data Director Version 3.0 was scheduled for first customer release in July 1997 while Version 4.0 was anticipated to reach first customer release in April 1998, with commercial release to occur approximately two to three months after first customer introduction of the product. The expected aggregate costs to complete both Data Director Versions 3.0 and 4.0 were approximately $12.6 million.

The fair value of the in-process technology was based on projected cash flows which were discounted based on the risks associated with achieving such projected cash flows upon successful completion of the acquired projects. Associated risks include the inherent difficulties and uncertainties in completing each project and thereby achieving technological feasibility, and risks related to the impact of potential changes in market conditions and technology. In developing cash flow projections, revenues were forecasted based on relevant factors, including aggregate revenue growth rates for the business as a whole and for the database application development market, product family revenues, the aggregate size of the database application development market, anticipated product development and product introduction schedules, product sales cycles, and the estimated life of the underlying technology.

Projected annual revenues for the Data Director in-process development projects were assumed to increase from product release through 1999, decline slightly in 2000 and decline significantly in 2001, which was estimated to be the end of the in-process technology's economic life. Gross profit was assumed to be 90% throughout the technology life cycle based on percentages estimated in Informix's aggregate business model. Estimated operating expenses, income taxes and capital charges to provide a return on other acquired assets were deducted from gross profit to arrive at net operating income. Operating expenses were estimated as a percentage of revenue and included general and administrative expenses, sales and marketing expenses and development costs to maintain the technology once it achieved technological feasibility.

The net cash flows of the in-process research and development projects were discounted to their present values using a discount rate of 20%. This discount rate approximated the overall rate of return for the acquisition of CenterView as a whole and reflected the inherent uncertainties surrounding the successful development of the in-process research and development projects and the uncertainty of technological advances.

We are currently selling two versions of Data Director, one for Visual Basic applications and the other for Web applications.

Merger and Restructuring Charges. During the quarter ended December 31, 1999, we recorded a charge of $2.8 million associated with the merger with Cloudscape. This amount included $1.2 million for financial advisor, legal and accounting fees related to the merger and $1.6 million for costs associated with combining the operations of the two companies; including expenditures of $0.7 million for severance and related costs, $0.4 million for closure of facilities and $0.5 million for the write-off of redundant assets. Accrued merger costs totaling $1.3 million remained as a liability in our Consolidated Financial Statements as of December 31, 1999. (See Note 11 to our Consolidated Financial Statements.)

In June and September 1997, we approved plans to restructure our operations to bring expenses in line with forecasted revenues and substantially reduced our worldwide headcount and modified operations to improve efficiency. Accordingly, we recorded restructuring charges totaling $108.2 million for 1997. The significant components of these restructuring changes were severance and benefits, write-off of assets, and facility charges. Severance and benefits represented the reduction of approximately 670 employees, primarily sales and marketing personnel, on a worldwide basis. Temporary employees and contractors were also reduced. Write-off of assets included the write-off or write-down in carrying value of equipment as a result of our decision to reduce the number of Information Superstores throughout the world, as well as the write-off of equipment associated with headcount reductions. The equipment subject to the write-offs and write-downs consisted primarily of computer servers, workstations, and personal computers that were no longer utilized in our operations. Facility charges included early termination costs associated with the closing of certain domestic and international sales offices.

During 1999 and 1998, adjustments of $0.6 million and $10.3 million, respectively, were recorded to the results of operations. These adjustments, which appear as a credit to restructuring charges in our Consolidated Statement of Operations for the years ended December 31, 1999 and 1998, were due primarily to adjusting the estimated severance and facility components of the 1997 restructuring charge to actual costs incurred. We have substantially completed actions associated with our restructuring except for subleasing or settling our remaining long-term operating leases related to vacated properties. The terms of these operating leases expire at various dates through 2003. Accrued restructuring costs totaling $1.8 million remained as a liability in our Consolidated Financial Statements as of December 31, 1999, all of which related to facility charges. (See Note 13 to our Consolidated Financial Statements.)

Other Income (Expense)

Interest Income. Interest income for 1999 was $11.1 million as compared to $11.7 million and $5.8 million for 1998 and 1997, respectively. Excluding approximately $2.4 million of interest income related to income tax refunds received in fiscal 1998, interest income earned during 1999 on cash and short-term investments actually increased by 19% over 1998. This increase is consistent with the increase in the average interest-bearing cash and short-term investment balances during 1999 when compared to the same period in 1998. The increase in 1998 when compared to 1997 also resulted from an increase in the average interest-bearing cash and short-term investment balances in 1998 due to increased sales and operating income as well as approximately $2.4 million in interest income related to income tax refunds received during 1998.

Interest Expense. Interest expense decreased to $4.3 million for 1999 from $5.8 million and $9.4 million for 1998 and 1997, respectively. These decreases are due primarily to a decline in the amortization of interest charges incurred in connection with the financing of customer accounts receivable prior to 1998, in addition to a decline in interest charges related to payments on capital leases. We did not enter into any accounts receivable financing transactions in 1999 and 1998.

Litigation Settlement Expense. During 1999, we incurred a charge of $97.0 million in connection with our entering into a memorandum of understanding regarding the settlement of the private securities and related litigation against us. The charge consists of $3.2 million in cash, $91.0 million in common stock and approximately $2.8 million in legal fees required to obtain and complete the settlement. The charge excludes approximately $13.8 million of insurance proceeds which, according to the terms of the memorandum of understanding, were contributed directly by our insurance carriers.

Other Income (Expense), Net. Other income (expense), net, increased to net other income of $2.5 million for 1999 from a net other expense of $4.6 million for 1998. For 1999, other income included approximately $3.7 million of net realized gains on the sale of long-term investments, offset by a downward adjustment of $0.5 million to the carrying value of certain investments and approximately $0.3 million of net foreign currency transaction losses. During 1998, other income (expense), net, decreased to a net other expense of $4.6 million from net other income of $10.5 million for 1997. Other income (expense), included $4.8 million of foreign currency transaction losses and $8.0 million of foreign currency transaction gains in 1998 and 1997, respectively. Approximately $7.5 million of the $8.0 million of foreign currency transaction gains recognized in 1997 resulted primarily from a change in our foreign currency denominated intercompany accounts payable and accounts receivable balances arising from the restatement of our 1996, 1995 and 1994 financial statements. Other components of other income (expense) for 1997 included $8.1 million of net realized gains on the sale of long-term investments offset by a downward adjustment of $4.5 million to the carrying value of certain investments.

Income Taxes

In 1999, income tax expense of $21.9 million resulted primarily from foreign withholding taxes and taxable earnings in certain foreign jurisdictions. We have provided a valuation allowance for the net deferred tax assets that are dependent on taxable income beyond 2000 in foreign jurisdictions, and domestic taxable income. The expected tax expense of $3.8 million, computed by applying the federal statutory rate of 35% to the income before income taxes, was offset primarily by a $12.7 million decrease in the valuation allowance and a $19.4 million net foreign tax expense.

In 1998, income tax expense resulted primarily from foreign withholding taxes and taxable earnings in certain foreign jurisdictions. We have provided a valuation allowance for the net deferred tax assets that are dependent on future taxable income. The expected tax expense of $19.1 million, computed by applying the federal statutory rate of 35% to the income before income taxes, was offset primarily by an $11.2 million decrease in the valuation allowance and a $4.4 million net foreign tax benefit.

In 1997, income tax expense resulted primarily from foreign withholding taxes and taxable earnings in certain foreign jurisdictions. The expected tax benefit computed by applying the federal statutory rate to the loss before income taxes was substantially offset by a corresponding increase in the valuation allowance for net deferred tax assets. We have provided a valuation allowance for the net deferred tax assets in excess of amounts recoverable through carryback of net operating losses. Accordingly, the net deferred tax asset at December 31, 1997 of $34 million was provided for anticipated IRS tax refunds, which were received during 1998.

Quarterly Operating Results

IN THOUSANDS, EXCEPT PER SHARE DATA

	FIRST QUARTER	SECOND QUARTER	THIRD QUARTER	FOURTH QUARTER
Year ended December 31, 1999				
Net revenues	$ 196,944	$ 207,208	$ 216,272	$251,112
Gross profit	141,857	154,146	161,483	197,289
Net income (loss)	$ 5,526	$ (81,453)	$ 21,993	$ 42,770
Preferred stock dividend	(303)	(279)	(247)	(166)
Net income (loss) applicable to common stockholders	$ 5,223	$ (81,732)	$ 21,746	$ 42,604
Net income (loss) per common share:				
Basic	$ 0.03	$ (0.42)	$ 0.11	$ 0.20
Diluted	$ 0.03	$ (0.42)	$ 0.10	$ 0.20
Year ended December 31, 1998				
Net revenues	$ 161,019	$ 174,284	$ 185,284	$214,919
Gross profit	113,586	128,355	138,080	164,092
Net income (loss)	$ 118	$ 10,593	$ 16,919	$ 22,554
Preferred stock dividend	(603)	(624)	(589)	(1,662)
Value assigned to warrants	(1,594)	(388)	—	—
Net income (loss) applicable to common stockholders	$ (2,079)	$ 9,581	$ 16,330	$ 20,892
Net income (loss) per common share:				
Basic	$ (0.01)	$ 0.06	$ 0.10	$ 0.12
Diluted	$ (0.01)	$ 0.05	$ 0.09	$ 0.11
Year ended December 31, 1997				
Net revenues	$ 149,902	$ 182,527	$ 150,184	$181,279
Gross profit	79,616	124,042	97,898	132,393
Net income (loss)	$(144,610)	$(111,931)	$(111,479)	$ 7,632
Preferred stock dividend	—	—	—	(301)
Value assigned to warrants	—	—	—	(1,601)
Net income (loss) applicable to common stockholders	$(144,610)	$(111,931)	$(111,479)	$ 5,730
Net income (loss) per common share:				
Basic	$ (0.96)	$ (0.74)	$ (0.73)	$ 0.04
Diluted	$ (0.96)	$ (0.74)	$ (0.73)	$ 0.03

management's discussion and analysis

OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

In the first quarter of 1997, we experienced a substantial shortfall in license revenues compared to forecasts, resulting in a substantial loss for the quarter. The shortfall in revenue was due to slow growth in demand for RDBMS products as well as our inability to close a number of sales transactions that management anticipated would close by the end of the quarter, especially in Europe. As a result of the shortfall in license revenues for this quarter, we, in the second and third quarters of 1997, initiated two internal restructurings of our operations intended to reduce operating expenses and improve our financial condition. These restructurings included reductions in headcount and leased facilities and the downsizing, elimination or conversion into solutions labs of our planned Information Superstores. Costs associated with the restructurings totaled approximately $108.2 million and had a material adverse impact on our results of operations for 1997 ("See Restructuring Charges"). Additionally, during 1997, we had a major restatement for all of the periods included in the three years ended December 31, 1996, as well as for the quarter ended March 31, 1997. At that time, our administrative processes were weak which contributed to the existence of significant weaknesses in our internal controls. Following these events, customers were concerned about Informix's viability and, accordingly, our management was concerned about whether customers would honor their financial obligations to us.

The restructuring activities and the restatement of financial results impacted the environment in which we operated, and, accordingly, impacted the estimates and assumptions used by management in the preparation of our financial statements. As of December 31, 1997, we made certain estimates including allowances for uncollectible accounts receivable based on the probability of collections, estimates for product returns associated with ongoing customer uncertainty about our financial condition and contingencies associated with continuing issues related to 1997. These estimates, in the ordinary course of business, change as a result of management actions and environmental changes.

During the last quarter of 1997 and the first two quarters of 1998, we took a number of actions to help restore customer confidence regarding the ongoing viability of Informix. These actions included: (i) generating a total of $63.3 million in proceeds from an offering of Series B Preferred Stock and the exercise of warrants related to outstanding Series A-1 Preferred Stock and increasing the balance of cash, cash equivalents and short term investments; (ii) visits to key customers by senior management to reinforce our customers' confidence in us; (iii) signing significant new contracts with existing customers and winning new customers in a variety of application areas including data warehousing and Web/content management; (iv) demonstrating continued ability to generate a meaningful revenue stream; (v) decreasing employee turnover and increasing the ability to attract new employees and senior management talent; and (vi) introducing significant new products and increasing research and development funding. All of these factors contributed to customers honoring their financial obligations to Informix, while reducing the probability of product return and collections problems.

Additionally, during the first two quarters of 1998, the following actions were taken and improvements made in the quality of our accounts receivable balances. The actions taken included: (i) centralizing European credit and collections for most countries and outsourcing this function to a professional credit and collections firm; (ii) improving our Europe region's accounts receivable aging from a balance of $8.5 million outstanding greater than 90 days as of December 31, 1997 to a balance of $3.9 million outstanding greater than 90 days as of June 30, 1998; and (iii) refining our methodology for estimating general uncollectible accounts receivable over and above specific accounts receivable reserves.

The improvement in both our financial condition and the credit and collections processes which resulted from our actions led to a decrease of risk such that reserves for product return and bad debts were reduced by $1.7 million and $5.0 million in the first and second quarters of 1998, respectively.

We believe the actions taken by management improved our operating environment and helped restore customer confidence in our company and its products.

As of December 31, 1997, our accrued liabilities included accruals for certain claims against us. During the first quarter of 1998, our lawyers determined that there was no merit to a specific claim for which we had recorded a liability of $1.9 million. Accordingly, we reversed this $1.9 million accrual during the first quarter of 1998. In addition, we reduced an accrued liability related to another specific claim by $2.0 million and $0.8 million during the second and third quarters of 1998, respectively, based on a legal opinion and a settlement offer.

We recorded restructuring charges of $59.6 million and $49.7 million in the second and third quarters of 1997, respectively. The total restructuring expense decreased by $1.2 million during the fourth quarter of 1997 primarily due to adjusting the original estimate of the loss incurred on the sale of land to the actual loss. We recorded restructuring-related adjustments to decrease restructuring expense by $3.3 million, $1.4 million, $2.6 million and $3.0 million in the first, second, third, and fourth quarters of 1998, respectively, and $0.6 million during the first quarter of 1999 primarily due to adjusting the estimated severance and facility charges to actual costs incurred.

In the first quarter of 1997, we recorded a charge of $30.5 million to write down the carrying values of certain of our Japanese subsidiary's long-lived assets to their fair values. During the same quarter, we also recorded a charge of $14.7 million to write down the carrying value of capitalized software development costs for certain products to their net realizable values. In connection with our acquisition of Red Brick in December 1998, we recorded a charge to operations in the fourth quarter of 1998 of $2.6 million for in-process research and development which had not yet reached technological feasibility and had no alternative future uses. In connection with our acquisition of Cloudscape in October 1999, we recorded a charge of $2.8 million to operations in the fourth quarter of 1999 for merger costs.

During the second quarter of 1999, we incurred a charge of $97.0 million in connection with our entering into a memorandum of understanding regarding the settlement of the private securities and related litigation against us.

Liquidity and Capital Resources

IN MILLIONS

AS OF OR FOR THE YEAR ENDED DECEMBER 31,	1999	1998	1997
Cash, cash equivalents and short-term investments	$229.1	$226.6	$ 157.6
Working capital (deficit)	158.8	31.3	(138.8)
Cash and cash equivalents provided by (used in) operations	18.6	21.4	(147.7)
Cash and cash equivalents used for investment activities	(81.3)	(60.2)	(63.5)
Cash and cash equivalents provided by financing activities	21.1	66.6	119.7

Operating Cash Flows. We generated positive cash flows from operations totaling $18.6 million for 1999 primarily from improved operating profitability and a reduction in cash outflows for accounts payable and accrued liabilities offset by an increase in the amount of license revenue recognized from customer advances and an increase in the effect of changes in current assets and deferred maintenance revenue on operating cash flows.

Investing Cash Flows. Net cash and cash equivalents used for investing activities increased by approximately $21.1 million for 1999 when compared to 1998. This increase was due primarily to a net increase of approximately $21.2 million in our investment in available-for-sale securities of excess cash generated from operating income during 1999. Other significant changes in investing activities during 1999 when compared to 1998 include a $7.0 million decrease in purchases of strategic investments, an increase in proceeds from the sale of strategic investments of $4.3 million, an increase in capital expenditures of $4.0 million and an increase in the capitalization of software development costs of $4.0 million.

Financing Cash Flows. Net cash and cash equivalents provided by financing activities during 1999 consisted primarily of proceeds from the sale of our common stock and advances from customers and financial institutions offset by principal payments on capital leases and payments for structured settlements with resellers. The $45.5 million decrease in cash and cash equivalents provided by financing activities during 1999 when compared to 1998 was due primarily to net proceeds of $32.9 million received by us during 1998 from the issuance of 140,000 additional shares of our series A-1 preferred stock at $250 per share and net proceeds of approximately $10.0 million received during 1998 from the issuance of convertible preferred stock by Cloudscape, which was subsequently converted into common stock prior to the Cloudscape Merger.

Summary. We believe that our current cash, cash equivalents and short-term investments balances and cash flows from operations will be sufficient to meet our working capital requirements for at least the next 12 months.

Disclosures About Market Rate Risk

Market Rate Risk. The following discussion about our market rate risk involves forward-looking statements. Actual results could differ materially from those projected in the forward-looking statements. We are exposed to market risk related to changes in interest rates, foreign currency exchange rates and equity security price risk. We do not use derivative financial instruments for speculative or trading purposes.

Interest Rate Risk. Our exposure to market rate risk for changes in interest rates relates primarily to our investment portfolio. We maintain a short-term investment portfolio consisting mainly of debt securities with an average maturity of less than two years. We do not use derivative financial instruments in our investment portfolio and we place our investments with high quality issuers and, by policy, limit the amount of credit exposure to any one issuer. We are averse to principal loss and ensure the safety and preservation of our invested funds by limiting default, market and reinvestment risk. These available-for-sale securities are subject to interest rate risk and will fall in value if market interest rates increase. If market interest rates were to increase immediately and uniformly by 10% from levels at December 31, 1999 and 1998, the fair value of the portfolio would decline by an immaterial amount. We have the ability to hold our fixed income investments until maturity and believe that the effect, if any, of reasonably possible near-term changes in interest rates on our financial position, results of operations and cash flows would not be material.

Equity Security Price Risk. We hold a small portfolio of marketable-equity traded securities that are subject to market price volatility. Equity price fluctuations of plus or minus 10% would have had a $1.3 million and $1.0 million impact on the value of these securities in 1999 and 1998, respectively.

Foreign Currency Exchange Rate Risk. We enter into foreign currency forward exchange contracts to reduce our exposure to foreign currency risk due to fluctuations in exchange rates underlying the value of intercompany accounts receivable and payable denominated in foreign currencies (primarily European and Asian currencies) until such receivables are collected and payables are disbursed. A foreign currency forward exchange contract obligates us to exchange predetermined amounts of specified foreign currencies at specified exchange rates on specified dates or to make an equivalent U.S. dollar payment equal to the value of such exchange. These foreign exchange forward contracts are denominated in the same currency in which the underlying foreign receivables or payables are denominated and bear a contract value and maturity date which approximate the value and expected settlement date of the underlying transactions. For contracts that are designated and effective as hedges, discounts or premiums (the difference between the spot exchange rate and the forward exchange rate at inception of the contract) are accreted or amortized to other expenses over the contract lives using the straight-line method while unrealized gains and losses on open contracts at the end of each accounting period resulting from changes in the spot exchange rate are recognized in earnings in the same period as gains and losses on the underlying foreign currency denominated receivables or payables are recognized, and generally offset.

We operate in certain countries in Latin America, Eastern Europe, and Asia/Pacific where there are limited forward foreign currency exchange markets and thus we have unhedged exposures in these currencies.

Most of our international revenue and expenses are denominated in local currencies. Due to the substantial volatility of currency exchange rates, among other factors, we cannot predict the effect of exchange rate fluctuations on our future operating results. Although we take into account changes in exchange rates over time in our pricing strategy, we do so only on an annual basis, resulting in substantial pricing exposure as a result of foreign exchange volatility during the period between annual pricing reviews. In addition, the sales cycle for our products is relatively long, depending on a number of factors including the level of competition and the size of the transaction. We periodically assess market conditions and occasionally reduce this exposure by entering into foreign currency forward exchange contracts to hedge up to 80% of the forecasted net income of our foreign subsidiaries of up to one year in the future. These forward foreign currency exchange contracts do not qualify as hedges for financial reporting purposes and, therefore, are marked to market. Notwithstanding our efforts to manage foreign exchange risk, there can be no assurances that our hedging activities will adequately protect us against the risks associated with foreign currency fluctuations.

The table below provides information about our foreign currency forward exchange contracts. The information is provided in U.S. dollar equivalents and presents the notional amount (contract amount), the weighted average contractual foreign currency exchange rates and fair value. Fair value represents the difference in value of the contracts at the spot rate at December 31, 1999 and the forward rate, plus the unamortized premium or discount. All contracts mature within twelve months.

Forward Contracts

DOLLARS IN THOUSANDS

AT DECEMBER 31, 1999	CONTRACT AMOUNT	WEIGHTED AVERAGE CONTRACT RATE	FAIR VALUE
Forward currency to be sold under contract:			
Euro	$33,352	1.0125	$198
Korean Won	5,314	1148	(23)
Czech Koruna	2,620	36.83	1
Singapore Dollar	1,814	1.654	13
Thai Bhat	1,852	37.80	(12)
Australian Dollar	1,615	1.5477	(1)
Other (individually less than $1 million)	3,548	*	(35)
Total	$50,115		$141
Forward currency to be purchased under contract:			
British Pound	$33,623	1.6175	$ (37)
Japanese Yen	2,484	100.64	(36)
Other (individually less than $1 million)	814	*	(5)
Total	$36,921		$ (78)
Grand Total	$87,036		$ 63

*Not meaningful

Year 2000 Compliance

General. Many computer systems and software products were originally coded to accept only two-digit entries in the date code field. These date code fields need to accept four-digit entries to distinguish 21st century dates from 20th century dates. As a result, computer systems and/or software used by many companies needed to be upgraded to comply with Year 2000 requirements prior to January 1, 2000. Prior to January 1, 2000, significant uncertainties existed in the software industry concerning the potential effects associated with such compliance. Now that January 1, 2000 has come and gone with very few significant reported Year 2000-related incidents, the level of uncertainty surrounding such incidents has diminished.

Our original Year 2000 compliance efforts included:

- Reviewing and updating the Year 2000 compliance status of the software and systems used in our internal business processes
- Obtaining appropriate assurances of compliance from the manufacturers of these products and agreements, as necessary, to modify or replace all non-compliant products

This program was substantially completed by December 31, 1999.

In addition, we converted certain of our software and systems to commercial products from third parties that were known to be Year 2000 compliant. This conversion required:

- The dedication of substantial time from our administrative and management information personnel
- The assistance of consulting personnel from third party software vendors
- The training of our personnel using such systems

Based on the information available to date, we believe that we were able to complete our Year 2000 compliance review and make necessary modifications prior to the end of 1999. To the extent that we will continue to rely on the products of other vendors to resolve Year 2000 issues, there can be no guarantee that we will not experience delays in implementing such products. We could incur substantial costs and disruption of our business if key systems, or a significant number of systems, were to fail as a result of Year 2000 problems or if we were to experience delays in implementing Year 2000 compliant software products.

State of Readiness. Our Year 2000 project was divided into four major sections:

- Product Readiness
- Information Systems Operations & Applications Software (IS Systems)
- Third-party Suppliers
- Global Business Processes (includes Facilities, Legal, Manufacturing, Technical Support, Sales, Product Management and Development, Marketing and Finance)

There were five general phases of our Year 2000 Project applicable to each of the four sections:

- *Awareness Phase.* Increasing employee awareness through various forms of communication
- *Mission Critical Inventory Phase.* Taking an inventory of mission critical items relevant to Year 2000 (including computer hardware, software, telecommunications equipment, embedded controllers within our facilities, and other non-computer related equipment), assigning priorities to identified items for assessment and possible renovation, and assessing the status of Year 2000 compliance of items which we have determined to be material to our business
- *Repair or Replace Phase.* Repairing or replacing material items that are not Year 2000 compliant. Material items are those items that we believe have a significant negative impact on customer service, involve a risk to the safety of individuals, may cause damage to property or the environment, or may significantly affect revenue
- *Update Testing Phase.* Testing of updates given by third party suppliers
- *Business Contingency Phase.* Designing and implementing contingency plans for each internal organization and critical location during the Year 2000 rollover period

As of December 31, 1999 we had substantially completed all of the phases for each of the four sections of the project.

Product Readiness. All of our currently supported products are Year 2000 compliant, meaning that the use or occurrence of dates on or after January 1, 2000 will not adversely affect the performance or functionality of our products with respect to four-digit year dates or the ability of our products to correctly create, store, process, and output information related to such date data, including Leap Year calculations. However, Year 2000 compliance of our products may be affected by other parts of the system in which they are being used, as discussed below.

Our products often depend on data from other parts of the system in which they are being used. Year 2000 compliance is not effective unless all of the hardware, operating system, other software, and firmware being used along with our products correctly interpret and/or translate date data into a four-digit year date and properly exchange date data with our products.

We have tested our currently supported products under different Year 2000 test scenarios. We will continue to improve our testing efforts with each new release of our software products. From time to time, our Year 2000 Program Office has updated the history table of each product family when a Year 2000 or DBCENTURY-related product deficiency was found and fixed in a certain interim or maintenance release. We have made Year 2000 testing scenarios part of our standard test suite.

Our Year 2000 Program Office finished incorporating the Red Brick product compliance information and plans into our Year 2000 Program Plan during the first quarter of 1999. Informix did not experience any Year 2000 related issues with Cloudscape products or facilities.

IS Systems.

- *IS Operations Systems.* Our IS operations systems consist of all computer hardware, systems software and telecommunications. Our current hardware inventory includes PC Desktops, PC Laptops, UNIX servers, UNIX workstations, and NT workgroup servers. Our current software inventory includes Windows 95 operating system and MS Office products, Product Development environment tools for UNIX, and various management systems. Our telecommunications equipment includes both voice and data services, including PBX systems, voicemail, ACD, video conferencing, local area networks, wide area networks, and remote access equipment. We completed remediation of all mission critical IS Operations components by the end of December 1999. Non-critical systems were also made Year 2000 compliant by November 1999. Testing was ongoing as hardware or system software was renovated or replaced, although the level of testing was significantly limited by our technical ability to emulate our complex systems and networks and cost/benefit considerations. We began contingency planning in December 1998, completed draft contingency plans by September 1999 and continued to refine and rehearse through the end of December 1999.
- *IS Applications Systems.* Our IS applications systems consist of all enterprise-wide applications either supplied by third-party vendors or internally-developed. We completed our remediation efforts of all mission critical IS applications by the end of March 1999. We made all important and non-important IS applications systems Year 2000 compliant by the end of December 1999. None of our other information technology projects have been delayed due to the implementation of the Year 2000 project.

Third-Party Suppliers. We identified and prioritized critical suppliers and communicated with them about our plans and progress in addressing the Year 2000 problem and how their individual compliance could impact our success. We completed detailed evaluations of most critical suppliers. These evaluations were followed by the development and implementation of contingency plans where appropriate, which began, in certain departments, in the fourth quarter of 1998 and drafted by the end of September 1999. Follow-up reviews with each of our critical suppliers were completed by the end of December 1999 in order to ascertain alternative communication channels and emergency procedures in the event of widespread outages.

Global Business Processes. We have completed the assessment of the hardware, software and associated embedded computer chips that are used in the operation of all of our critical facilities. All repair and testing of embedded systems within our critical facilities was completed by the end of December 1999. We have also completed the preparation in our key business areas, including Finance, Product Development and Legal. Customer Service completed their Support Plans for the Year 2000 Rollover Weekend, and documented their offerings on the Informix Year 2000 Web Site. We began contingency planning for these organizations and their respective critical business processes in the first quarter of 1999, and were completed with such planning, testing and training by December 1999.

Costs. The total cost associated with required modifications to become Year 2000 compliant is not expected to be material to our financial position. The estimated total cost of the Year 2000 project is approximately $3.0 million. The total amount expended on the project through December 31, 1999 was approximately $2.5 million. The estimated future cost of completing the Year 2000 project is estimated to be approximately $0.5 million.

Our Year 2000 Project is expected to significantly reduce our level of uncertainty about the Year 2000 problem and, in particular, about the Year 2000 compliance and readiness of our material third-party suppliers. We believe that the possibility of significant interruptions of normal operations has been reduced with the implementation of new business systems and the completion of the project as scheduled. However, although the rollover from 1999 to 2000 has passed, many software industry experts believe that there is still reason to expect the occurrence of the Year 2000-related incidents of some kind or other.

To date, we have not experienced any disruption of our business or key systems as a result of Year 2000 problems. Similarly, we have not been informed of any Year 2000 problems encountered by our customers relating to their use of our software products. It is possible, however, that Informix or its customers may encounter Year 2000 problems at a later time. If such problems were to arise, we could incur substantial costs or the interruption in or a failure of certain normal business activities or operations, which could hurt our business. If our customers experience Year 2000 related problems as a result of their use of our software products, then those customers could assert claims for damages which, if successful, could result in significant costs, damage our operations or adversely affect our ability to sell our products.

European Monetary Conversion

On January 1, 1999, eleven of the fifteen member countries of the European Economic Community entered into a three-year transition phase during which a common currency, the "Euro," was introduced. Between January 1, 1999 and January 1, 2002, governments, companies and individuals may conduct business in these countries in both the Euro and existing national currencies. On January 1, 2002, the Euro will become the sole currency in these countries.

During the transition phase, we will continue to evaluate the impact of conversion to the Euro on our business. In particular, we are reviewing:

- Whether our internal software systems can process transactions denominated either in current national currencies or in the Euro, including converting currencies using computation methods specified by the European Economic Community
- The cost to us if we must modify or replace any of our internal software systems
- Whether we will have to change the terms of any financial instruments in connection with our hedging activities

Based on current information and our initial evaluation, we do not expect the cost of any necessary corrective action to have a material adverse effect on our business. We have reviewed the effect of the conversion to the Euro on the prices of our products in the affected countries. As a result, we have made some adjustments to our prices to attempt to eliminate differentials that were identified. However, we will continue to evaluate the impact of these and other possible effects of the conversion to the Euro on our business. We cannot guarantee that the costs associated with conversion to the Euro or price adjustments will not in the future have a material adverse effect on our business.

Recent Accounting Pronouncements

In June 1998, the Financial Accounting Standards Board issued Statement No. 133 (SFAS 133), "Accounting for Derivative Instruments and Hedging Activities," which establishes standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. It requires an entity to recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value. SFAS 133 is effective for fiscal years beginning after

June 15, 2000. Earlier application of SFAS 133 is encouraged but should not be applied retroactively to financial statements of prior periods. The adoption of this statement is not expected to have a material impact on our operating results, financial position or cash flows.

In December 1998, the AICPA issued Statement of Position 98-9 ("SOP 98-9"), "Modification of SOP 97-2, Software Revenue Recognition with Respect to Certain Transactions." This amendment clarified the specification of what was considered vendor specific objective evidence of fair value for the various elements in a multiple element arrangement. SOP 98-9 is effective for all transactions entered into by us beginning in fiscal year 2000. The adoption of this statement is not expected to have a material impact on our operating results, financial position or cash flows.

Recent Developments

On February 3, 2000, International Business Machines Corporation ("IBM") filed an action against us in the United States District Court for the District of Delaware alleging infringement of six United States patents owned by IBM. The Informix products that IBM alleges infringe its patents are Informix Online Dynamic Server versions 5, 6 and 7, Informix SE version 6, Informix NewEra version 1, Informix NET, Informix STAR, Illustra Visual Information Retrieval, and Illustra Visual Intelligence Viewer. In its complaint, IBM seeks a permanent injunction against further alleged infringement, unspecified compensatory damages, unspecified treble damages, and interest, costs and attorneys' fees. We strongly believe that the allegations in the complaint are without merit and intend to defend the action vigorously and to assert such counterclaims against IBM as may be appropriate.

FACTORS THAT MAY AFFECT FUTURE RESULTS

Current and potential stockholders should consider carefully each of the following factors in making their investment decisions. These factors should be considered together with the other information included or incorporated by reference in this annual report on Form 10-K.

Risk Factors

Our quarterly operating results are subject to fluctuations caused by many factors, which could result in our failing to achieve revenue or profitability expectations.

Our quarterly and annual results of operations have varied significantly in the past and are likely to continue to vary in the future due to a number of factors described below and elsewhere in this "Management's Discussion and Analysis of Financial Conditions and Results of Operations" section, many of which are beyond our control. Any one or more of the factors listed below or other factors could cause us to fail to achieve our revenue or profitability expectations. In particular, the failure to meet market expectations could cause a sharp drop in our stock price. These factors include:

- Changes in demand for our products and services, including changes in industry growth rates,
- The size, timing and contractual terms of large orders for our software products,
- Adjustments of delivery schedules to accommodate customer or regulatory requirements,
- The budgeting cycles of our customers and potential customers,
- Any downturn in our customers' businesses, in the domestic economy or in international economies where our customers do substantial business,
- Changes in our pricing policies resulting from competitive pressures, such as aggressive price discounting by our competitors or other factors,
- Our ability to develop and introduce on a timely basis new or enhanced versions of our products and solutions,
- Changes in the mix of revenues attributable to domestic and international sales, and
- Seasonal buying patterns which tend to peak in the fourth quarter.

Intense competition could adversely affect our ability to sell our products or grow our business.

We may not be able to compete successfully against current and/or future competitors and such inability could impair our ability to sell our products. The market for our products is highly competitive, diverse and is subject to rapid change. Moreover, we expect that the technology for database products generally, and, in particular, the technology underlying database solutions and products for the Internet and datawarehousing products, will continue to change rapidly. For example, as customers embrace the Internet, we need to develop and enhance our software solutions to support Internet applications. It is possible that our products will be rendered obsolete by technological advances.

We currently face competition from a number of sources, including several large vendors that develop and market databases, applications, development tools, decision support products, consulting services and/or complete database-driven solutions for the Internet. Our principal competitors include Computer Associates, IBM, Microsoft, NCR/Teradata, Oracle and Sybase. Additionally, as we expand our business in the markets of datawarehousing and Web/e-commerce, we expect to compete with a different group of companies, including small, highly-focused companies offering single products or services that we include as part of an overall solution. A number of our competitors have significantly greater financial, technical, marketing and other resources than we have. As a result, these competitors may be able to respond more quickly to new or emerging technologies, evolving markets and changes in customer requirements or to devote greater resources to the development, promotion and sale of their products than we can.

Competition may affect the pricing of our products or services, and changes in product mix may occur, either of which may reduce our margins.

Existing and future competition or changes in our product or service pricing structure or product or service offerings could result in an immediate reduction in the prices of our products or services. Also, a significant change in the mix of software products and services that we sell, including the mix between higher margin software and maintenance products and lower margin consulting and training, could materially adversely affect our operating results for future quarters. Additionally, if significant price reductions in our products or services were to occur and not be offset by increases in sales volume, our operating margins would be adversely affected. For example, several of our competitors have announced the development of enhanced versions of their principal database products that are intended to improve the performance or expand the capabilities of their existing products. New or enhanced products by existing competitors or new competitors could result in greater price pressure on both our products.

In addition, the following factors could affect the pricing of relational database management solutions products and related products:

- The industry movement to new operating systems, like Windows NT, Linux and other low-cost operating systems available through other appliances,
- Access to relational database management solutions products through low-end desktop computers,
- Access to database-driven solutions, including object-relational database management systems products, through the Internet,
- The bundling of software products for promotional purposes or as a long-term pricing strategy by competitors, and
- Our own practice of bundling our software products for enterprise licenses or for promotional purposes with our partners.

In particular, the pricing strategies of competitors in the software database industry have historically been characterized by aggressive price discounting to encourage volume purchasing by customers. We may not be able to compete effectively against competitors who continue to aggressively discount the prices of their products.

Our proposed acquisition of Ardent may not be approved by both companies' stockholders or, if the acquisition is approved, difficulties integrating Ardent may prevent us from realizing the benefits of the merger.

The completion of our proposed acquisition of Ardent is subject to approval by both companies' stockholders. If the stockholders of either company do not approve the proposed acquisition, it would disrupt our operational plans and could harm our future operating results. Even if we complete the proposed acquisition, we could encounter difficulties integrating Ardent's operations and personnel. Integration difficulties may disrupt the combined company's business and could prevent the achievement of the anticipated benefits of the merger. The difficulties, costs and delays involved in integrating the companies, which may be substantial, may include:

- Distracting management and other key personnel, particularly sales and marketing personnel and senior engineers involved in product development and product definition, from the business of the combined company,
- Inability to effectively market and distribute Ardent's products or develop Ardent technology so as to produce new or enhanced products that will be accepted in the marketplace,
- Perceived and potential adverse changes in business focus or product offerings,
- Failure to generate significant revenue from the sale of newly developed Ardent products,
- Failure to integrate complex software technology, product lines and software development plans,
- Potential incompatibility of business cultures,
- Costs and delays in implementing common systems and procedures, particularly integrating different information systems,
- Inability to retain and integrate key management, technical, sales and customer support personnel,
- Inability to maintain Ardent's existing relationships with its partners,
- Inability to maintain Ardent's existing customer base or replace the Ardent products used by those customers with Informix products, and
- Disruption in our sales force may result in a loss of current customers or the inability to close sales with potential customers.

In addition, if we complete the acquisition, we will incur substantial transactional and integration expenses of approximately $30 to $40 million associated with combining the operations of the two companies and the fees of financial advisors, attorneys and accountants. These expenses will prevent us from spending those amounts on other possibly more productive uses. Although we believe that the costs will not exceed this estimate, the estimate may be incorrect or unanticipated contingencies may occur that substantially increase the costs of combining Ardent's operations with our own.

If we do not respond adequately to our industry's evolving technology standards or do not continue to meet the sophisticated needs of our customers, sales of our products may decline.

Our future success will depend on our ability to address the increasingly sophisticated needs of our customers by supporting existing and emerging hardware, software, database and networking platforms. We will have to develop and introduce commercially viable enhancements to our existing products and solutions on a timely basis to keep pace with technological developments, evolving industry standards and changing customer requirements. If we do not enhance our products to meet these evolving needs, we will not sell as many products. Our position in existing, emerging or potential markets could be eroded rapidly by product advances.

Our product development efforts will continue to require substantial financial and operational investment. We may not have sufficient resources to make the necessary investment or to attract and retain qualified software development engineers. In addition, we may not be able to internally develop new products or solutions quickly enough to respond to market forces. As a result, we may have to acquire technology or access to products or solutions through mergers and acquisitions, investments and partnering arrangements. We may not have sufficient cash, access to funding, or available equity to engage in such transactions. Moreover, we may not be able to forge partnering arrangements or strategic alliances on satisfactory terms, or at all, with the companies of our choice.

We have experienced, and anticipate that we will continue to experience, turnover at our senior management levels, which could harm our business and operations.

In July 1999, we announced the appointment of Jean-Yves F. Dexmier as a member of the board of directors and president and chief executive officer, while Robert J. Finocchio resigned his position as president and chief executive officer. Mr. Finocchio continues to be actively involved in our management in his capacity as the chairman of the board. During the past nine months, several of our senior executive officers have resigned, including our (i) vice president and treasurer, (ii) vice president, human resources and (iii) vice president, web and e-commerce division, all three of whom have since been replaced, as well as the vice president, corporate controller, who resigned when we replaced the corporate controller position with two controller positions, both of which report directly to our chief financial officer. Also, our vice president, corporate marketing, resigned effective December 31, 1999 and our executive vice president and chief financial officer, Howard A. Bain III, resigned effective March 20, 2000. It is possible that this high turnover at our senior management levels will continue and that other senior executive officers could also resign.

Of our senior executive officers and key employees, only Robert J. Finocchio, chairman of the board, and the former president and chief executive officer, is bound by an employment agreement, the terms of which are nonetheless at-will. In addition, we do not maintain key man life insurance on our employees and have no plans to do so. The loss of the services of one or more of our current senior executive officers or key employees could harm our business and could affect our ability to successfully implement our business objectives. Our future success will depend to a significant extent on the continued service of our current senior executives. If we were to lose the services of one or more of our current senior executives or key employees, this could adversely affect our ability to grow our business and achieve our business objectives, particularly if one or more of those executives or key employees decided to join a competitor or otherwise compete directly or indirectly with Informix.

Our executive team may not be able to successfully work together to meet its business objectives.

Since the beginning of 1998, we have expanded our ability to deliver products and solutions for the Internet, including e-commerce solutions, and business intelligence solutions driven by our datawarehouse technology. Our management team has not worked together for a significant length of time and may not be able to successfully implement this strategy. If the management team is unable to accomplish our business objectives, it could materially adversely affect our ability to grow our business. As noted above, Mr. Dexmier was appointed as the president and chief executive officer in July 1999. In addition, two new executive officers, the vice president and treasurer and the vice president, i.Intelligence Business Group, joined Informix in July 1999 and the vice president, human resources, joined Informix in October 1999. Almost all of Informix's other executive officers have joined the company since the beginning of fiscal 1998.

We may not be able to retain our key personnel or, if we complete the acquisition of Ardent, to integrate and retain Ardent's key personnel, which may prevent us from meeting our business objectives.

We may not be able to retain our key personnel, including certain sales, consulting, technical and marketing personnel, or attract other qualified personnel in the future. In addition, if we complete the acquisition of Ardent we may not be able to retain Ardent's key personnel, including its current management. Our success depends upon the continued service of key qualified personnel. The competition to attract, retain and motivate these personnel is intense. We have at times experienced, and continue to experience, difficulty recruiting qualified software, customer support and other personnel. The loss of such key personnel could result in our inability to effectively develop, market and sell our products thereby harming our financial results.

Any cancellations or delays in planned customer purchases of our products or services could materially adversely affect our net income and could substantially reduce quarterly revenues.

Because we do not know when, or if, potential customers will place orders and finalize contracts, we cannot accurately predict revenue and operating results for future quarters. If there is a downturn in potential customers' businesses, the domestic economy in general, or in international economies where we derive substantial revenue, potential customers may defer or cancel planned purchases of our products. Because we base operating expenses on anticipated revenue levels and because a high percentage of our expenses are relatively fixed, delays in the recognition of revenues from even a limited number of product license transactions could cause significant variations in operating results from quarter to quarter, which could cause net income to fall significantly short of anticipated levels.

If a large number of the orders that are typically booked at the end of a quarter are not booked, our net income for that quarter could be substantially reduced.

Our software license revenue in any quarter often depends on orders booked and shipped in the last month, weeks or days of that quarter. At the end of each quarter, we typically have either minimal or no backlog of orders for the subsequent quarter. If a large number of orders or several large orders do not occur or are deferred, revenue in that quarter could be substantially reduced.

Seasonal trends in sales of our software products could adversely affect our quarterly operating results.

Our sales of software products have been affected by seasonal purchasing trends that materially affect our quarter-to-quarter operating results. We expect these seasonal trends to continue in the future. Revenue and operating results in our quarter ending December 31 are typically higher relative to other quarters because many customers make purchase decisions based on their calendar year-end budgeting requirements and because we measure our sales incentive plans for sales personnel on a calendar year basis. As a result, we have historically experienced a substantial decline in revenue in the first quarter of each fiscal year relative to the preceding quarter.

The lengthy sales cycle for products makes revenues susceptible to fluctuations.

Any delay in the sales cycle of a large transaction or a number of smaller transactions could result in significant fluctuations in our quarterly operating results. Our sales cycles typically take many months to complete and vary depending on the product, service or solution that is being sold. The length of the sales cycle may vary depending on a number of factors over which we have little or no control, including the size of a potential transaction and the level of competition that we encounter in our selling activities. The sales cycle can be further extended for sales made through third party distributors.

Our future revenue and our ability to make investments in developing our products is substantially dependent upon our installed customer base continuing to license our products and renew our service agreements.

We depend on our installed customer base for future revenue from services and licenses of additional products. If our customers fail to renew their maintenance agreements, our revenue will be harmed. The maintenance agreements are generally renewable annually at the option of the customers and there are no minimum payment obligations or obligations to license additional software. Therefore, current customers may not necessarily generate significant maintenance revenue in future periods. In addition, customers may not necessarily purchase additional products or services. Our services revenue and maintenance revenue also depend upon the continued use of these services by our installed customer base. Any downturn in software license revenue could result in lower services revenue in future quarters. Moreover, if either license revenue or revenue from services declines, we may not have sufficient cash to finance investments or acquire technology.

The success of our international operations is dependent upon many factors which could adversely affect our ability to sell our products internationally and could affect our profitability.

International sales represented approximately 51% of our total revenue during the year ended December 31, 1999. The international operations are, and any expanded international operations will be, subject to a variety of risks associated with conducting business internationally that could adversely affect our ability to sell our products internationally, and therefore, our profitability, including the following:

- Difficulties in staffing and managing international operations,
- Problems in collecting accounts receivable,
- Longer payment cycles,
- Fluctuations in currency exchange rates,
- Seasonal reductions in business activity during the summer months in Europe and certain other parts of the world,
- Uncertainties relative to regional, political and economic circumstances,
- Recessionary environments in foreign economies, and
- Increases in tariffs, duties, price controls or other restrictions on foreign currencies or trade barriers imposed by foreign countries.

In particular, instability in the Asian/Pacific and Latin American economies and financial markets, which together accounted for approximately 19% of our total net revenues during the year ended December 31, 1999, could adversely affect our ability to sell our products internationally.

Fluctuations in the value of foreign currencies could result in currency transaction losses.

Despite efforts to manage foreign exchange risk, our hedging activities may not adequately protect us against the risks associated with foreign currency fluctuations. As a consequence, we may incur losses in connection with fluctuations in foreign currency exchange rates. Most of our international revenue and expenses are denominated in local currencies. Due to the substantial volatility of currency exchange rates, among other factors, it is not possible to predict the effect of exchange rate fluctuations on our future operating results. Although we take into account changes in exchange rates over time in our pricing strategy, we do so only on an annual basis, resulting in substantial pricing exposure as a result of foreign exchange volatility during the period between annual pricing reviews.

In addition, as noted previously, the sales cycles for our products is relatively long. Foreign currency fluctuations could, therefore, result in substantial changes in the financial impact of a specific transaction between the time of initial customer contact and revenue recognition. In addition to the hedging program, we have implemented a foreign exchange hedging program consisting principally of the purchase of forward foreign exchange contracts in the primary European and Asian currencies. This program is intended to hedge the value of intercompany accounts receivable or intercompany accounts payable denominated in foreign currencies against fluctuations in exchange rates until such receivables are collected or payables are disbursed. Additionally, uncertainties related to the Euro conversion could adversely affect our hedging activities.

If the Internet does not continue to develop as we anticipate, or if our product offerings are not accepted in this market, we may not be able to grow our business.

The Internet is a rapidly evolving market. We are unable to predict whether and to what extent Internet computing and electronic commerce will be embraced by consumers and traditional businesses. Our successful introduction of database-driven products and solutions for the Internet market will depend in large measure on:

- The commitment by hardware and software vendors to manufacture, promote and distribute Internet access appliances,
- The lower cost of ownership of Internet computing relative to client/server architecture, and
- The ease of use and administration relative to client/server architecture.

In addition, if a sufficient number of vendors do not undertake a commitment to the market, the market may not accept Internet computing or Internet computing may not generate significant revenues for our business. Also, standards for network protocols, as well as other industry-adopted and de facto standards for the Internet, are evolving rapidly. There can be no assurance that standards we have chosen will position our products to compete effectively for business opportunities as they arise on the Internet. The widespread acceptance and adoption of the Internet by traditional businesses for conducting business and exchanging information is likely only if the Internet provides these businesses with greater efficiencies and improvements. The failure of the Internet to continue to develop as a commercial or business medium could materially adversely affect our business. Even if the Internet and electronic commerce are widely accepted and adopted by consumers and businesses, our database products and database-driven solutions for the Internet may not succeed. We recently announced our intention to focus a substantial part of our product development and sales efforts on developing and selling technology and services for the Internet market. This market is new to our product development, marketing and sales organizations. We may not be able to market and sell products and solutions in this market successfully. In addition, our database products and database-driven solutions for the Internet may not compete effectively with our competitors' products and solutions. Further, we may not generate significant revenue and/or margin in this market. Any of these events could materially adversely affect our business, operating results and financial condition.

If the data warehouse market does not continue to grow, or if our product offerings in this market are not accepted, we may not be able to sell our products or grow our business.

The data warehouse market may not continue to grow, or may not grow rapidly, and our customers may not expand their use of data warehouse products. In addition, we may not be able to market and sell our products and solutions in this market or otherwise compete effectively and generate significant revenue. Although demand for data warehouse software has grown in recent years, the market is still emerging. Our future financial performance in this area will depend to a large extent on:

- Continued growth in the number of organizations adopting data warehouses,
- Our success in developing partnering arrangements with developers of software tools and applications for the data warehouse market, and
- Existing customers expanding their use of data warehouses.

Recent organizational changes could disrupt our business operations and could adversely affect the sales of our products.

On October 1, 1999, we reorganized our operating business divisions into four new business groups: the TransAct Business Group, which is responsible for delivering on-line transaction processing products; the i.Foundation Business Group, which is responsible for delivering products that provide the technological foundation for Internet-based electronic commerce solutions; the i.Informix Business Group, which is responsible for delivering Internet-based solutions for electronic commerce; and the i.Intelligence Business Group, which is responsible for delivering Internet-based data warehouse products and solutions. We may not achieve the anticipated benefits of this reorganization. In addition, the reorganization could disrupt our current business operations, including our product development and sales efforts. Further, any such disruption or other operational difficulty encountered while implementing the organization could distract our management team and cause uncertainty and confusion among our customers.

If we fail to protect our intellectual property rights, competitors may be able to use our technology or trademarks and this would weaken our competitive position, reduce our revenue and increase costs.

Our success will continue to be heavily dependent upon proprietary technology. We rely primarily on a combination of patent, copyright and trademark laws, trade secrets, confidentiality procedures and contractual provisions to protect our proprietary rights. These means of protecting proprietary rights may not be adequate, and the inability to protect intellectual property rights may adversely affect our business and/or financial condition. We currently hold eight United States patents and several pending applications. There can be no assurance that any other patents covering our inventions will be issued or that any patent, if issued, will provide sufficiently broad protection or will prove enforceable in actions against alleged infringers. Our ability to sell our products and prevent competitors from misappropriating our proprietary technology and trade names is dependent upon protecting our intellectual property. Our products are generally licensed to end-users on a "right-to-use" basis under a license that restricts the use of the products for the customer's internal business purposes. We also rely on "shrink-wrap" and "click-wrap" licenses, which include a notice informing the end-user that by opening the product packaging, or in the case of a click-on license by clicking on an acceptance icon and downloading the product, the end-user agrees to be bound by the license agreement. Despite such precautions, it may be possible for unauthorized third parties to copy aspects of our current or future products or to obtain and use information that is regarded as proprietary. In addition, we have licensed the source code of our products to certain customers under certain circumstances and for restricted uses. In addition, we have also entered into source code escrow agreements with a number of our customers that generally require release of source code to the customer in the event the company enters bankruptcy or liquidation proceedings or otherwise ceases to conduct business. We may also be unable to protect our technology because:

- Competitors may independently develop similar or superior technology,
- Policing unauthorized use of software is difficult,
- The laws of some foreign countries do not protect proprietary rights in software to the same extent as do the laws of the United States,
- "Shrink-wrap" and/or "click-wrap" licenses may be wholly or partially unenforceable under the laws of certain jurisdictions, and
- Litigation to enforce intellectual property rights, to protect trade secrets, or to determine the validity and scope of the proprietary rights of others could result in substantial costs and diversion of resources.

In the future, third parties could, for competitive or other reasons, assert that our products infringe their intellectual property rights.

As discussed above under "Recent Developments," IBM recently filed a lawsuit against us claiming that some of our products infringe certain of IBM's patents ("IBM claim"). Other third parties may claim that our current or future products infringe their proprietary rights. These claims, with or without merit, could harm our business by increasing costs and by adversely affecting our ability to sell our products. Any claim of this type, including the IBM claim, could affect our relationships with our existing customers and prevent future customers from licensing our products. Any such claim, including the IBM claim, with or without merit, could be time consuming to defend, result in costly litigation, cause product shipment delays or require us to enter into royalty or licensing agreements. Royalty or license agreements may not be available on acceptable terms or at all. It is expected that software product developers will increasingly be subject to infringement claims as the number of products and competitors in the software industry segment grows and the functionality of products in different industry segments overlaps.

Errors in our products or the failure of products to conform to customer specifications or expectations could result in our customers demanding refunds from us, asserting claims for damages or limiting sales of products.

Because our software products are complex, they often contain errors or "bugs" that can be detected at any point in a product's life cycle. While we continually test our products for errors and work with customers through our customer support services to identify and correct bugs in our software, it is expected that product errors will continue to be found in the future. Although many of these errors may prove to be immaterial, some could be significant. Detection of any significant errors may result in, among other things, loss of, or delay in, market acceptance and sales of our products, diversion of development resources, injury to our reputation, or increased service and warranty costs.

The failure of our products to conform to customer specifications or expectations could result in decreased sales of our products.

A key determinative factor in future success will continue to be the ability of our products to operate and perform well with existing and future leading, industry-standard application software products intended to be used in connection with relational and object-relational database management system products. Failure to meet in a timely manner existing or future interoperability and performance requirements of certain independent vendors could adversely affect the market for our products. Commercial acceptance of our products and services could also be adversely affected by critical or negative statements or reports by brokerage firms, industry and financial analysts and industry periodicals about Informix, its products or business, or by the advertising or marketing efforts of competitors, or by other factors that could adversely affect consumer perception.

Potential Year 2000 problems may occur which could result in significant costs to Informix.

To date, we have not experienced any disruption of our business or key systems as a result of Year 2000 problems. Similarly, we have not been informed of any Year 2000 problems encountered by our customers relating to their use of our software products. It is possible, however, that Informix or its customers may encounter Year 2000 problems at a later time. If such problems were to arise, we could incur substantial costs or the interruption in or a failure of certain normal business activities or operations, which could hurt our business. If our customers experience Year 2000 related problems as a result of their use of our software products, then those customers could assert claims for damages which, if successful, could result in significant costs, damage our operations or adversely affect our ability to sell our products.

If the RDBMS and ORDBMS markets do not grow as quickly as we anticipate, we may sell fewer products.

If the growth rates for the relational and object-relational database management systems, or RDBMS or ORDBMS, respectively, decline for any reason, there will be less demand for our products, which would have a negative impact on our business and financial results. The future growth rate of the RDBMS market cannot be predicted.

Delays in market acceptance of our ORDBMS products could result in fewer product sales. In recent years, the types and quantities of data required to be stored and managed has grown increasingly complex and includes, in addition to conventional character data, audio, video, text and three-dimensional graphics in a high-performance scalable environment. Since 1996, we have invested substantial resources in developing our ORDBMS product line. The market for ORDBMS products is new and evolving, and its growth depends upon a growing need to store and manage complex data and upon broader market acceptance of our products as a solution for this need. Organizations may not choose to make the transition from conventional RDBMS products to ORDBMS products.

Our inability to rely on the statutory "safe harbor" as a result of the settlement of the SEC investigation could harm our business.

In July 1997, the SEC issued a formal order of private investigation of Informix and certain unidentified other entities and persons with respect to accounting matters, public disclosures and trading activity in our securities that were not described in the formal order. During the course of the investigation, we learned that the investigation concerned the events leading to the restatement of its financial statements, including fiscal years 1994, 1995 and 1996, that was publicly announced in November 1997.

Effective January 11, 2000, Informix and the SEC have entered into a settlement of the investigation as to Informix. Pursuant to the settlement, we consented to the entry by the SEC of an Order Instituting Public Administrative Proceedings Pursuant to Section 8A of the Securities Act of 1933 and Section 21C of the Securities Exchange Act of 1934, Making Findings, and Imposing a Cease and Desist Order. Pursuant to the order, we neither admitted nor denied the findings, except as to jurisdiction, contained in the order.

The order prohibits us from violating and causing any violation of the anti-fraud provisions of the federal securities laws, for example by making materially false and misleading statements concerning its financial performance. The order also prohibits us from violating or causing any violation of the provisions of the federal securities laws requiring Informix to: (1) file accurate quarterly and annual reports with the SEC; (2) maintain accurate accounting books and records; and (3) maintain adequate internal accounting controls. Pursuant to the order, we are also required to cooperate in the SEC's continuing investigation of other entities and persons. In the event that we violate the order, we could be subject to substantial monetary penalties.

As a consequence of the issuance of the order, we will not, for a period of three years from the date of the issuance of the order, be able to rely on the "safe harbor" for forward-looking statements contained in the federal securities laws. The "safe harbor," among other things, limits potential legal actions against us in the event a forward-looking statement concerning our anticipated performance turns out to be inaccurate, unless it can be proved that, at the time the statement was made, we actually knew that the statement was false. If we become a defendant in any private securities litigation brought under the federal securities laws, our legal position in the litigation could be materially adversely affected by our inability to rely on the "safe harbor" provisions for forward-looking statements.

Failure to continue to strengthen our internal accounting controls could adversely affect our business.

Although we have made significant progress in our efforts to strengthen our accounting controls and processes, we may not be able to hire and retain enough finance personnel to continue to do so. If we are unable to continue to strengthen our accounting controls and processes, that inability could adversely affect our ability to accurately forecast and report our financial results. In addition, any customer uncertainty about our internal accounting controls could have an adverse effect on our ability to sell our products.

We may not be able to realize the potential financial or strategic benefits of future business acquisitions which could hurt our ability to grow its business and sell its products.

In the future we may acquire or invest in other businesses that offer products, services and technologies that we believe would help expand or enhance our products and services or help expand our distribution channels. If we were to make such an acquisition or investment, the following risks could impair our ability to grow our business and develop new products and ultimately could impair our ability to sell our products:

- Difficulty in combining the technology, operations or work force of the acquired business,
- Disruption of our on-going businesses,
- Difficulty in realizing the potential financial or strategic benefits of the transaction,
- Difficulty in maintaining uniform standards, controls, procedures and policies, and
- Possible impairment of relationships with employees and customers as a result of any integration of new businesses and management personnel.

In addition, the consideration for any future acquisition could be paid in cash, shares of our common stock, or a combination of cash and common stock. If the consideration is paid in our common stock, existing stockholders would be further diluted. Any amortization of goodwill or other assets resulting from any acquisition could materially adversely affect our operating results and financial condition.

The rights of our series B preferred stockholders may adversely affect the rights of our common stockholders.

Holders of our series B preferred shares have certain rights that may adversely affect holders of our common stock. At December 31, 1999, 7,000 shares of our series B preferred stock remained outstanding.

Rights to Consent to Corporate Transactions. Our agreements with the purchasers of our series B preferred stock contain covenants that could impair our ability to engage in various corporate transactions in the future, including financing transactions and certain transactions involving a change-in-control or acquisition of our assets or equity, or that could otherwise be disadvantageous to Informix and the holders of our common stock. In particular, an acquisition of our assets or equity may not be effected without the consent of the holders of the outstanding series B preferred stock or without requiring the acquiring entity to assume the series B preferred stock or cause the series B preferred stock to be redeemed. These provisions are likely to make an acquisition more difficult and expensive and could discourage potential acquirors. We made certain covenants in connection with the issuance of the series B preferred stock which could limit our ability to obtain additional financing by, for example, providing the holders of the series B preferred stock certain rights of first offer and prohibiting Informix from issuing additional preferred stock without the consent of the series B preferred stockholders.

Conversion Rights. The shares of our series B preferred stock are convertible into shares of our common stock based on the trading prices of our common stock during future periods. Any conversion of series B preferred stock into our common stock will dilute the existing common stockholders. We are also obligated to issue upon conversion of the series B preferred stock additional warrants to acquire shares of our common stock equal to 20% of the total number of shares of common stock into which the series B preferred stock converts. The exercise of these warrants will have further dilutive effect to the holders of our common stock. As of December 31, 1999, 7,000 shares of series B preferred stock remained outstanding and, assuming a $4.00 per share conversion price, were convertible into 1,750,000 shares of our common stock, and warrants to purchase an aggregate of 350,000 additional shares of our common stock would become issuable upon such conversion. If the conversion price of the series B preferred stock is determined during a period when the trading price of our common stock is low, the resulting number of shares of common stock issuable upon conversion of the series B preferred stock could result in greater dilution to the holders of our common stock. As of December 31, 1999, series B preferred stockholders had converted an aggregate of 43,000 shares of series B preferred stock into 8,694,804 shares of our common stock and warrants to purchase an aggregate of 1,938,947 shares of our common stock.

Penalty Provision. The terms of our series B preferred financing agreements also include certain penalty provisions that are triggered if we fail to satisfy certain obligations. For instance, we must keep a registration statement in effect for the resale of shares of our common stock issued or issuable upon conversion of the series B preferred shares and upon exercise of the warrants.

We may be subject to product liability claims that could result in significant costs.

We may be subject to claims for damages related to product errors in the future. A material product liability claim could materially adversely affect our business because of the costs of defending against these types of lawsuits, diversion of key employees' time and attention from the business and potential damage to our reputation. Although we have not experienced any product liability claims to date, the sale and support of our products entail the risk of such claims. While we carry insurance policies covering this type of liability, these policies may not provide sufficient protection should a claim be asserted. Our license agreements with our customers typically contain provisions designed to limit exposure to potential product liability claims. Such limitation of liability provisions may not be effective under the laws of certain jurisdictions to the extent local laws treat certain warranty exclusions as unenforceable.

Provisions in our charter documents with respect to undesignated preferred stock may discourage potential acquisition bids for Informix.

Our board of directors is authorized to issue up to 5,000,000 shares of undesignated preferred stock in one or more series. Of the 5,000,000 shares of preferred stock, 440,000 shares have been designated series A preferred, none of which is outstanding; 440,000 shares have been designated series A-1 preferred, none of which is outstanding; and 50,000 shares have been designated series B preferred, of which 7,000 shares remained outstanding as of December 31, 1999. Subject to the prior consent of the holders of the series B preferred stock, our board of directors can fix the price, rights, preferences, privileges and restrictions of such preferred stock without any further vote or action by its stockholders. However, the issuance of shares of preferred stock may delay or prevent a change in control transaction without further action by our stockholders. As a result, the market price of our common stock and the voting and other rights of the holders of our common stock may be adversely affected. The issuance of preferred stock with voting and conversion rights may adversely affect the voting power of the holders of our common stock, including the loss of voting control to others.

Other provisions in our charter documents with respect to undesignated preferred stock may discourage potential acquisition bids for Informix and prevent changes in our management which its stockholders may favor.

Other provisions in our charter documents could discourage potential acquisition proposals and could delay or prevent a change in control transaction that our stockholders may favor. The provisions include:

- Elimination of the right of stockholders to act without holding a meeting,
- Certain procedures for nominating directors and submitting proposals for consideration at stockholder meetings, and
- A board of directors divided into three classes, with each class standing for election once every three years.

These provisions are intended to enhance the likelihood of continuity and stability in the composition of the board of directors and in the policies formulated by the board of directors and to discourage certain types of transactions involving an actual or threatened change of control. These provisions are designed to reduce our vulnerability to an unsolicited acquisition proposal and, accordingly, could discourage potential acquisition proposals and could delay or prevent a change in control. Such provisions are also intended to discourage certain tactics that may be used in proxy fights but could, however, have the effect of discouraging others from making tender offers for shares of our common stock, and consequently, may also inhibit fluctuations in the market price of our common stock that could result from actual or rumored takeover attempts. These provisions may also have the effect of preventing changes in our management.

In addition, we have adopted a rights agreement, commonly referred to as a "poison pill," that grants holders of our common stock preferential rights in the event of an unsolicited takeover attempt. These rights are denied to any stockholder involved in the takeover attempt and this has the effect of requiring cooperation with our board of directors. This may also prevent an increase in the market price of our common stock resulting from actual or rumored takeover attempts. The rights agreement could also discourage potential acquirors from making unsolicited acquisition bids.

Delaware law may inhibit potential acquisition bids which may adversely affect the market price for Informix common stock and prevent changes in its management that its stockholders may favor.

Informix is incorporated in Delaware and is subject to the antitakeover provisions of the Delaware General Corporation Law, which regulates corporate acquisitions. Delaware law prevents certain Delaware corporations, including those corporations, such as Informix, whose securities are listed for trading on the Nasdaq National Market, from engaging, under certain circumstances, in a "business combination" with any "interested stockholder" for three years following the date that the stockholder became an interested stockholder. For purposes of Delaware law, a "business combination" would include, among other things, a merger or consolidation involving Informix and an interested stockholder and the sale of more than 10% of Informix's assets. In general, Delaware law defines an "interested stockholder" as any entity or person beneficially owning 15% or more of the outstanding voting stock of a corporation and any entity or person affiliated with or controlling or controlled by such entity or person. Under Delaware law, a Delaware corporation may "opt out" of the antitakeover provisions. Informix does not intend to "opt out" of these antitakeover provisions of Delaware law.

Our common stock likely will be subject to substantial price and volume fluctuations which may prevent stockholders from reselling their shares at or above the price at which they purchased their shares.

Fluctuations in the price and trading volume of our common stock may prevent stockholders from reselling their shares above the price at which they purchased their shares. Stock prices and trading volumes for many software companies fluctuate widely for a number of reasons, including some reasons which may be unrelated to their businesses or results of operations. This market volatility, as well as general domestic or international economic, market and political conditions, could materially adversely affect the market price of our common stock without regard to our operating performance. In addition, our operating results may be below the expectations of public market analysts and investors. If this were to occur, the market price of our common stock would likely decrease significantly. The market price of our common stock has fluctuated significantly in the past and may continue to fluctuate significantly because of:

- Market uncertainty about the company's business prospects or the prospects for the RDBMS and ORDBMS markets in general,
- Revenues or results of operations that do not match analysts' expectations,
- The introduction of new products or product enhancements by Informix or its competitors,
- General business conditions in the software industry,
- Changes in the mix of revenues attributable to domestic and international sales, and
- Seasonal trends in technology purchases and other general economic conditions.

changes in and disagreements

WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

On May 20, 1998, we filed a current report on Form 8-K (the "Form 8-K") regarding our dismissal of Ernst & Young LLP as our independent auditors and the engagement of KPMG LLP as our independent accountants. The contents of that report are as follows:

Form 8-K filed on May 20, 1998

ITEM 4. CHANGES IN REGISTRANT'S CERTIFYING ACCOUNTANT

On May 12, 1998, the Company's Board of Directors approved a resolution (i) to dismiss Ernst & Young LLP ("E&Y") as the Company's independent auditors, effective upon management's notification of E&Y of the dismissal; and (ii) concurrent with such notification, to engage KPMG LLP ("KPMG") as Informix's independent accountants upon such terms as may be negotiated by management.

On May 13, 1998, the Company's management notified E&Y of the dismissal. On May 19, 1998, the Company engaged KPMG as the Company's independent accountants.

E&Y's reports with respect to the Company's financial statements for the fiscal years ended December 31, 1996 and 1997 did not contain an adverse opinion or a disclaimer of opinion and were not qualified as to uncertainty, audit scope or accounting principles.

In connection with the audits of the Company's financial statements for each of the two fiscal years ended December 31, 1996 and 1997 and in the subsequent interim period, except as described in the next paragraph, there were no disagreements with E&Y on any matter of accounting principles or practices, financial statement disclosure or auditing scope and procedures which, if not resolved to the satisfaction of E&Y would have caused E&Y to make reference to the matter in their report.

E&Y advised the Company that it disagreed with the Company's recognition of revenue resulting from software license transactions with industrial manufacturers which occurred during the first quarter ended March 31, 1998. The disagreement was resolved to the satisfaction of E&Y with the result that approximately $6.2 million in revenue has been deferred and will be recognized over a period which Informix expects to be approximately two years. The Company immediately filed an amendment to its quarterly report on Form 10-Q for the quarter ended March 31, 1998 to restate its financial results for the period. The Audit Committee has discussed the accounting for these transactions with management and E&Y.

The Company authorized E&Y to respond fully to the inquiries of KPMG as the successor independent accountants of the Company. Prior to accepting its engagement as the Company's successor independent accountants, KPMG had the opportunity to discuss with E&Y the subject matter of the disagreement described above and other matters relevant to Informix. KPMG did not offer any report or advice to Informix concerning such disagreement that was important to the Company's decision in reaching a resolution.

RESPONSE OF ERNST & YOUNG LLP

On May 29, 1998 Ernst & Young furnished us with the following response letter concerning the information contained in the Form 8-K which response letter we filed with the Commission on Form 8-K/A on June 2, 1998 (the "Form 8-K/A").

Securities and Exchange Commission
450 Fifth Street, N.W.
Washington, D.C. 20549

Gentlemen:

We have read Item 4 of Form 8-K dated May 20, 1998, of Informix Corporation and believe it is not complete as to reportable events as described in Item 304(a)(1)(v) of Regulation S-K. We believe the ninth paragraph of Item 4 included on page 3 therein should be replaced by the following two sentences. On April 29, 1998, E&Y informed the Audit Committee of the Board that, in connection with the audit of Informix's fiscal 1997 consolidated financial statements, the lack of appropriate resources, analyses, and process structure in the accounting and financial reporting departments of Informix resulted in delays in closing the books, numerous and material amounts of post-closing entries and audit adjustments required to be recorded by Informix, and difficulty in accumulating accurate information necessary for financial statement disclosure in a timely manner. E&Y considers this condition to be a material weakness.

We are in agreement with the statements contained in the first sentence of the second paragraph, the third paragraph, the fourth paragraph, the first sentence of the fifth paragraph, the first part of the second sentence of the fifth paragraph through and including the words "has been deferred," the fourth sentence of the fifth paragraph as it relates to our Firm, the first sentence of the sixth paragraph, the seventh paragraph, the first and second sentence of the eighth paragraph, and the first sentence of the tenth paragraph on pages 2 and 3 therein. In addition, we have no basis to agree or disagree with other statements of the registrant contained therein.

Regarding the registrant's statements concerning the lack of internal controls to prepare financial statements, included in the eighth and ninth paragraphs of Item 4 on page 2 and 3 therein, we had considered such matters in determining the nature, timing and extent of procedures performed in our audit of the registrant's consolidated financial statements for the years ended December 31, 1997, 1996, 1995, and 1994.

Ernst & Young LLP

CONSOLIDATED balance sheets

IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA

DECEMBER 31,	1999	1998
ASSETS		
Current Assets		
Cash and cash equivalents	$ 140,371	$ 185,459
Short-term investments	88,746	41,093
Accounts receivable, net	232,178	187,342
Recoverable income taxes	—	3,255
Deferred taxes	5,544	—
Other current assets	24,267	20,373
Total current assets	491,106	437,522
Property and Equipment, net	60,586	75,845
Software Costs, net	39,011	38,006
Long-Term Investments	17,272	22,191
Intangible Assets, net	27,991	41,482
Other Assets	10,246	7,019
Total Assets	$ 646,212	$ 622,065
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Accounts payable	$ 23,625	$ 29,900
Accrued expenses	50,913	59,558
Accrued employee compensation	64,731	50,649
Income taxes payable	16,861	—
Deferred revenue	136,172	132,390
Advances from customers and financial institutions	34,302	121,077
Accrued restructuring costs	1,804	5,813
Other current liabilities	3,878	6,875
Total current liabilities	332,286	406,262
Other Non-Current Liabilities	1,420	3,759
Commitments and Contingencies (Note 8)		
Stockholders' Equity		
Preferred stock, par value $.01 per share — 5,000,000 shares authorized		
Series A-1 convertible preferred stock, 300,000 shares issued; none outstanding in 1999 and 1998	—	—
Series B convertible preferred stock — 50,000 shares issued; 7,000 and 23,300 outstanding in 1999 and 1998, respectively; aggregate liquidation preference of $7,740	—	—
Convertible preferred stock of Cloudscape, Inc. — 6,343,000 shares issued and outstanding in 1998; none outstanding in 1999	—	63
Common stock, par value $.01 per share — 500,000,000 shares authorized; 207,133,000 and 191,244,000 shares issued and outstanding in 1999 and 1998, respectively	2,073	1,913
Shares to be issued for litigation settlement	61,228	—
Additional paid-in capital	496,574	445,352
Accumulated deficit	(241,078)	(231,934)
Accumulated other comprehensive loss	(6,291)	(3,350)
Total stockholders' equity	312,506	212,044
Total Liabilities and Stockholders' Equity	$ 646,212	$ 622,065

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF operations

IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA

YEARS ENDED DECEMBER 31,	1999	1998	1997
NET REVENUES			
Licenses	$442,829	$383,947	$ 378,164
Services	428,707	351,559	285,728
	871,536	735,506	663,892
COSTS AND EXPENSES			
Cost of software distribution	43,097	35,446	63,027
Cost of services	173,664	155,947	166,916
Sales and marketing	312,139	271,881	418,139
Research and development	163,298	149,591	141,455
General and administrative	78,627	77,010	88,087
Write-off of goodwill and other long-term assets	—	—	30,473
Write-off of acquired research and development	—	2,600	7,000
Merger and restructuring charges	2,198	(10,255)	108,248
	773,023	682,220	1,023,345
Operating income (loss)	98,513	53,286	(359,453)
OTHER INCOME (EXPENSE)			
Interest income	11,084	11,728	5,813
Interest expense	(4,316)	(5,849)	(9,405)
Litigation settlement expense	(97,016)	—	—
Other, net	2,452	(4,581)	10,474
Income (Loss) Before Income Taxes	10,717	54,584	(352,571)
Income taxes	21,881	4,400	7,817
Net Income (Loss)	(11,164)	50,184	(360,388)
Preferred stock dividend	(995)	(3,478)	(301)
Value assigned to warrants	—	(1,982)	(1,601)
Net Income (Loss) Applicable to Common Stockholders	$ (12,159)	$ 44,724	$ (362,290)
Net Income (Loss) Per Common Share			
Basic	$ (0.06)	$ 0.26	$ (2.37)
Diluted	$ (0.06)	$ 0.25	$ (2.37)
Shares Used in Per Share Calculations			
Basic	199,543	169,581	152,543
Diluted	199,543	182,400	152,543

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF cash flows

IN THOUSANDS

YEARS ENDED DECEMBER 31,	1999	1998	1997
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income (loss)	$ (11,164)	$ 50,184	$(360,388)
Adjustments to reconcile net income (loss) to cash and cash equivalents provided by (used in) operating activities:			
License fees received in advance	(81,984)	(66,069)	(64,797)
Depreciation and amortization	46,823	46,813	65,694
Amortization of capitalized software	19,289	20,699	21,437
Write-off of capitalized software	2,371	771	14,749
Write-off of long term assets	—	—	6,799
Write-off of intangible assets	—	—	20,033
Write-off of acquired research and development	—	2,600	7,000
Litigation settlement	91,000	—	—
Foreign currency transaction losses (gains)	(1,900)	2,641	3,243
(Gain) loss on sales of strategic investments and marketable securities	(2,953)	500	(5,007)
Loss on disposal of property and equipment	(144)	1,921	10,815
Deferred tax expense	(5,544)	—	(328)
Provisions for losses on accounts receivable	1,017	(4,793)	19,929
Restructuring charges	(578)	(10,255)	77,196
Stock-based employee compensation	(124)	941	7,509
Changes in operating assets and liabilities:			
Accounts receivable	(48,815)	(38,399)	42,596
Other current assets	(7,625)	52,798	40,516
Accounts payable and accrued expenses	17,117	(62,642)	(58,315)
Deferred maintenance revenue	1,854	23,648	3,618
Net cash and cash equivalents provided by (used in) operating activities	18,640	21,358	(147,701)
CASH FLOWS FROM INVESTING ACTIVITIES			
Investments of excess cash:			
Purchases of available-for-sale securities	$(106,547)	(53,054)	(35,255)
Maturities of available-for-sale securities	34,437	9,725	14,468
Sales of available-for-sale securities	31,930	24,300	45,957
Purchases of strategic investments	—	(7,009)	(3,250)
Proceeds from sales of strategic investments and marketable securities	5,792	1,500	10,454
Purchases of land, property and equipment	(24,833)	(20,811)	(94,211)
Proceeds from disposal of land, property and equipment	1,248	864	62,371
Additions to software costs	(22,665)	(18,620)	(20,776)
Business combinations, net of cash acquired	—	1,834	(9,749)
Other	(650)	1,111	(33,511)
Net cash and cash equivalents used in investing activities	(81,288)	(60,160)	(63,502)
CASH FLOWS FROM FINANCING ACTIVITIES			
Advances from customers and financial institutions	6,539	11,402	21,787
Proceeds from issuance of common stock, net	22,549	16,254	8,250
Proceeds from issuance of preferred stock, net	—	42,919	92,755
Payments for structured settlements with resellers	(4,135)	—	—
Principal payments on capital leases	(4,810)	(4,409)	(3,388)
Net borrowings under line of credit	935	436	298
Net cash and cash equivalents provided by financing activities	21,078	66,602	119,702
Adjustment to Conform Fiscal Year of Pooled Company	(733)	—	—
Effect of Exchange Rate Changes on Cash and Cash Equivalents	(2,785)	16,100	5,497
Increase (decrease) in cash and cash equivalents	(45,088)	43,900	(86,004)
Cash and Cash Equivalents at Beginning of Year	185,459	141,559	227,563
Cash and Cash Equivalents at End of Year	$ 140,371	$185,459	$ 141,559

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF stockholders' equity

IN THOUSANDS

	PREFERRED STOCK			
	SERIES A-1		SERIES B	
	SHARES	AMOUNT	SHARES	AMOUNT
Balances at December 31, 1996	—	$ —	—	$ —
Comprehensive loss				
Net loss				
Other comprehensive loss				
Unrealized loss on available-for-sale securities, net of reclassification adjustments[1]				
Foreign currency translation adjustments				
Other comprehensive loss				
Comprehensive loss				
Issuance of preferred stock of Cloudscape				
Exercise of stock options				
Sale of stock to employees under employee stock purchase plan				
Stock-based compensation expense resulting from stock options				
Issuance of Series A-1 convertible preferred stock and warrants, net	160	2		
Issuance of Series B convertible preferred stock and warrants, net			50	1
Common stock issued for services rendered				
Accrual of 5% cumulative preferred dividends on Series B convertible preferred stock				
Balance at December 31, 1997	160	$ 2	50	$ 1
Comprehensive income				
Net income				
Other comprehensive income				
Unrealized gain on available-for-sale securities, net of reclassification adjustments[1]				
Foreign currency translation adjustments				
Other comprehensive income				
Comprehensive income				
Issuance of preferred stock of Cloudscape				
Exercise of stock options				
Common stock issued for services rendered				
Sale of stock to employees under employee stock purchase plan				
Stock-based compensation expense resulting from stock options				
Exercise of Series A-1 convertible preferred stock warrants, net	140	1		
Conversion of Series A-1 to common stock	(300)	(3)		
Conversion of Series B to common stock			(27)	(1)
Accrual of 5% cumulative preferred dividends on Series B convertible preferred stock				
Additional Series B dividend				
Acquisition of Red Brick				
Balance at December 31, 1998	—	$ —	23	$ —
Comprehensive income				
Net loss				
Other comprehensive income				
Unrealized gain on available-for-sale securities, net of reclassification adjustments[1]				
Foreign currency translation adjustments				
Other comprehensive income				
Comprehensive income				
Conversion of Cloudscape Preferred to common stock				
Exercise of stock options				
Sale of stock to employees under employee stock purchase plan				
Repurchase of unvested Cloudscape options and founder's stock				
Stock based compensation expense resulting from stock options				
Conversion of Series B to common stock			(16)	—
Accrual of 5% cumulative preferred dividends on Series B convertible preferred stock				
Repayment of Cloudscape shareholder loans				
Value of stock to be issued in Litigation Settlement				
Shares issued in Litigation Settlement				
Adjustment to conform fiscal year of pooled company				
Balances at December 31, 1999	—	$ —	7	$ —

[1] Disclosure of reclassification amount for the years ended:

	1999	1998	1997
Net unrealized gain (loss) on available-for-sale securities arising during period	$ 3,814	$5,202	$ (3,599)
Less: reclassification adjustment for net gains included in net income (loss)	(3,681)	—	(8,858)
Net unrealized gain (loss) on available-for-sale securities	$ 133	$5,202	$(12,457)

See Notes to Supplemental Consolidated Financial Statements.

Cloudscape Shares	Cloudscape Amount	Common Stock Shares	Common Stock Amount	Shares to be Issued for Litigation Settlement Shares	Shares to be Issued for Litigation Settlement Amount	Additional Paid-in Capital	Accumulated Deficit	Comprehensive Income (Loss)	Accumulated Other Comprehensive Income (Loss)	Totals
654	$ 7	152,500	$1,525	—	$ —	$244,027	$ 78,270		$ 1,509	$ 325,338
							(360,388)	$(360,388)		(360,388)
								(12,457)		(12,457)
								(955)		(955)
								(13,412)	(13,412)	
								$(373,800)		
2,881	28					5,127				5,155
		1,279	12			3,585				3,597
		573	6			5,659				5,665
						7,501				7,501
						37,598				37,600
						49,196				49,197
		144	2			808				810
						(301)				(301)
3,535	$ 35	154,496	$1,545	—	$ —	$353,200	$(282,118)		$(11,903)	$ 60,762
							50,184	$ 50,184		50,184
								5,202		5,202
								3,351		3,351
								8,553	8,553	
								$ 58,737		
2,808	28					9,991				10,019
		3,614	36			8,455				8,491
		46	1			14				15
		1,613	16			7,754				7,770
						915				915
						32,899				32,900
		17,413	174			(171)				—
		6,471	65			(65)				(1)
						(2,178)				(2,178)
						(1,300)				(1,300)
		7,591	76			35,838				35,914
6,343	$ 63	191,244	$1,913	—	$ —	$445,352	$(231,934)		$ (3,350)	$ 212,044
							(11,164)	$ (11,164)		(11,164)
								133		133
								(3,074)		(3,074)
								(2,941)	(2,941)	
								$ (14,105)		
(6,343)	(63)	6,343	63							—
		3,350	34			14,311				14,345
		1,187	12			7,618				7,630
		(157)	—			(28)				(28)
		—	—			491				491
		2,223	22			(22)				—
						(995)				(995)
						104				104
					91,000					91,000
		2,943	29		(29,772)	29,743				—
							2,020			2,020
—	$ —	207,133	$2,073	—	$ 61,228	$496,574	$(241,078)		$ (6,291)	$ 312,506

note 1

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Operations

The Company is a leading multinational supplier of information management software and solutions to governments and enterprises worldwide. The Company designs, develops, manufactures, markets and supports relational and object-relational database management systems, connectivity interfaces and gateways and graphical and character-based application development tools for building database applications that allow customers to access, retrieve and manipulate business data. The Company also offers complete solutions, which include its database management software, its own and third party software and consulting services to help customers design and rapidly deploy data warehousing (decision support), web-based enterprise repository and electronic commerce applications.

The principal geographic markets for the Company's products are North America, Europe, Asia/Pacific, and Latin America. Customers include businesses ranging from small corporations to Fortune 1000 companies, principally in the manufacturing, financial services, telecommunications, media, retail/wholesale, hospitality, and government services sectors.

Basis of Presentation

The consolidated financial statements have been prepared to give retroactive effect to the merger with Cloudscape, Inc. ("Cloudscape") on October 8, 1999. The consolidated financial statements have been restated for all periods presented as if Cloudscape and the Company had always been combined.

Prior to the combination, Cloudscape's fiscal year ended March 31. In recording the pooling-of-interests combination, Informix's statements of operations for the years ended December 31, 1998 and 1997 have been combined with the Cloudscape statements of operations for the years ended March 31, 1999 and 1998, respectively. As a consequence, the results of Cloudscape for the three-month period ended March 31, 1999 are included in the results of operations for both the year ended December 31, 1998 and the year ended December 31, 1999. Cloudscape revenues and net loss for the three-month period ended March 31, 1999 were $347,000 and $2,020,000, respectively. The consolidated balance sheet of Informix at December 31, 1998 has been combined with the balance sheet of Cloudscape as of March 31, 1999.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Principles of Consolidation

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

Foreign Currency Translation

For foreign operations with the local currency as the functional currency, assets and liabilities are translated at year-end exchange rates, and statements of operations are translated at the exchange rates during the year. Exchange gains or losses arising from translation of such foreign entity financial statements are included as a component of other comprehensive income (loss).

For foreign operations with the U.S. dollar as the functional currency, monetary assets and liabilities are remeasured at the year-end exchange rates as appropriate and non-monetary assets and liabilities are remeasured at historical exchange rates. Statements of operations are remeasured at the exchange rates during the year. Foreign currency transaction gains and losses are included in other income (expense), net. The Company recorded net foreign currency transaction gains (losses) of $(0.3) million, $(4.8) million and $8.0 million for the years ended December 31, 1999, 1998 and 1997, respectively.

Derivative Financial Instruments

The Company enters into foreign currency forward exchange contracts to reduce its exposure to foreign currency risk due to fluctuations in exchange rates underlying the value of intercompany accounts receivable and payable denominated in foreign currencies (primarily European and Asian currencies) until such receivables are collected and payables are disbursed. A foreign currency forward exchange contract obligates the Company to exchange predetermined amounts of specified foreign currencies at specified exchange rates on specified dates or to make an equivalent U.S. dollar payment equal to the value of such exchange. These foreign currency forward exchange contracts are denominated in the same currency in which the underlying foreign currency receivables or payables are denominated and bear a contract value and maturity date which approximate the value and expected settlement date of the underlying transactions. For contracts that are designated and effective as hedges, discounts or premiums (the difference between the spot exchange rate and the forward exchange rate at inception of the contract) are accreted or amortized to other expenses over the contract lives using the straight-line method while unrealized gains and losses on open contracts at the end of each accounting period resulting from changes in the spot exchange rate are recognized in earnings in the same period as gains and losses on the underlying foreign denominated receivables or payables are recognized and generally offset. Contract amounts in excess of the carrying value of the Company's foreign currency denominated accounts receivable or payable balances are marked to market, with changes in market value recorded in earnings as foreign exchange gains or losses. The Company operates in certain countries in Latin America, Eastern Europe, and Asia/Pacific where there are limited forward currency exchange markets and thus the Company has unhedged exposures in these currencies.

Most of the Company's international revenue and expenses are denominated in local currencies. Due to the substantial volatility of currency exchange rates, among other factors, the Company cannot predict the effect of exchange rate fluctuations on the Company's future operating results. Although the Company takes into account changes in exchange rates over time in its pricing strategy, it does so only on an annual basis, resulting in substantial pricing exposure as a result of foreign exchange volatility during the period between annual pricing reviews. In addition, the sales cycles for the Company's products is relatively long, depending on a number of factors including the level of competition and the size of the transaction. The Company periodically assesses market conditions and occasionally attempts to reduce this exposure by entering into foreign currency forward exchange contracts to hedge up to 80% of the forecasted net income of its foreign subsidiaries of up to one year in the future. These foreign currency forward exchange contracts do not qualify as hedges and, therefore are marked to market. Notwithstanding the Company's efforts to manage foreign exchange risk, there can be no assurances that the Company's hedging activities will adequately protect the Company against the risks associated with foreign currency fluctuations.

Revenue Recognition Policy

In October 1997, the American Institute of Certified Public Accountants issued Statement of Position 97-2 (SOP 97-2), "Software Revenue Recognition" which superseded SOP 91-1 and provides guidance on generally accepted accounting principles for recognizing revenue on software transactions. SOP 97-2 requires that revenue recognized from software arrangements be allocated to each element of the arrangement based on the relative fair values of the elements, such as software products, upgrades, enhancements, post contract customer support, installation, or training. Under SOP 97-2, the determination of fair value is based on objective evidence which is specific to the vendor. If such evidence of fair value for each element of the arrangement does not exist, all revenue from the arrangement is deferred until such time that evidence of fair value does exist or until all elements of the arrangement are delivered. SOP 97-2 was amended in February 1998 by Statement of Position 98-4 (SOP 98-4) "Deferral of the Effective Date of a Provision of SOP 97-2" and was amended again in December 1998 by Statement of Position 98-9 (SOP 98-9) "Modification of SOP 97-2, Software Revenue Recognition with Respect to Certain Transactions." Those amendments deferred and then clarified, respectively, the specification of what was considered vendor specific objective evidence of fair value for the various elements in a multiple element arrangement. The Company adopted the provisions of SOP 97-2 and SOP 98-4 as of January 1, 1998 and as a result, changed certain business practices. The adoption has, in certain circumstances, resulted in the deferral of software license revenues that would have been recognized upon delivery of the related software under prior accounting standards.

SOP 98-9 is effective for all transactions entered into by the Company in fiscal year 2000. The adoption of this statement is not expected to have a material impact on the Company's operating results, financial position or cash flows.

The Company's revenue recognition policy is as follows:

License Revenue. The Company recognizes revenue from sales of software licenses to end users upon persuasive evidence of an arrangement, delivery of the software to a customer and determination that collection of a fixed or determinable license fee is considered probable. Revenue for transactions with application vendors, OEMs and distributors is currently recognized as earned when the licenses are resold or utilized by the reseller and all related obligations of the Company have been satisfied. The Company provides for sales allowances on an estimated basis. The Company accrues royalty revenue through the end of the reporting period based on reseller royalty reports or other forms of customer-specific historical information. In the absence of customer-specific historical information, royalty revenue is recognized when the customer-specific objective information becomes available. Any subsequent changes to previously recognized royalty revenues are reflected in the period when the updated information is received from the reseller.

Service Revenue. Maintenance contracts generally call for the Company to provide technical support and software updates and upgrades to customers. Maintenance revenue is recognized ratably over the term of the maintenance contract, generally on a straight-line basis. Other service revenue, primarily training and consulting, is generally recognized at the time the service is performed and it is determined that the Company has fulfilled its obligations resulting from the services contract, or on a contract accounting basis. When the fee for maintenance and service is bundled with the license fee, it is unbundled from the license fee using the Company's objective evidence of the fair value of the maintenance and/or services represented by the Company's customary pricing for such maintenance and/or services.

Advances From Customers and Financial Institutions. Amounts received in advance of revenue being recognized are recorded as a liability on the accompanying financial statements. These amounts may be received either from the customer or from a financing entity to whom the customer payment streams are sold.

The Company's license arrangements with some of its customers provide contractually for a non-refundable fee payable by the customer in single or multiple installment(s) at the initiation or over the term of the license arrangement. If the Company fails to comply with certain contractual terms of a specific license agreement, the Company could be required to refund the amount(s) received to the customer or the financial institution in the event of an assignment of receivables.

Prior to fiscal 1998, the Company's arrangements for financing of license contracts with customers frequently took the form of a non-recourse sale of the future payment streams. When such customer contracts were sold to a third- party financing entity, they were typically sold at a discount which represented the financing cost. Such discounts offset revenues in cases where the license was recorded as a sale. For transactions where the financing was received prior to the recognition of revenue, the financing discount has been charged ratably to interest expense over the financing period, which approximates the "interest method."

Sales of Receivables. Prior to January 1, 1998, the Company financed amounts due from customers with financial institutions on a non-recourse basis. The Company accounted for these transactions in accordance with Statement of Financial Accounting Standards No. 77 (SFAS 77), "Reporting by Transferors for Transfers of Receivables with Recourse." Effective January 1, 1998 any such transactions would be accounted for by the

Company in accordance with Statement of Financial Accounting Standards No. 125 (SFAS 125), "Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities." If at the time of the transfer the amounts due from the customer have been recognized as revenue and a receivable, the transfer is accounted for as the sale of a receivable and the receivable is removed from the books and the financing fees are charged to operations immediately as interest expense. The Company did not enter into any such transactions during fiscal 1999 and 1998.

Sales of Future Revenue Streams

If at the time of transfer the amounts due from the customers have not been recognized as revenue or a receivable, the transfer is accounted for as the sale of a future revenue stream in accordance with EITF 88-18. Accordingly, the receipt of cash is treated as a borrowing and recorded as "advances from customers and financial institutions" and the financing fees are amortized to interest expense over the term of the financing arrangement. The Company has not financed, and does not expect to finance, amounts due from customers subsequent to December 31, 1997.

Concurrent Transactions

During fiscal 1997, the Company entered into software license agreements with certain computer and service vendors where the Company concurrently committed to acquire goods and services. If the agreement is with a reseller, revenue is recognized as earned on these transactions as the licenses are resold by the customer. If the agreement is with an end user, revenue is generally recognized as earned upon delivery of software. The computer equipment and services are recorded at their fair value. These concurrent transactions for 1997 included software license agreements of approximately $21 million and commitments by the Company to acquire goods and services in the aggregate of approximately $50 million. The Company did not enter into any concurrent transactions in fiscal 1999 and 1998.

Software Costs

The Company accounts for its software development expenses in accordance with Statement of Financial Accounting Standards No. 86, "Accounting for the Costs of Computer Software to Be Sold, Leased, or Otherwise Marketed." 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 uses a detail program design approach in determining technological feasibility. Software costs also include amounts paid for purchased software and outside development on products which have reached technological feasibility. All software costs are amortized as a cost of software distribution either on a straight-line basis, or on the basis of each product's projected revenues, whichever results in greater amortization, over the remaining estimated economic life of the product, which is generally estimated to be three years. The Company recorded amortization of $19.3 million, $20.7 million, and $21.4 million of software costs in 1999, 1998 and 1997, respectively, in cost of software distribution.

The Company accounts for the costs of computer software developed or obtained for internal use in accordance with Statement of Position 98-1 (SOP 98-1), "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use," which was effective for fiscal years beginning after December 15, 1998. This statement requires that certain costs incurred during a software development project be capitalized. These costs generally include external direct costs of materials and services consumed in the project, and internal costs such as payroll and benefits of those employees directly associated with the development of the software. During the year ended December 31, 1999, the Company capitalized approximately $2.8 million under SOP 98-1, which will be amortized over the estimated useful life of the software developed, which is generally three years.

Property and Equipment

Depreciation of property and equipment is calculated using the straight-line method over its estimated useful life, generally the shorter of the applicable lease term or three-to-seven years for financial reporting purposes. The Company reviews property and equipment for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. Recoverability of property and equipment to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceed the fair value of the assets. Property and equipment to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell.

Businesses Acquired

The purchase price of businesses acquired, accounted for as purchase business combinations, is allocated to the tangible and identifiable intangible assets acquired based on their estimated fair values with any amount in excess of such allocations being designated as goodwill. Intangible assets are amortized over their estimated useful lives, which to date range from three to seven years. As of December 31, 1999, 1998 and 1997, the Company had $44.9 million, $48.3 million and $19.2 million of intangible assets, with accumulated amortization of $16.9 million, $6.8 million and $10.9 million, respectively, as a result of these acquisitions. The carrying value of goodwill is reviewed if the facts and circumstances suggest that it may be impaired. If this review indicates that the goodwill will not be recoverable, as determined based on the undiscounted cash flows of the acquired business over the remaining amortization period, the Company's carrying value is reduced to net realizable value. The carrying values of identifiable intangible assets are reviewed in a manner consistent with the policy for reviewing impairment of property and equipment, as described above. During 1997, the Company wrote down $30.5 million of impaired long-term assets related to the shortfall in business activity of its Japanese subsidiary (see Note 13).

Stock-Based Compensation

As permitted under Statement of Financial Accounting Standards No. 123 (SFAS 123), "Accounting for Stock-Based Compensation," the Company has elected to follow Accounting Principles Board Opinion No. 25 (APB 25), "Accounting for Stock Issued to Employees" in accounting for stock-based awards to employees (see Note 7).

Concentration of Credit Risk

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

No single customer accounted for 10% or more of the consolidated net revenues of the Company in 1999, 1998 or 1997.

Cash, Cash Equivalents, Short-Term Investments, and Long-Term Investments

The Company considers liquid investments purchased with a remaining maturity of three months or less to be cash equivalents. The Company considers investments with a maturity of more than three months but less than one year to be short-term investments. Investments with a remaining original maturity of more than one year are considered long-term investments. Short-term and long-term investments are classified as available-for-sale and are carried at fair value.

The Company invests its excess cash in accordance with its short-term and long-term investments policy, which is approved by the Board of Directors. The policy authorizes the investment of excess cash in government securities, municipal bonds, time deposits, certificates of deposit with approved financial institutions, commercial paper rated A-1/P-1, and other specific money market instruments of similar liquidity and credit quality. The Company has not experienced any significant losses related to these investments.

The Company invests in equity instruments of privately-held, information technology companies for business and strategic purposes. These investments are included in long-term investments and are accounted for under the cost method when ownership is less than 20%. For these non-quoted investments, the Company's policy is to regularly review the assumptions underlying the operating performance and cash flow forecasts in assessing the carrying values. When the Company determines that a decline in fair value below the cost basis is other than temporary, the related investment is written down to fair value.

Securities Held-to-Maturity and Available-for-Sale

Management determines the appropriate classification of debt securities at the time of purchase and re-evaluates such designation as of each balance sheet date. Debt securities are classified as held-to-maturity when the Company has the positive intent and the ability to hold the securities until maturity. Held-to-maturity securities are stated at amortized cost, adjusted for amortization of premiums and accretion of discounts to maturity. Such amortization, as well as any interest on the securities, is included in interest income.

Marketable equity securities and debt securities not classified as held-to-maturity are classified as available-for-sale. Available-for-sale securities are carried at fair value, with the unrealized gains and losses, net of tax, reported as a component of other comprehensive income (loss). The amortized cost of debt securities in this category is adjusted for amortization of premiums and accretion of discounts to maturity. Such amortization is included in interest income. Realized gains and losses and declines in value judged to be other-than-temporary on available-for-sale securities are included in other income (expense), net. The cost of securities sold is based on the specific identification method. Interest on securities classified as available-for-sale is included in interest income. The Company realized gross gains of approximately $3.7 million and $8.5 million on the sale of available-for-sale marketable securities during 1999 and 1997, respectively. During 1997 the Company realized gross losses of approximately $1.2 million on the sale of available-for-sale equity securities. Realized losses during 1999 were not significant. Realized gains and losses were not significant in 1998.

Fair Value of Financial Instruments

Fair values of cash, cash equivalents, short and long term investments and foreign currency forward contracts are based on quoted market prices.

Reclassifications

Certain prior period amounts have been reclassified to conform to the current period presentation.

note 2

BALANCE SHEET COMPONENTS

IN THOUSANDS

DECEMBER 31,	1999	1998
Accounts receivable, net:		
Receivables	$ 245,456	$ 202,431
Less: allowance for doubtful accounts	(13,278)	(15,089)
	$ 232,178	$ 187,342
Property and equipment, net:		
Computer equipment	$ 176,467	$ 182,545
Furniture and fixtures	41,071	35,804
Leasehold improvements	27,389	33,297
Buildings and other	2,837	2,511
	247,764	254,157
Less: accumulated depreciation and amortization	(187,178)	(178,312)
	$ 60,586	$ 75,845
Software costs, net:		
Capitalized software development costs	$ 64,075	$ 70,225
Less: accumulated amortization	(25,064)	(32,219)
	$ 39,011	$ 38,006
Long-term investments:		
Marketable equity securities (Note 3)	$ 12,466	$ 10,308
Investments in privately-held companies	4,806	5,874
Corporate bonds	—	6,009
	$ 17,272	$ 22,191

note 3

FINANCIAL INSTRUMENTS

The following is a summary of available-for-sale debt and marketable equity securities:

IN THOUSANDS

	AVAILABLE-FOR-SALE SECURITIES			
	COST	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	ESTIMATED FAIR VALUE
December 31, 1999				
U.S. treasury securities	$ 25,618	$ 4	$(159)	$ 25,464
Commercial paper, corporate bonds and medium-term notes	94,942	336	(400)	94,877
Municipal bonds	11,733	—	(20)	11,713
Total debt securities	$132,293	$ 340	$(580)	$132,053
U.S. marketable equity securities	4,448	8,018	—	12,466
	$136,741	$8,358	$(580)	$144,520
Amounts included in cash and cash equivalents	43,275	33	—	$ 43,308
Amounts included in short-term investments	89,018	307	(579)	88,746
Amounts included in long-term investments	4,448	8,018	—	12,466
	$136,741	$8,358	$(580)	$144,520
December 31, 1998				
U.S. treasury securities	$ 8,363	—	—	$ 8,363
Commercial paper, corporate bonds and medium-term notes	99,522	211	(28)	99,705
Municipal bonds	28,866	23	(1)	28,888
International bonds	3,004	—	—	3,004
Total debt securities	139,755	234	(29)	139,960
U.S. marketable equity securities	6,046	4,717	(455)	10,308
	$145,801	$4,951	$(484)	$150,268
Amounts included in cash and cash equivalents	$ 92,690	$ 168	—	$ 92,858
Amounts included in short-term investments	41,032	63	(2)	41,093
Amounts included in long-term investments	12,079	4,720	(482)	16,317
	$145,801	$4,951	$(484)	$150,268

Maturities of debt securities at market value at December 31, 1999 are as follows (in thousands):

Mature in one year or less	$ 80,357
Mature after one year through five years	48,274
Mature after five years	3,422
	$132,053

note 4

DERIVATIVE FINANCIAL INSTRUMENTS

The Company enters into foreign currency forward exchange contracts primarily to hedge the value of intercompany accounts receivable or accounts payable denominated in foreign currencies against fluctuations in exchange rates until such receivables are collected or payables are disbursed. The Company periodically assesses market conditions and occasionally attempts to reduce this exposure by entering into foreign currency forward exchange contracts to hedge up to 80% of anticipated net income of foreign subsidiaries of up to a maximum of one year in the future. From an accounting perspective, these hedges are considered to be speculative.

The Company's outstanding foreign currency forward exchange contracts used to hedge anticipated net income are marked to market with unrealized gains and losses recognized as incurred in results of operations. The purpose of the Company's foreign exchange exposure management policy and practices is to attempt to minimize the impact of exchange rate fluctuations on the value of the foreign currency denominated assets and liabilities being hedged. Substantially all forward foreign exchange contracts entered into by the Company have maturities of 360 days or less. There are no significant unrealized gains or losses on these contracts at December 31, 1999 and 1998. At December 31, 1999 and 1998, the Company had approximately $87.0 million and $93.9 million of foreign currency forward exchange contracts outstanding, respectively.

The table below summarizes by currency the contractual amounts of the Company's foreign currency forward exchange contracts at December 31, 1999 and December 31, 1998. The information is provided in U.S. dollar equivalents and presents the notional amount (contract amount), the unrealized gain (loss) and fair value. Fair value represents the difference in value of the contracts at the spot rate at December 31, 1999 and the forward rate, plus the unamortized premium or discount. All contracts mature within twelve months.

Forward Contracts

IN THOUSANDS

AT DECEMBER 31, 1999	CONTRACT AMOUNT	UNREALIZED GAIN/(LOSS)	FAIR VALUE
Forward currency to be sold under contract:			
Euro	$33,352	$(12)	$198
Korean Won	5,314	26	(23)
Czech Koruna	2,620	—	1
Singapore Dollar	1,814	1	13
Thai Bhat	1,852	(5)	(12)
Australian Dollar	1,615	(3)	(1)
Other (individually less than $1 million)	3,548	(34)	(35)
Total	$50,115	$(27)	$141
Forward currency to be purchased under contract:			
British Pound	$33,623	$ (5)	$ (37)
Japanese Yen	2,484	—	(36)
Other (individually less than $1 million)	814	1	(5)
Total	$36,921	$ (4)	$ (78)
Grand Total	$87,036	$(31)	$ (63)

IN THOUSANDS

AT DECEMBER 31, 1998	CONTRACT AMOUNT	UNREALIZED GAIN/(LOSS)	FAIR VALUE
Forward currency to be sold under contract:			
Japanese Yen	$11,719	$ 13	$(262)
Deutsche Mark	8,092	(1)	39
Korean Won	5,250	5	(119)
Singapore Dollar	4,264	17	45
British Pound	3,322	—	(30)
Australian Dollar	2,756	(4)	(2)
Netherland Guilder	2,087	(3)	7
Swiss Franc	2,010	3	21
Brazilian Real	1,382	—	(273)
Other (individually less than $1 million)	2,926	(6)	(36)
Total	$43,808	$ 24	$(610)
Forward currency to be purchased under contract:			
British Pound	$42,576	$ (8)	$ 81
French Franc	3,046	(1)	(17)
Swedish Krona	1,493	(16)	(23)
Danish Krone	1,316	1	(3)
Other (individually less than $1 million)	1,692	9	24
Total	$50,123	$(15)	$ 62
Grand Total	$93,931	$ 9	$(548)

While the contract amounts provide one measure of the volume of these transactions, they do not represent the amount of the Company's exposure to credit risk. The amount of the Company's credit risk exposure (arising from the possible inabilities of counterparties to meet the terms of their contracts) is generally limited to the amounts, if any, by which the counterparties' obligations exceed the obligations of the Company as these contracts can be settled on a net basis at the option of the Company. The Company controls credit risk through credit approvals, limits and monitoring procedures.

As of December 31, 1999 and 1998, other than foreign currency forward exchange contracts discussed immediately above, the Company does not currently invest in or hold any other derivative financial instruments.

note 5

PREFERRED STOCK

In August 1997, the Company sold 160,000 shares of newly authorized Series A Convertible Preferred Stock, face value $250 per share, which shares are generally not entitled to vote on corporate matters, to a private investor for aggregate net proceeds of $37.6 million and issued a warrant to the same investor to purchase up to an additional 140,000 shares of Series A Convertible Preferred Stock at an aggregate purchase price of up to $35 million. In November 1997, the Company canceled the Series A Convertible Preferred Stock in exchange for the same number of shares of a substantially identical Series A-1 Convertible Stock (the "Series A-1 Preferred") issued to the same investor, with a corresponding change to the warrant shares. The mandatory redemption provisions of the new Series A-1 Preferred differ from the Series A Convertible Preferred Stock. The redemption provisions in the Series A-1 Preferred effectively preclude the Company from having to redeem the preferred stock except by actions solely within its control. Accordingly, the Consolidated Balance Sheet reflects the Series A-1 Preferred under stockholder's equity.

The Series A-1 Preferred shares are convertible into common shares at any time, at the holder's option, at a per share price equal to 101% of the average price of the Company's common stock for the 30 days ending five trading days prior to conversion, but not greater than the lesser of (i) 105% of the common stock's average price of the first five trading days of such thirty day period, or (ii) $12 per share. If not converted prior, the Series A-1 Preferred will automatically convert into common shares eighteen months after their issuance, subject to extension of the automatic conversion date in certain defined circumstances of default. However, if at the time of conversion, the aggregate number of shares of common stock already issued and to be issued as a result of the conversion of the shares of the Series A-1 Convertible Preferred Stock were to exceed 19.9% of the total number of shares of then outstanding common stock, then such excess does not convert unless or until stockholder approval is obtained.

On February 13, 1998, the holders of the Series A-1 Preferred Stock exercised warrants to purchase 60,000 additional shares of Series A-1 Preferred at $250 per share resulting in net proceeds to the Company of $14.1 million. In addition, pursuant to the Series A-1 Subscription Agreement, the Series A-1 Preferred stockholders converted 220,000 shares of Series A-1 Preferred into 12,769,908 shares of the Company's Common Stock.

On November 25, 1998, the holders of the Series A-1 Preferred Stock exercised their remaining warrants to purchase 80,000 additional shares of Series A-1 Preferred at $250 per share resulting in net proceeds to the Company of $18.8 million. In addition, pursuant to the Series A-1 Subscription Agreement, the Series A-1 Preferred stockholders converted the remaining 80,000 shares of Series A-1 Preferred into 4,642,525 shares of the Company's Common Stock. As a result of these conversions, no Series A-1 Preferred Stock or Series A-1 Preferred warrants were outstanding at December 31, 1998.

In November 1997, the Company sold 50,000 shares of newly authorized Series B Convertible Preferred Stock ("Series B Preferred"), face value $1,000 per share, which shares are generally not entitled to vote on corporate matters, to private investors for aggregate proceeds of $50.0 million (excluding a $1.0 million fee paid to a financial advisor of the Company). In connection with the sale, the Company also agreed to issue a warrant to such investors upon conversion of such Series B Preferred to purchase 20% of the shares of Common Stock into which the Series B Preferred is convertible, but no less than 1,500,000 shares at a per share exercise price which is presently indeterminable and will depend on the trading price of the Common Stock of the Company in the period prior to the conversion of the Series B Preferred. The Company also agreed to issue additional warrants to purchase up to an aggregate of 200,000 shares at a per share exercise price which is presently indeterminable and will depend on the trading price of the Common Stock of the Company in the period prior to the conversion of the Series B Preferred. The Series B Preferred is convertible at the election of the holder into shares of Common Stock beginning six months after issuance, and upon the occurrence of certain events, including a merger. The Series B Preferred will automatically convert into Common Stock three years following the date of its issuance. Each Series B Preferred share is convertible into the number of shares of Common Stock at a per share price equal to the lowest of (i) the average of the closing prices for the Common Stock for the 22 days immediately prior to the 180th day following the initial issuance date, (ii) 101% of the average closing price for the 22 trading days prior to the date of actual conversions, or (iii) 101% of the lowest closing price for the Common Stock during the five trading days immediately prior to the date of actual conversion. The conversion price of the Series B Preferred is subject to modification and adjustment upon the occurrence of certain events. The Company reserved 22.8 million shares of Common Stock for issuance upon conversion of the Series B Preferred and upon the exercise of the Series B Warrants. The Series B Preferred accrues cumulative dividends at an annual rate of 5% of per share face value. The dividend is generally payable upon the conversion or redemption of the Series B Preferred, and may be paid in cash or, at the holder's election, in shares of Common Stock.

On June 10, 1998, a holder of the Series B Preferred Stock converted 500 shares of Series B Preferred into 80,008 shares of the Company's Common Stock. In connection with such conversion, the Company also issued such Series B Preferred Stockholder a warrant to purchase up to 66,000 shares of Common Stock at a purchase price of $7.84 per share. Also, during the quarter ended June 30, 1998, the Company issued a warrant pursuant to the provisions of the Series B Preferred to purchase up to an additional 50,000 shares of Common Stock at a purchase price of $7.84 per share to a financial advisor of the Company because, as of May 15, 1998, the closing sales price of the Company's Common Stock was less than $12.50. Such warrant was issued in connection with services provided by such financial advisor related to the sale of shares of the Series B Preferred in November 1997.

During the third and fourth quarters of fiscal 1998, holders of the Series B Preferred Stock converted a total of 26,200 shares of Series B Preferred into 6,391,639 shares of the Company's Common Stock. In connection with such conversions, the Company also issued such Series B Preferred Stockholders warrants to purchase up to 1,428,319 shares of Common Stock at a purchase price of $7.84 per share and paid cash dividends in the amount of $1,170,068 to such stockholders. The Company reserved 22.8 million shares of Common Stock for issuance upon conversion of the Series B Preferred and upon exercise of the Series B Warrants.

During fiscal 1999, holders of the Series B Preferred Stock converted a total of 16,300 shares of Series B Preferred into 2,223,156 shares of the Company's Common Stock. In connection with such conversions, the Company also issued such Series B Preferred Stockholders warrants to purchase up to 444,628 shares of Common Stock at a purchase price of $7.84 per share and paid cash dividends in the amount of $1,528,699 to such stockholders.

The fair value of the warrants issued in connection with the Series A-1 Preferred and Series B Preferred are deemed to be a discount to the conversion price of the respective equity instruments available to the preferred stockholders. The discounts were recognized as a return to the preferred stockholders (similar to a dividend) over the minimum period during which the preferred stockholders could realize this return, immediate for the Series A-1 Preferred and six months for the Series B Preferred. The discount has been accreted to additional paid in capital (accumulated deficit) in the Company's balance sheet and has been disclosed as a decrease in the amount available to common stockholders on the face of the Company's statements of operations and for purposes of computing net income (loss) per share. The fair value assigned to the warrants is based on an independent appraisal performed by a nationally recognized investment banking firm. The appraisal was completed utilizing the Black-Scholes valuation model. This model requires assumptions related to the remaining life of the warrant, the risk free interest rate at the time of issuance, stock volatility, and an illiquidity factor associated with the security. These assumptions and the values assigned to the Series A-1 and Series B warrants were as follows:

	SERIES A-1	SERIES B
Volatility	0.4	0.6
Expected life	18 months	24 months
Risk free interest rate	5.6%	5.6%
Dividend yield	0%	0%
Illiquidity discount	33%	33%
Exercise price	$ 7.59	$ 9.73
Assigned value	$0.9 million	$2.7 million

In connection with the issuance of the Series B Convertible Preferred Stock in November 1997, the Company paid a fee of $1,000,000 for financial advisory services provided in connection with such financing. In addition, the Company issued 100,000 shares of its Common Stock, and also agreed to issue a warrant to purchase an additional 50,000 shares of the Company's Common Stock to the service provider in the event that, as of May 17, 1998, the trading price of the Company's Common Stock is less than $12.50 per share. Such warrant will be exercisable according to the same terms as the warrants issued in connection with the issuance of the Series B Convertible Preferred Stock.

On June 9, 1998, the Company filed a Post-Effective Amendment to its Registration Statement on Form S-1 pertaining to the Company's sale of its Series B Preferred. The Securities and Exchange Commission ("SEC") reviewed the Post-Effective Amendment and declared it effective on August 13, 1998. The Series B Preferred stockholders claimed that during August 1998 they were prevented from selling shares of Series B Preferred stock until the SEC completed its review of the Post-Effective Amendment and, as a result, the Company had failed to comply with certain terms of a Registration Rights Agreement between the Series B Preferred stockholders and the Company. As a result, the Company recorded a $1.3 million dividend as of December 31, 1998, which was paid in cash to the Series B Preferred stockholders in the first quarter of 1999.

As of December 31, 1998, 6,343,000 shares of preferred stock were outstanding that related to Series A, B, and C preferred stock issuances by Cloudscape, Inc. ("Cloudscape Preferred Stock") in fiscal 1996, 1997, and 1998, respectively. Each series of Cloudscape Preferred Stock maintained noncumulative dividend rights and liquidation preferences to any proceeds received in the event of a liquidation of Cloudscape. Additionally, the Cloudscape Preferred Stock was convertible into Cloudscape Common Stock on a one-for-one basis and the holders of the Cloudscape Preferred Stock were entitled to the number of votes based on an as-if converted basis. Immediately prior to the merger between Informix and Cloudscape on October 8, 1999, all the Cloudscape preferred shareholders converted their Cloudscape Preferred Stock into an equal number of shares of Cloudscape Common Stock.

note 6

NET INCOME (LOSS) PER COMMON SHARE

The following table sets forth the computation of basic and diluted net income (loss) per common share:

IN THOUSANDS, EXCEPT PER SHARE DATA

	1999	1998	1997
Numerator:			
Net income (loss)	$(11,164)	$ 50,184	$(360,388)
Preferred stock dividends	(995)	(3,478)	(301)
Value assigned to warrants	—	(1,982)	(1,601)
Numerator for basic and diluted net income (loss) per common share	$(12,159)	$ 44,724	$(362,290)
Denominator:			
Denominator for basic net income (loss) per common share — weighted-average shares outstanding	194,118	169,581	152,543
weighted-average shares to be issued for litigation settlement	5,425	—	—
Effect of dilutive securities:			
Employee stock options and restricted common stock	—	4,277	—
Series A-1 convertible preferred stock	—	2,748	—
Cloudscape convertible preferred stock	—	5,794	—
Denominator for diluted net income (loss) per common share — adjusted weighted-average shares and assumed conversions	199,543	182,400	152,543
Basic net income (loss) per common share	$ (0.06)	$ 0.26	$ (2.37)
Diluted net income (loss) per common share	$ (0.06)	$ 0.25	$ (2.37)

The Company excluded potentially dilutive securities for each period presented from its diluted EPS computation because either the exercise price of the securities exceeded the average fair value of the Company's common stock or the Company had net losses, and, therefore, these securities were anti-dilutive. A summary of the excluded potentially dilutive securities and the related exercise/conversion features follows:

IN THOUSANDS DECEMBER 31,	1999	1998	1997
Potentially dilutive securities:			
Stock options	23,176	10,018	20,293
Stock warrants			
Common Stock			
(Series B Warrants)	176	1,750	1,750
Series A-1 Warrants	—	—	140
Series A-1 Convertible			
Preferred Stock			
Preferred Shares	—	—	160
Equivalent common shares upon assumed conversion	—	—	4,955
Series B Convertible			
Preferred Stock			
Preferred Shares	7	23	50
Equivalent common shares upon assumed conversion	2,568	7,901	3,387
Cloudscape Convertible Preferred Stock	—	—	3,409
Cloudscape Restricted Common Stock	212	—	992

The stock options have per share exercise prices ranging from $0.08 to $33.25, $6.75 to $42.09, and $0.08 to $34.25, at December 31, 1999, 1998 and 1997, respectively.

The warrants to purchase shares of Common Stock of the Company (the "Series B Warrants") were issued in connection with the conversion of certain shares of the Company's Series B Preferred into shares of Common Stock of the Company. Upon conversion of the Series B Preferred, the holders are eligible to receive Series B Warrants to purchase that number of shares of the Company's Common Stock equal to 20% of the shares of the Company's Common Stock into which the Series B Preferred is convertible. As of December 31, 1999, approximately 1,939,000 Series B Warrants have been issued at a per share exercise price of $7.84. The Series B Warrants are exercisable through November 2002.

Warrants to purchase shares of the Company's Series A-1 Preferred (the "Series A-1 Warrants") were exercised into shares of Series A-1 Preferred at a per share price of $250 and converted into 8,125,000 shares of Common Stock during 1998. No Series A-1 Warrants were outstanding as of December 31, 1998 and 1999.

Certain of the outstanding shares of Cloudscape Common Stock held by employees are subject to repurchase upon termination of employment. The number of shares subject to this repurchase right decreases as the shares vest over time, generally for four years. As of December 31, 1999, 1998 and 1997, 212,000, 1,407,000, and 992,000 shares, respectively, were subject to repurchase at a weighted-average exercise price of $0.24, $0.13, and $0.02, respectively.

note 7
EMPLOYEE BENEFIT PLANS

Option Plans

Under the Company's 1986 Employee Stock 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. Unissued options under the 1986 Plan expired on July 29, 1996, which was 10 years after adoption of the plan.

Additionally, 1,600,000 shares were authorized for issuance under the 1989 Outside Directors Stock Option Plan, whereby non-employee directors are automatically granted non-qualified stock options upon election or re-election to the Board of Directors. At December 31, 1999, 635,000 shares were available for grant under this Plan.

In April 1994, the Company adopted the 1994 Stock Option and Award Plan; 8,000,000 shares were authorized for grant under this Plan. Options can be granted to employees on terms substantially equivalent to those described above. The 1994 Stock Option and Award Plan also allows the Company to award performance shares of the Company's common stock to be paid to recipients on the achievement of certain performance goals set with respect to each recipient. In May 1997, the Company's stockholders approved an additional 8,000,000 shares to be reserved for issuance under the Company's 1994 Stock Option and Award Plan. At December 31, 1999, 2,531,662 shares were available for grant under this Plan.

In July 1997, the Company's Board of Directors approved a resolution authorizing the grant of a maximum of 500,000 non-statutory stock options to executives and other employees, as determined by the Board, under the newly created 1997 Non-Statutory Stock Option Plan ("the 1997 Stock Plan"). The authorization of such shares for grant under the 1997 Stock Plan is not subject to stockholder approval. Terms of each option are determined by the Board or committee delegated such duties by the Board. Concurrent with the authorization of the 1997 Stock Plan, the Board granted the Company's current Chairman of the Board and former chief executive officer 500,000 options to purchase the Company's common stock thereunder. Such options vest ratably over five years beginning with the first anniversary of the date of grant.

In September 1997, the Company's Board of Directors authorized the repricing of outstanding options to purchase Common Stock under the Company's stock option plans. Employees were eligible to participate only if they remained actively employed at the effective date of the repricing and were only permitted to exchange options granted and outstanding prior to May 1, 1997. The repricing/option exchange was effective November 21, 1997 (the "Repricing Effective Date"). The repricing program offered eligible employees the opportunity to exchange eligible outstanding options with exercise prices in excess of the closing sales price of the Company's Common Stock on the Repricing Effective Date for a new option with an exercise price equal to such price. Other than the exercise price, each new option issued upon exchange has terms substantially equivalent to the surrendered option, including the number of shares, vesting terms and expiration except that options issued in connection with the exchange may not be exercised for a period of one year from the Repricing Effective Date. In addition, officers of the Company participating in the option exchange were required to forfeit 20% of the shares subject to each option being surrendered. The exercise price for repriced options was $7.1563, the closing sales price of the Company's Common Stock on the Repricing Effective Date.

In December 1997, the Company's Board of Directors authorized the repricing of outstanding options to purchase Common Stock under the Company's stock option plans. Employees were eligible to participate only if they remained actively employed at the effective date of the repricing and were only permitted to exchange options granted and outstanding prior to May 1, 1997. The repricing/option exchange was effective January 9, 1998 (the "Repricing Effective Date"). The repricing program offered eligible employees the opportunity to exchange eligible outstanding options with exercise prices in excess of the closing sales price of the Company's Common Stock on the Repricing Effective Date for a new option with an exercise price equal to such price. Other than the exercise price, each new option issued upon exchange has terms substantially equivalent to the surrendered option, including the number of shares, vesting terms and expiration except that options issued in connection with the exchange may not be exercised for a period of one year from the Repricing Effective Date. In addition, Officers and Directors of the Company were not eligible to have their shares repriced. The exercise price for repriced options was $5.0938, the closing sales price of the Company's Common Stock on the Repricing Effective Date.

In July 1998, the Company adopted the 1998 Non-Statutory Stock Option Plan ("the 1998 Stock Option Plan"); 5,500,000 shares were originally authorized for grant under this Plan. During 1999, the Company's Board of Directors authorized an additional 5,000,000 shares for grant under the 1998 Stock Option Plan. Options can be granted to employees on terms substantially equivalent to those described above. At December 31, 1999, 2,272,878 shares were available for grant under this Plan.

As a result of its acquisition of Red Brick Systems, Inc. ("Red Brick") in December 1998, the Company assumed all outstanding Red Brick stock options which had been issued under Red Brick's 1995 Stock Option Plan (including options granted under the predecessor 1991 Stock Option Plan) and Supplemental Stock Option Plan. Each Red Brick stock option so assumed is subject to the same terms and conditions as the original grant, except that each option was adjusted at a ratio of 0.6 shares of Informix Common Stock for each one share of Red Brick Common Stock, and the exercise price was adjusted by dividing the exercise price by 0.6.

As a result of its acquisition of Cloudscape, Inc. ("Cloudscape") in October 1999, the Company assumed all outstanding Cloudscape stock options which had been issued under Cloudscape's 1996 Equity Incentive Plan. Each Cloudscape stock option so assumed is subject to the same terms and conditions as the original grant, except that each option was adjusted at a ratio of approximately 0.56 shares of Informix Common Stock for each one share of Cloudscape Common Stock, and the exercise price was adjusted by dividing the exercise price by approximately 0.56.

Following is a summary of activity for all stock option plans for the three years ended December 31, 1999:

	NUMBER OF SHARES	WEIGHTED AVERAGE EXERCISE PRICE
Outstanding at December 31, 1996	17,133,416	$13.4345
Options granted and assumed	14,490,877	7.8068
Options exercised	(1,323,543)	2.5278
Options canceled	(10,008,150)	18.6873
Outstanding at December 31, 1997	20,292,600	7.5365
Options granted	10,436,982	5.3548
Options assumed	2,466,727	5.4012
Options exercised	(3,671,072)	2.3459
Options canceled	(8,866,872)	9.1573
Outstanding at December 31, 1998	20,658,366	6.4061
Options granted	10,905,977	8.5185
Options exercised	(3,350,263)	4.2810
Options canceled	(5,038,551)	7.3150
Outstanding at December 31, 1999	23,175,529	$ 7.4628

The following table summarizes information about options outstanding at December 31, 1999:

	OPTIONS OUTSTANDING			OPTIONS EXERCISABLE	
RANGE OF EXERCISE PRICES	NUMBER OUTSTANDING AS OF DECEMBER 31, 1999	WEIGHTED AVERAGE REMAINING CONTRACTUAL LIFE	WEIGHTED AVERAGE EXERCISE PRICE	NUMBER EXERCISABLE AS OF DECEMBER 31, 1999	WEIGHTED AVERAGE EXERCISE PRICE
$0.080 to $5.094	4,364,637	6.19	$ 3.967	2,998,020	$ 3.927
$5.156 to $6.750	3,377,429	8.43	5.607	996,183	5.764
$6.781 to $9.031	10,708,872	8.81	7.802	2,009,274	8.251
$9.063 to $13.340	4,630,297	8.68	11.018	990,260	10.837
$16.880 to $33.250	94,294	5.61	22.366	88,565	22.246
$0.080 to $33.250	23,175,529	8.22	7.463	7,082,302	6.608

In connection with all stock option plans, 30,089,289 shares of Common Stock were reserved for issuance as of December 31, 1999, and 7,082,302 options were exercisable. At December 31, 1998, 31,869,993 shares of Common Stock were reserved for issuance, and 6,143,986 options were exercisable.

Employee Stock Purchase Plan

The Company had a qualified Employee Stock Purchase Plan (the Plan) under which 7,600,000 shares of common stock, in the aggregate, were authorized for issuance. Under the terms of the Plan, employees could contribute, through payroll deductions, up to 10 percent of their base pay and purchase up to 20,000 shares per quarter (with the limitation of purchases of $25,000 annually in fair market value of the shares). Employees could elect to withdraw from the Plan during any quarter and have their contributions for the period returned to them. Also, employees could elect to reduce the rate of contribution one time in each quarter. The price at which employees could purchase shares was 85 percent of the lower of the fair market value of the stock at the beginning or end of the quarter. The Plan was qualified under Section 423 of the Internal Revenue Code of 1986, as amended. During 1997, the Company issued 573,343 shares under this Plan. The Plan was terminated on July 1, 1997, which was 10 years after the offering date for the Plan's first offering period.

In May 1997, the Company's stockholders approved the 1997 Employee Stock Purchase Plan (the "1997 ESPP"). The Company has reserved 4,000,000 shares of Common Stock for issuance under the 1997 ESPP. The 1997 ESPP permits participants to purchase Common Stock through payroll deductions of up to 15 percent of an employee's compensation, including commissions, overtime, bonuses and other incentive compensation. The price of Common Stock purchased under the 1997 ESPP is equal to 85 percent of the lower of the fair market value of the Common Stock at the beginning or at the end of each calendar quarter in which an eligible employee participates. The Plan qualifies as an employee stock purchase plan under Section 423 of the Internal Revenue Code of 1986, as amended. During 1999 and 1998, the Company issued approximately 1,187,000 shares and 1,613,000 shares, respectively, under the 1997 ESPP. No shares of Common Stock were issued under this plan during fiscal 1997.

Stock-Based Compensation

As permitted under Statement of Financial Accounting Standards No. 123 (SFAS 123), "Accounting for Stock-Based Compensation," the Company has elected to continue to follow Accounting Principles Board Opinion No. 25 (APB 25), "Accounting for Stock Issued to Employees" in accounting for stock-based awards to employees. Under APB 25, the Company generally recognizes no compensation expense with respect to such awards.

Pro forma information regarding the net income (loss) and net income (loss) per share is required by SFAS 123 for awards granted or modified after December 31, 1994 as if the Company had accounted for its stock based awards to employees under the fair value method of SFAS 123. The fair value of the Company's stock-based awards to employees was estimated using a Black-Scholes option pricing model.

The fair value of the Company's stock-based awards was estimated assuming no expected dividends and the following weighted-average assumptions:

	OPTIONS			ESPP		
	1999	1998	1997	1999	1998	1997
Expected life (years)	4.5	4.5	4.5	.25	.25	.25
Expected volatility	73%	73%	79%	73%	56-95%	51-90%
Risk-free interest rate	5.7%	4.7%	5.7%	4.6-5.1%	4.7-5.3%	5.2-5.4%

For pro forma purposes, the estimated fair value of the Company's stock based awards is amortized over the award's vesting period (for options) and the three month purchase period (for stock purchases under the ESPP). The Company's pro forma information follows:

IN THOUSANDS EXCEPT FOR PER SHARE INFORMATION

	1999	1998	1997
Net income (loss) applicable to common stockholders			
As reported	$(12,159)	$44,724	$(362,290)
Pro forma	(45,582)	9,745	(391,115)
Net income (loss) per common share:			
Basic			
As reported	$ (0.06)	$ 0.26	$ (2.37)
Pro forma	(0.23)	0.06	(2.56)
Diluted			
As reported	(0.06)	0.25	(2.37)
Pro forma	(0.23)	0.05	(2.56)

Calculated under SFAS 123, the weighted-average fair value of the options granted during 1999, 1998 and 1997 was $5.24, $3.58 and $5.26 per share, respectively. The weighted average fair value of employee stock purchase rights granted under the ESPP during 1999, 1998 and 1997 were $2.83, $1.91 and $3.83 per share, respectively.

401(k) Plan

The Company has a 401(k) plan covering substantially all of its U.S. employees. Under this plan, participating employees may defer up to 15 percent of their pre-tax earnings, subject to the Internal Revenue Service annual contribution limits. The Company matches 50 percent of each employee's contribution up to a maximum of $2,000. The Company's matching contributions to this 401(k) plan for 1999, 1998 and 1997 were $4.2 million, $3.5 million and $4.2 million, respectively.

note 8

COMMITMENTS AND CONTINGENCIES

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,	1999	1998
Computer and office equipment	$8,797	$10,023
Less: accumulated amortization	7,037	5,147
	$1,760	$ 4,876

During 1998 and 1997, the Company financed approximately $1.9 million and $10.5 million, respectively, of equipment purchases under capital lease arrangements. The Company did not finance a significant amount of equipment purchases under capital lease arrangements during 1999. Amortization of the cost of leased equipment is included in depreciation expense.

The Company leases certain of its office facilities and equipment under non-cancelable operating leases and total rent expense was $35.7 million, $30.7 million and $34.8 million in 1999, 1998 and 1997, respectively.

In November 1996, the Company leased approximately 200,000 square feet of office space in Santa Clara, California. The lease term is for fifteen years and minimum lease payments amount to $96.0 million over the term. The minimum lease payments increase within a contractual range based on changes in the Consumer Price Index. In the fourth quarter of 1997, the Company assigned the lease to an unrelated third party. The Company remains contingently liable for minimum lease payments under this assignment.

Future minimum payments, by year and in the aggregate, under the capital and non-cancelable operating leases as of December 31, 1999, are as follows:

IN THOUSANDS

YEAR ENDING DECEMBER 31	CAPITAL LEASES	NON-CANCELABLE OPERATING LEASES
2000	$1,955	$ 32,542
2001	73	26,787
2002	—	20,047
2003	—	13,087
2004	—	7,696
Thereafter	—	6,313
Total payments	2,028	$106,472
Less: amount representing interest	101	
Present value of minimum lease payments	1,927	
Less current portion	1,862	
	$ 65	

The Company has several active software development and service provider contracts with third-party technology providers. These agreements contain financial commitments by the Company of $8.7 million, $7.8 million and $4.7 million in fiscal 2000, 2001 and 2002, respectively. In addition, the Company makes annual payments of approximately $1.9 million to third-party technology providers, and will continue to do so for such period as the Company utilizes the related technology in its products.

note 9

BUSINESS SEGMENTS

In recent years, the Company has operated under four reportable operating segments which report to the Company's president and chief executive officer, (the "Chief Operating Decision Maker"). These reportable operating segments, North America, Europe, Asia/Pacific and Latin America, are organized, managed and analyzed geographically and operate in one industry segment: the development and marketing of information management software and related services. The Company has evaluated operating segment performance based primarily on net revenues and certain operating expenses. The Company's products are marketed internationally through the Company's subsidiaries and through application resellers, OEMs and distributors.

Financial information for the Company's North America, Europe, Asia/Pacific and Latin America operating segments is summarized below by year:

IN THOUSANDS

	NORTH AMERICA	EUROPE	ASIA/ PACIFIC	LATIN AMERICA	OTHER[3]	TOTAL
1999:						
Net revenues from unaffiliated customers	$ 457,235	$263,868	$88,424	$62,009	$ —	$ 871,536
Transfers between segments[1]	(34,259)	19,738	7,776	6,745	—	—
Total net revenues	422,976	283,606	96,200	68,754	—	871,536
Operating income[2]	50,926	11,861	30,963	3,700	1,063	98,513
Identifiable assets at December 31	724,199	43,131	9,609	15,167	(145,894)	646,212
Depreciation and amortization expense	35,916	6,291	3,092	1,524	—	46,823
Capital expenditures	18,767	4,116	903	1,047	—	24,833
1998:						
Net revenues from unaffiliated customers	$ 367,373	$240,964	$77,191	$49,978	$ —	$ 735,506
Transfers between segments[1]	(11,256)	(52)	4,093	7,215	—	—
Total net revenues	356,117	240,912	81,284	57,193	—	735,506
Operating income (loss)[2]	(1,281)	59,306	1,733	(7,173)	701	53,286
Identifiable assets at December 31	694,652	138,470	76,918	40,328	(328,303)	622,065
Depreciation and amortization expense	31,839	9,771	3,718	1,485	—	46,813
Capital expenditures	15,065	4,099	853	794	—	20,811
1997:						
Net revenues from unaffiliated customers	$ 307,870	$224,829	$81,130	$50,063	$ —	$ 663,892
Transfers between segments[1]	(7,147)	3,242	333	3,572	—	—
Total net revenues	300,723	228,071	81,463	53,635	—	663,892
Operating income (loss)[2]	$(231,542)	(77,871)	(48,814)	4,210	(5,436)	(359,453)
Identifiable assets at December 31	558,253	130,174	61,875	38,948	(223,229)	566,021
Depreciation and amortization expense	34,325	23,238	7,023	1,108	—	65,694
Capital expenditures	71,087	15,102	6,534	1,489	—	94,211

[1] The Company makes allocations of revenue to operating segments depending on the location of the country where the order is placed, the location of the country where the license is installed or service is delivered, the type of revenue (license or service) and whether the sale was through a reseller or to an end user.

The accounting policies of the segments are the same as those described in Note 1 — Summary of Significant Accounting Policies.

[2] Operating income/(loss) excludes the effect of transfers between segments.

[3] Represents consolidating adjustments such as elimination of intercompany balances.

The reconciliation of the operating income (loss) of the Company's reportable operating segments to the Company's income (loss) before income taxes is as follows:

IN THOUSANDS

YEARS ENDED DECEMBER 31,	1999	1998	1997
Operating income (loss) of reportable operating segments	$ 97,450	$52,585	$(354,017)
Consolidating adjustments	1,063	701	(5,436)
Other income (expense)	(87,796)	1,298	6,882
Income (loss) before income taxes	$ 10,717	$54,584	$(352,571)

On October 1, 1999, the Company created four new business groups which began reporting to the Company's Chief Operating Decision Maker: the TransAct Business Group, which is responsible for delivering on-line transaction processing products; the i.Foundation Business Group, which is responsible for delivering products that provide the technological foundation for Internet-based electronic commerce solutions; the i.Informix Business Group, which is responsible for delivering Internet-based solutions for electronic commerce; and the i.Intelligence Business Group, which is responsible for delivering Internet-based data warehouse products and solutions. Financial information for the Company's TransAct, i.Foundation, i.Informix and i.Intelligence business groups for 1999 is summarized below (due to the creation of these business groups in the fourth quarter of 1999, certain information was not practicable to obtain for current and prior years):

IN THOUSANDS

	TRANSACT	I.INTELLIGENCE	I.FOUNDATION	I.INFORMIX	TOTAL
Total net revenues	$693,207	$85,999	$76,210	$16,120	$871,536

The Company's revenues are derived from licensing its database servers and related tools and connectivity/gateway software, and performing services, which include maintenance and consulting/training. Information as to the Company's revenues from external customers for all reportable segments is as follows:

IN MILLIONS

	1999	1998	1997
License revenues[1]	$442.8	$383.9	$378.2
Service revenues			
Maintenance	325.6	253.7	188.0
Consulting and training	103.1	97.9	97.7
	428.7	351.6	285.7
	$871.5	$735.5	$663.9

[1] Financial data for the Company's license revenues by product is not practicable to obtain due to the bundling of software products and services into the Company's solutions offerings.

Information as to the Company's operations in different geographical areas is as follows:

IN MILLIONS

	1999	1998	1997
Revenues, net of transfers between segments:			
United States	$423.0	$356.1	$300.7
Total North America	423.0	356.1	300.7
United Kingdom	74.7	63.8	61.0
Germany	72.5	69.2	63.8
France	27.1	19.5	26.2
Spain	14.3	10.8	7.0
Italy	13.6	10.9	18.0
Other countries	81.4	66.7	52.1
Total Europe	283.6	240.9	228.1
Japan	31.5	26.2	18.7
China	15.7	9.7	3.4
Australia	8.9	6.6	6.9
Korea	8.6	5.6	12.4
Hong Kong	6.6	10.8	16.1
Other countries	24.9	22.4	24.0
Total Asia/Pacific	96.2	81.3	81.5
Mexico	31.4	21.6	18.8
Brazil	9.6	11.3	9.2
Argentina	9.0	7.5	7.9
Other countries	18.7	16.8	17.7
Total Latin America	68.7	57.2	53.6
	$871.5	$735.5	$663.9

IN MILLIONS

	1999	1998
Property and equipment, net		
United States	$46.9	$57.8
Other	0.2	0.2
Total North America	47.1	58.0
United Kingdom	1.5	2.0
Germany	1.8	3.9
France	1.0	1.3
Ireland	1.7	1.1
Other countries	2.4	3.6
Total Europe	8.4	11.9
Asia/Pacific	2.5	3.0
Latin America	2.6	2.9
Total Asia/Pacific and Latin America	5.1	5.9
	$60.6	$75.8

No single customer accounted for 10% or more of the consolidated revenues of the Company in fiscal 1999, 1998 or 1997.

note 10

INCOME TAXES

The provision for income taxes applicable to income (loss) before income taxes consists of the following:

IN THOUSANDS

	1999	1998	1997
Currently payable:			
Federal	$ 3,896	$ 2,690	$ (2,264)
State	56	90	—
Foreign	8,926	(1,357)	10,415
	12,878	1,423	8,151
Deferred:			
Federal	5,544	(4,071)	(3,857)
State	(957)	(1,461)	(189)
Foreign	4,417	8,509	3,712
	9,004	2,977	(334)
	$21,881	$ 4,400	$ 7,817

Income (loss) before income taxes consists of the following:

IN THOUSANDS

	1999	1998	1997
Domestic	$(26,868)	$ 2,704	$(230,787)
Foreign	37,585	51,880	(121,784)
	$ 10,717	$54,584	$(352,571)

The provision for income taxes differs from the amount computed by applying the federal statutory income tax rate to income (loss) before income taxes. The sources and tax effects of the differences are as follows:

IN THOUSANDS

	1999		1998		1997	
	AMOUNT	PERCENT	AMOUNT	PERCENT	AMOUNT	PERCENT
Computed tax (benefit) at federal statutory rate	$ 3,751	35.0%	$ 19,104	35.0%	$(123,400)	(35.0)%
Valuation allowance	(12,689)	(118.4)	(11,194)	(20.5)	118,211	33.5
State income taxes, net of federal tax benefit	89	0.8	(1,372)	(2.5)	—	0.0
Foreign withholding taxes not currently creditable	8,957	83.6	2,690	4.9	—	0.0
Foreign taxes, net	19,426	181.3	(4,395)	(8.0)	10,415	3.0
Other, net	2,348	21.9	(433)	(0.8)	2,591	0.7
	$ 21,881	204.2%	$ 4,400	8.1%	$7,817	2.2%

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial statement purposes and the amounts used for income tax purposes. Significant components of the Company's deferred tax assets and liabilities as of December 31, 1999 and 1998 are as follows:

IN THOUSANDS

	1999	1998
Deferred Tax Assets:		
Reserves and accrued expenses	$ 6,737	$ 7,981
Deferred revenue	3,098	3,381
Foreign net operating loss carryforwards	18,526	43,490
Domestic net operating loss carryforwards	81,752	83,132
Domestic net operating loss carryback	23,085	—
Foreign taxes credit	10,077	7,247
R&D credit carryforwards	25,552	22,218
Other	5,199	11,146
Total deferred tax assets	174,026	178,595
Valuation allowance for deferred tax assets	(149,798)	(162,487)
Deferred tax assets, net of valuation allowance	24,228	16,108
Deferred Tax Liabilities:		
Capitalized software	15,473	14,130
Valuation of investment portfolio FAS 115	3,211	1,978
Total deferred tax liabilities	18,684	16,108
Net deferred tax assets	$ 5,544	$ —

At December 31, 1999, the Company had approximately $66.5 million, $209.1 million and $209.1 million of foreign, federal and state net operating loss carryforwards, respectively. The foreign and state net operating loss carryforwards expire at various dates beginning in 1999. The federal net operating loss carryforwards expire at various dates beginning in 2007. Income taxes paid amounted to $10.0 million, $4.7 million and $11.3 million in 1999, 1998 and 1997, respectively. The valuation allowance for deferred tax assets decreased by $12.7 million in 1999 and $17.4 million in 1998 and increased by $133.4 million in 1997. The net deferred tax asset of $5.5 million at December 31, 1999 represents the tax effect of net operating loss carryforwards existing in certain foreign jurisdictions that the Company believes are more likely than not to be realized, based on the earnings in those jurisdictions.

Subsequently recognized tax benefits relating to the valuation allowance for deferred tax assets at December 31, 1999 will be as follows:

Income tax benefit from continuing operations	$127,008
Goodwill and other noncurrent intangible assets	14,127
Additional paid-in capital	8,663
Total	$149,798

note 11

BUSINESS COMBINATIONS

On November 30, 1999, the Company reached a definitive agreement (the "Ardent Agreement") to acquire Ardent Software, Inc. ("Ardent"), the leading provider of data integration infrastructure software for data warehouse, business intelligence, and e-business applications. In accordance with the Ardent Agreement, 3.5 shares of the Company's common stock will be exchanged for each outstanding Ardent share and the Company will assume all outstanding Ardent options. The transaction is expected to be accounted for as a pooling of interests and completion of the transaction, which is subject to the approval of stockholders of both companies, is expected to occur in the first quarter of 2000.

On October 8, 1999, the Company completed its acquisition of Cloudscape, a privately-held provider of synchronized database solutions for the remote and occasionally connected workforce. In the acquisition, the former shareholders of Cloudscape received shares of the Company's Common Stock in exchange for their shares of Cloudscape at the rate of approximately 0.56 shares of Informix Common Stock for each share of Cloudscape Common Stock (the "Merger"). An aggregate of 9,583,000 shares of Informix Common Stock were issued pursuant to the Merger, and an aggregate of 417,000 options and warrants to purchase Cloudscape Common Stock were assumed by Informix.

The Company recorded a charge of $2.8 million for accrued merger and integration costs. This amount included $1.2 million for financial advisor, legal and accounting fees related to the merger and $1.6 million for costs associated with combining the operations of the two companies including expenditures of $0.7 million for severance and related costs, $0.4 million for closure of facilities and $0.5 million for the write-off of redundant assets and other costs. As of December 31, 1999, $1.1 million had been paid for financial advisor, legal and accounting fees, $0.2 million had been paid for severance and related costs and $0.2 million had been charged for the write-off of redundant assets.

The Merger was accounted for as a pooling-of-interests combination and, accordingly, the consolidated financial statements for periods prior to the combination have been restated to include the accounts and results of operations of Cloudscape. The results of operations previously reported by the separate enterprises and the combined amounts presented in the accompanying consolidated financial statements are summarized below.

	NINE MONTHS ENDED SEPTEMBER 30,	YEARS ENDED DECEMBER 31,	
	1999	1998	1997
Net revenues:			
Informix	$619,207	$734,983	$ 663,892
Cloudscape	1,217	523	—
Combined	$620,424	$735,506	$ 663,892
Net income (loss):			
Informix	$ (47,605)	$ 57,718	$(356,867)
Cloudscape	(6,329)	(7,534)	(3,521)
Combined	$ (53,934)	$ 50,184	$(360,388)

No adjustments were necessary to conform accounting policies of the combined entities.

On December 31, 1998, the Company acquired Red Brick Systems, Inc. (“Red Brick”), a provider of scalable decision support solutions for data warehousing, data marts, OLAP and data mining. Under terms of the acquisition, the Company issued approximately 7.6 million shares of its Common Stock in exchange for all outstanding shares of Red Brick Common Stock. In addition, the Company issued options to purchase approximately 2.5 million shares of the Company’s Common Stock in exchange for outstanding unvested options to purchase Red Brick common stock. The acquisition was accounted for using the purchase method of accounting, and a summary of the purchase price for the acquisition is as follows (in thousands):

Stock and stock options, net of issuance costs	$35,914
Direct acquisition costs	1,042
Other liabilities assumed	5,892
Accrued merger and integration costs	7,850
Deferred revenue	5,149
Total	$55,847

The purchase price was allocated as follows:

Cash and short-term investments acquired	$ 7,763
Other tangible assets acquired	10,281
Intangible assets	
Capitalized software	7,400
Workforce	4,700
Goodwill	23,103
	35,203
In-process research and development	2,600
Total	$55,847

In-process research and development represents the fair value of technologies acquired for use in the Company’s own development efforts. The Company determined the amount of the purchase price to be allocated to in-process research and development based on an independent appraisal of certain intangible assets which indicated that approximately $2.6 million of the acquired intangible assets consisted of in-process research and development that had not yet reached technological feasibility and had no alternative future uses. Accordingly, the Company recorded a charge to operations of $2.6 million in the fourth quarter of fiscal 1998. The remaining intangible assets acquired, with an assigned value of approximately $35.2 million, were included in “Intangible Assets” in the accompanying consolidated balance sheets, and are being amortized over three to five years.

Accrued merger and integration costs recorded in connection with the acquisition of Red Brick included approximately $1.6 million for severance and other acquisition-related costs, $4.7 million for costs associated with the shutdown and consolidation of the Red Brick facilities and $1.6 million for costs associated with settling acquired royalty commitments for abandoned technology. As of December 31, 1999, $0.9 million had been paid for severance and other acquisition-related costs, $1.5 million had been paid for costs associated with the shutdown and consolidation of Red Brick facilities and $1.0 million had been paid to settle acquired royalty commitments for abandoned technology. During 1999, accrued merger and integration costs were reduced by $3.1 million, which resulted in a corresponding $3.1 million decrease in goodwill. These adjustments were the result of a decrease of approximately $2.3 million in the estimated costs associated with various former Red Brick facilities due to a change in the amount of sublease income to be received for such facilities, a decrease of approximately $0.7 million in severance-related costs and a decrease of $0.1 million in royalty commitments.

The following pro forma financial information presents the combined results of operations of Informix and Red Brick as if the acquisition had occurred as of the beginning of 1998 and 1997, after giving effect to certain adjustments, including amortization of goodwill and excluding the write-off of acquired in-process research and development. The pro forma financial information does not necessarily reflect the results of operations that would have occurred had the two companies constituted a single entity during such periods.

IN THOUSANDS, EXCEPT FOR PER SHARE DATA

YEAR ENDED DECEMBER 31,	1998	1997
Net revenues	$769,989	$ 707,207
Net income (loss)	21,866	(385,452)
Net income (loss) per share	0.09	(2.38)

In February 1997, the Company acquired all of the outstanding capital stock of CenterView Software, Inc. ("CenterView"), a privately-owned company which develops and sells software application development tools. The aggregate purchase price paid was approximately $8.7 million, which included cash and direct acquisition costs. The transaction has been accounted for as a purchase and, based on an independent appraisal of the assets acquired and liabilities assumed, the purchase price has been allocated to the net tangible and intangible assets acquired, including developed software technology, acquired workforce, in-process technology, and goodwill. The in-process technology, which based on the independent appraisal has been valued at $7 million, had not, at the date of acquisition, reached technological feasibility and had no alternative future uses in other research and development projects. Consequently, its value was charged to operations in the first quarter of fiscal 1997, the period the acquisition was consummated. The remaining identifiable intangible assets are being amortized over three to five years.

note 12

LITIGATION

Commencing in April 1997, a series of class action lawsuits purportedly by or on behalf of stockholders and a separate but related stockholder action were filed in the United States District Court for the Northern District of California. These actions name as defendants the Company, certain of its present and former officers and directors and, in some cases, its former independent auditors. The complaints allege various violations of the federal securities laws and seek unspecified but potentially significant damages. Similar actions were also filed in California state court and in Newfoundland, Canada.

Stockholder derivative actions, purportedly on behalf of the Company and naming virtually the same individual defendants and the Company's former independent auditors, were also filed, commencing in August 1997, in California state court. While these actions allege various violations of state law, any monetary judgments in these derivative actions would accrue to the benefit of the Company.

Pursuant to Delaware law and certain indemnification agreements between the Company and each of its current and former officers and directors, the Company is obligated to indemnify its current and former officers and directors for certain liabilities arising from their employment with or service to the Company. This includes the costs of defending against the claims asserted in the above-referenced actions and any amounts paid in settlement or other disposition of such actions on behalf of these individuals. The Company's obligations do not permit or require it to provide such indemnification to any such individual who is adjudicated to be liable for fraudulent or criminal conduct. Although the Company has purchased directors' and officers' liability insurance to reimburse it for the costs of indemnification for its directors and officers, the coverage under its policies is limited. Moreover, although the directors' and officers' insurance coverage presumes that 100 percent of the costs incurred in defending claims asserted jointly against the Company and its current and former directors and officers are allocable to the individuals' defense, the Company does not have insurance to cover the costs of its own defense or to cover any liability for any claims asserted against it. The Company has not set aside any financial reserves relating to any of the above-referenced actions.

On May 26, 1999, the Company entered into a memorandum of understanding regarding the settlement of pending private securities and related litigation against the Company. The settlement will resolve all material litigation arising out of the restatement of the Company's financial statements that was publicly announced in November, 1997. In accordance with the terms of the memorandum of understanding, the Company paid approximately $3.2 million in cash during the second quarter of 1999 and an additional amount of approximately $13.8 million of insurance proceeds was contributed directly by certain insurance carriers on behalf of certain of the Company's current and former officers and directors. The Company will also contribute a minimum of 9 million shares of the Company's common stock, which will have a guaranteed value of $91 million for a maximum term of one year from the date of the final approval of the settlement by the courts. The Company's former independent auditors, Ernst & Young LLP, will pay $34 million in cash. The total amount of the settlement, which has received final approval from both the federal and state courts will be $142 million.

In July 1997, the Securities and Exchange Commission ("SEC") issued a formal order of private investigation of the Company and certain unidentified other entities and persons with respect to non-specified accounting matters, public disclosures and trading activity in the Company's securities. During the course of the investigation, the Company learned that the investigation concerned the events leading to the restatement of the Company's financial statements, including fiscal years 1994, 1995 and 1996, that was publicly announced in November 1997. The Company and the SEC have entered into a settlement of the investigation as to the Company. Pursuant to the settlement, the Company consented to the entry by the SEC of an Order Instituting Public Administrative Proceedings Pursuant to Section 8A of the Securities Act of 1933 and Section 21C of the Securities Exchange Act of 1934, Making Findings, and Imposing a Cease and Desist Order (the "Order"). The Order was issued by the SEC on January 11, 2000. Pursuant to the Order, the Company neither admitted nor denied the findings, except as to jurisdiction, contained in the Order. The Order directs the Company to cease and desist from committing or causing any violation, and any future violation, of Section 17(a) of the Securities Act of 1933 ("Securities Act"), and Sections 10(b), 13(a) and 13(b) of the Securities Exchange Act of 1934 ("Exchange Act"), and Rules 10b-5, 12b-20 13a-1, 13a-13 and 13b2-1 under the Exchange Act. Pursuant to the Order, the Company also is required to cooperate in the SEC's continuing investigation of other entities and persons. As a consequence of the issuance of the Order, the Company is statutorily disqualified, pursuant to Section 27A(G)(1)(A)(ii) of the Securities Act and Section 21E(b)(1)(A)(ii) of the Exchange Act, for a period of three years from the date of the issuance of the Order, from relying on the protections of the "safe harbor" for forward-looking statements set forth in Section 27(A)(c) of the Securities Act and Section 21(E)(c) of the Exchange Act.

EXPO 2000 filed an action against Informix Software GmbH (the Company's German subsidiary) in the Hanover (Germany) district court in September 1998 seeking recovery of approximately $6.0 million, plus interest, for breach of a sponsorship contract signed in 1997. Informix filed a counterclaim for breach of contract and seeks recovery of approximately $3.1 million. During settlement negotiations prior to the filing of the action, EXPO 2000 stated that it would accept approximately $2.5 million to settle. In March 1999, a panel of three judges appointed by the court recommended a settlement pursuant to which EXPO 2000 and Informix would release the other from all claims. EXPO 2000 declined to accept the recommendation. In August 1999, the court entered a judgment against Informix in the amount of approximately $6.0 million, although approximately $2.1 million of judgment is conditioned upon the return to Informix by EXPO 2000 of certain software. Informix has filed an appeal. The Company has reserved $2.5 million for the expected outcome of the appeal.

On February 3, 2000, International Business Machines Corporation ("IBM") filed an action against us in the United States District Court for the District of Delaware alleging infringement of six United States patents owned by IBM. The Informix products that IBM alleges infringe its patents are Informix Online Dynamic Server versions 5, 6 and 7, Informix SE version 6, Informix NewEra version 1, Informix NET, Informix STAR, Illustra Visual Information Retrieval, and Illustra Visual Intelligence Viewer. In its complaint, IBM seeks a permanent injunction against further alleged infringement, unspecified compensatory damages, unspecified treble damages, and interest, costs and attorneys' fees. We strongly believe that the allegations in the complaint are without merit and intend to defend the action vigorously and to assert such counterclaims against IBM as may be appropriate.

From time to time, in the ordinary course of business, the Company is involved in various legal proceedings and claims. The Company does not believe that any of these proceedings and claims will have a material adverse effect on the Company's business or financial condition.

note 13

NONRECURRING CHARGES

In accordance with Statement of Financial Accounting Standards No. 121 (SFAS 121), "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of," the Company records impairment losses on long-lived assets used in its operations when events and circumstances indicate that the assets might be impaired and the estimated future undiscounted cash flows to be generated by those assets are less than the assets' carrying amounts. During the first quarter of 1997, the Company's Japanese subsidiary experienced a significant shortfall in business activity compared to historical levels. Accordingly, the Company evaluated the ongoing value of the subsidiary's long-lived assets (primarily computer and other equipment) and goodwill. Based on this evaluation, the Company determined that the subsidiary's assets had been impaired and wrote them down by $30.5 million to their estimated fair values. Fair value was determined using estimated future discounted cash flows and/or estimated resale values as appropriate.

In February 1997, the Company acquired CenterView Software (see Note 11) and, as a direct result, revised its database application tool business strategy to incorporate CenterView's developed technology and "Data Director" product. This revision to the tools business strategy significantly altered the Company's current and future marketing plans for its own NewEra family of application tools, including projected future NewEra product revenues. As a result, the Company reevaluated the net realizable value of its NewEra products and found it to be significantly below the net balance of related capitalized software development costs. Accordingly, the Company recorded a charge during the first quarter 1997 of $14.7 million to reduce the carrying value of these capitalized product development costs to the revised estimated net realizable value of the NewEra products.

In June 1997 and again in September 1997, the Company approved plans to restructure its operations in order to bring expenses in line with forecasted revenues. In connection with these restructurings, the Company substantially reduced its worldwide headcount and consolidated facilities and operations to improve efficiency. The following analysis sets forth the significant components of the restructuring expense charge and adjustments to restructuring expense included in the Company's consolidated statements of operations for the years ended December 31, 1999, 1998 and 1997 as well as the significant components of the restructuring reserve at December 31, 1999 (in millions):

	SEVERANCE & BENEFITS	FACILITY CHARGES	OTHER	TOTAL
Restructuring Expense	$21.9	$34.7	$ 3.4	$108.2
Cash payments	19.5	3.8	0.2	23.5
Non-cash costs	—	7.7	2.2	58.1
Accrual balances, December 31, 1997	$ 2.4	$23.2	$ 1.0	$ 26.6
Cash payments	0.1	8.8	0.5	9.4
Non-cash costs	—	1.1	—	1.1
Adjustments	2.2	8.1	—	10.3
Accrual balances, December 31, 1998	$ 0.1	$ 5.2	$ 0.5	$ 5.8
Cash payments	—	1.4	0.2	1.6
Non-cash costs	—	1.2	0.6	1.8
Adjustments	0.1	0.8	(0.3)	0.6
Accrual balances, December 31, 1999	$ —	$ 1.8	$ —	$ 1.8

Severance and benefits represent the reduction of approximately 670 employees, primarily sales and marketing personnel, on a worldwide basis. Temporary employees and contractors were also reduced. Write-off of assets include the write-off or write-down in carrying value of equipment as a result of the Company's decision to reduce the number of Information Superstores throughout the world, as well as the write-off of equipment associated with headcount reductions. The equipment subject to the write-offs and write-downs consisted primarily of computer servers, workstations, and personal computers that are no longer utilized in the Company's operations. Facility charges include early termination costs associated with the closing of certain domestic and international sales offices.

For the years ended December 31, 1999 and 1998, the Company recorded restructuring-related adjustments to decrease restructuring expense by $0.6 million and $10.3 million, respectively, primarily due to adjusting the estimated severance and facility charges to actual costs incurred. The Company has substantially completed actions associated with its restructuring except for subleasing or settling its remaining long-term operating leases related to vacated properties. The terms of such operating leases expire at various dates through 2003.

note 14
COMPREHENSIVE INCOME (LOSS)

On January 1, 1998, the Company adopted Statement of Financial Accounting Standards No. 130 (SFAS 130), "Reporting Comprehensive Income," which establishes standards for displaying comprehensive income and its components.

The components of accumulated other comprehensive income (loss) consist of the following items:

IN THOUSANDS

	FOREIGN CURRENCY	UNREALIZED GAINS/ (LOSSES) ON SECURITIES	ACCUMULATED OTHER COMPREHENSIVE INCOME/ (LOSS)
December 31, 1996	$(10,181)	$ 11,690	$ 1,509
Current-period change	(955)	(12,457)	(13,412)
December 31, 1997	(11,136)	(767)	(11,903)
Current-period change	3,351	5,202	8,553
December 31, 1998	(7,785)	4,435	(3,350)
Current-period change	(3,074)	133	(2,941)
December 31, 1999	$(10,859)	$ 4,568	$ (6,291)

The tax effect on components of comprehensive income (loss) is not significant.

note 15
RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In June 1998, the Financial Accounting Standards Board issued Statement No. 133 (SFAS 133), "Accounting for Derivative Instruments and Hedging Activities," which establishes standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. It requires an entity to recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value. SFAS 133 is effective for fiscal years beginning after June 15, 2000. Earlier application of SFAS 133 is encouraged but should not be applied retroactively to financial statements of prior periods. The Company is currently evaluating the requirements and impact of SFAS 133.

REPORT OF independent auditors

BOARD OF DIRECTORS AND STOCKHOLDERS

Informix Corporation

We have audited the accompanying consolidated balance sheets of Informix Corporation and subsidiaries as of December 31, 1999 and 1998, and the related consolidated statements of operations, stockholders' equity, and cash flows for the years then ended. The consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Informix Corporation and subsidiaries at December 31, 1999 and 1998, and the results of their operations and their cash flows for the years then ended, in conformity with generally accepted accounting principles.

KPMG LLP

Mountain View, California
January 26, 2000

BOARD OF DIRECTORS AND STOCKHOLDERS

Informix Corporation

We have audited the accompanying consolidated statements of operations, stockholders' equity, and cash flows of Informix Corporation for the year ended December 31, 1997. 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 audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States. 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 audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated results of Informix Corporation's operations and its cash flows for the year ended December 31, 1997, in conformity with accounting principles generally accepted in the United States.

Ernst & Young LLP

San Jose, California
March 2, 1998

directors and officers

Board of Directors

Jean-Yves F. Dexmier
President and Chief Executive Officer
Informix Corporation

Robert J. Finocchio, Jr.[3]
Chairman
Informix Corporation

Leslie G. Denend[3]
President (retired)
Network Associates, Inc.

James L. Koch[1, 2, 3]
Director of the Center for Science,
Technology and Society, and Professor of Management,
Santa Clara University

Thomas A. McDonnell[1, 2]
President and Chief Executive Officer
DST Systems, Inc.

George Reyes[1]
Vice President and Corporate Controller
Sun Microsystems, Inc.

Cyril J. Yansouni[1, 2, 3]
Chairman and Chief Executive Officer
Read-Rite Corporation

Robert M. Morrill
Individual Investor

Peter Gyenes
Former Chairman, President and CEO
Ardent Software, Inc.

1 Member of the Audit Committee

2 Member of the Compensation Committee

3 Member of the Nominating Committee

Corporate Officers

Robert J. Finocchio, Jr.
Chairman

Jean-Yves F. Dexmier
President and Chief Executive Officer

Charles F. Kane
Interim Chief Financial Officer

James F. Hendrickson
Senior Vice President & Group Executive,
i.Informix Business Group

F. Steven Weick
Senior Vice President & Group Executive,
i.Foundation Business Group

James Foy
Senior Vice President & Group Executive,
TransAct Systems Business Group

Charles W. Chang
Senior Vice President & Group Executive,
i.Intelligence Business Group

Michael R. Stonebraker
Vice President and Chief Technology Officer

James N. Marshall
Vice President, Corporate Marketing

Wayne E. Page
Vice President, Human Resources

Gary Lloyd
Vice President, Legal,
General Counsel and Secretary

William F. O'Kelly
Vice President and Treasurer

Karen L. Blasing
Vice President, Business Development Finance

corporate information

Annual Meeting

The Annual Meeting of Stockholders will be held at 10:00 A.M. on Wednesday, June 21, 2000 at Hyatt Rickey's, 4219 El Camino Real, Palo Alto, Calif.

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 the range of high and low sales prices for the Company's Common Stock on the NASDAQ National Market System.

	HIGH	LOW
Fiscal 1998		
First Quarter	$ 9.88	$4.81
Second Quarter	10.44	6.00
Third Quarter	7.91	3.50
Fourth Quarter	9.88	3.75
Fiscal 1999		
First Quarter	$14.00	$7.00
Second Quarter	9.81	6.03
Third Quarter	9.75	6.75
Fourth Quarter	13.31	6.38

Common Stockholders of Record

On April 24, 2000, there were approximately 4,340 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 cash dividends on its Common Stock and its present Policy is to retain its earnings to finance anticipated future growth.

Corporate Headquarters

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4100 Bohannon Drive
Menlo Park, CA 94025
(650) 926-6300
www.informix.com

Independent Auditors

KPMG LLP
Mountain View, California

Transfer Agent

BankBoston, N.A.
c/o Equiserve
P. O. Box 8040
Boston, Massachusetts 02266-8040
Investor Relations Number: (781) 575-3120
Internet Address: http://www.Equiserve.com

Forward Looking Statements

Any statements contained herein including without limitation statements to the effect that Informix or its management "believes," "expects," "anticipates," "plans," "may," "will," "projects," "continues," "intends," or "estimates," or statements concerning "potential," or "opportunity" or other variations thereof or comparable terminology or the negative thereof that are not statements of historical fact should be considered forward-looking statements as a result of certain risks and uncertainties. These risks and uncertainties could cause actual results and events to differ materially from historical or anticipated results and events. Investors and potential investors should review carefully the description of the risks and uncertainties which, together with other detailed information about Informix Corporation, is contained in the periodic reports that the company files from time to time with the Securities and Exchange Commission.

This annual report contains information that is accurate as of April 24, 2000, the date of the publication. The Company disclaims any obligation to update or correct the information as a result of financial, business or any other developments occurring at a later date.

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