



FORM 10-K

UNIFY CORP – UNFY

Filed: July 30, 2001 (period: April 30, 2001)

Annual report which provides a comprehensive overview of the company for the past year

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**
Washington, D.C. 20549

FORM 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended April 30, 2001

OR
 TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____

Commission File Number: 001-11807

UNIFY CORPORATION

(Exact name of Registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

94-2710559

(I.R.S. Employer Identification Number)

**2101 Arena Blvd, Suite 100
Sacramento, California 95834**

(Address of principal executive offices)

Telephone: (916) 928-6400

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act: None

Securities registered pursuant to Section 12(g) of the Act: Common Stock, \$0.0005 par value

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES NO

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

The aggregate market value of the voting stock held by non-affiliates of the Registrant, based upon the closing sale price of the Common Stock on June 30, 2001 as reported on over the counter market was approximately \$5,489,627 (\$0.30 per share). Shares of Common Stock held by each officer and director and by each person who owns 5% or more of the outstanding Common Stock have been excluded in that such persons may be deemed to be affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes. As of June 30, 2001, the Registrant had 19,976,647 shares of Common Stock outstanding.

PART I

The discussion in this Annual Report on Form 10-K and the documents incorporated herein by reference contain forward-looking statements that have been made pursuant to the provisions of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements are based on current expectations, estimates and projections about the software industry and certain assumptions made by the Company's management. Words such as "anticipates", "expects", "intends", "plans", "believes", "seeks", "estimates", variations of such words and similar expressions are intended to identify such forward-looking statements. These statements are not guarantees of future performance and are subject to certain risks, uncertainties and assumptions that are difficult to predict; therefore, actual results may differ materially from those expressed or forecasted in any such forward-looking statements. Such risks and uncertainties include, but are not limited to, those set forth herein under "Risk Factors." Unless required by law, the Company undertakes no obligation to update publicly any forward-looking statements, whether as a result of new information, future events or otherwise. However, readers should carefully review the risk factors set forth in other reports or documents the Company files from time to time with the Securities and Exchange Commission (the "SEC"), particularly the Company's Quarterly Reports on Form 10-Q and any Current Reports on Form 8-K.

ITEM 1. BUSINESS

The Company

Unify Corporation ("The Company") develops, markets and supports database and application development and deployment software and services. Unify's products ensure companies are able to better compete by enabling them to quickly and cost-effectively implement successful business solutions. Whether a company is developing a database, client/server or e-commerce applications, or just wants to take existing applications to the Web, Unify's products and services help companies solve some of their biggest IT challenges. Unify's software addresses these challenges by increasing developer productivity and by allowing customers to deliver applications with a low total cost of ownership in the application product life cycle.

Unify's products include application servers and application development tools for Web and client/server applications and databases. The Company offers consulting, education and customer support in countries all over the world through its international offices and distributor network. Companies worldwide including AT&T, Bear Sterns & Co., Lucent, Triple G and hundreds more have used Unify products to build, deploy and manage business and Web applications.

Unify was founded in 1980 and has been publicly traded since 1996. The Company boasts a long-standing customer base of more than 1,000 customers. Unify is known as being a leading software provider for independent software vendors ("ISVs") and software value added resellers ("VARs") who sell Web and business applications in diverse vertical markets such as healthcare, manufacturing, financial services and retail.

The Company's customers consist primarily of ISVs, VARs, corporate information technology ("IT") departments, solutions integrators ("SIs") and distributors. The Company targets its products to these markets through its e-commerce site and sales organizations in the United States, United Kingdom, France and Japan and indirectly to end-users through its worldwide network of distributors and VARs.

In addition to its facilities in Sacramento, the Company also has offices in the United Kingdom, France and Japan. The principal geographic markets for the Company's products are in the Americas, Europe, Japan, Asia Pacific and Australia. Unify was initially incorporated in California in 1980 and was reincorporated in Delaware in 1996.

Companies today are seeking to Web-enable applications whether it be throughout their entire enterprise or certain departmental applications. They seek Web-based access for their employees,

partners, suppliers and others that is easy and cost effective to implement. And as the number of companies conducting business online has increased, a growing number of companies are building Web applications that perform a combination of customer marketing, sales and operational functions.

Given today's economic and competitive factors, companies are seeking lower cost alternatives in their business initiatives, while implementing technology solutions that are necessary to attract and retain customers and remain competitive. Companies are increasingly looking to Internet technology to help them manage their infrastructure—by automating business processes and integrating diverse systems, centralizing key business transactions and information availability.

These business challenges have created demand for Web applications and Web-enabled applications. Web applications include all e-commerce and e-business transactions that are developed specifically for delivery over the Internet via a Web browser. Web-enabled applications take existing business applications and create a Web interface for key components or modules without needing to rewrite the entire application.

Today, companies are deploying Web applications to address strategic business needs such as increased customer service, streamlined business processes, improved employee productivity and of course, online transactions. For Web applications to be economically feasible, they must be scalable, high-performance and affordably priced.

Products

Unify's products help companies develop, deploy and manage business and Web applications easily and cost-effectively. Unify's mix of fourth generation ("4GL") and Java technologies allows companies to choose the platform best suited for their business goals. Unify's product families include Unify eWave, Unify VISION, Unify ACCELL and Unify DataServer.

Companies are deploying Web applications to address a wide range of strategic business needs including selling direct over the Internet, Web-enabling their supply chain, distribution channel or other business-to-business initiatives.

Unify eWave

The use of open standards, including Java technology, to achieve the low cost of deploying Web applications helps companies achieve a significant competitive advantage because they are not locked into one vendor or a proprietary technology for their applications. The Company believes that the openness, scalability and affordability of the Unify eWave product line makes Unify eWave particularly attractive for VARs. Based on the Java™ 2 Enterprise Edition (J2EE™) set of standards, the Unify eWave product family includes a Web application server, e-commerce framework and visual development tools.

Unify eWave Engine

Unify eWave Engine is a high-performance Web application server. A Web application server is a software program that hosts Web applications and enables access to these applications through Web browsers, client hardware devices and other applications.

Unify eWave Engine supports the J2EE standards, allowing companies to take advantage of JavaServer™Pages (JSP), servlets, and Enterprise Java Beans (EJB) technology to build dynamic Web applications that range from corporate intranets to full-featured e-commerce sites. Unify eWave Engine is available in two editions—Access Edition and Enterprise Edition. The Access Edition is for the single server deployment of Web applications based on JSP, servlets and EJB. The Enterprise Edition includes all the functionality of the Access Edition and allows multi-server deployment configurations. Unify eWave Engine is available for Windows NT, Windows 2000, Solaris and Linux.

Unify eWave Commerce

Unify eWave Commerce is a private label e-commerce framework for building Web-based storefronts and e-business sites based on J2EE technology. Delivered as a Java component framework, Unify eWave Commerce provides pre-built components including a shopping cart, order management, pricing, payment processing and merchandising management, as well as multi-store capabilities, and browser-based back office management. Unify eWave Commerce has been used to develop e-commerce sites for satellite imagery, jewelry and utility companies.

Unify eWave Visual Developer

Unify eWave Visual Developer is a software suite offering a visual environment for building dynamic Web applications based on JSP. The suite includes Macromedia® Dreamweaver™ UltraDev, Unify eWave Extensions for UltraDev and Unify eWave Engine. Macromedia Dreamweaver UltraDev is the industry's leading dynamic content authoring environment. The Extensions for UltraDev extend UltraDev to the J2EE environment, easily enabling Web-content authors to coordinate work with other team members to build J2EE-based solutions.

Unify VISION

Unify VISION is comprised of Unify VISION AppServer ("VISION AppServer") and Unify VISION AppBuilder ("VISION AppBuilder").

Unify VISION AppServer

VISION AppServer is a 4GL application server that allows organizations to integrate custom-built and packaged applications with the Internet. VISION's universal client architecture enables end users to access server-based application services from all client technologies such as Windows, HTML-based and Java-based applications. Unify VISION AppServer has a scalable architecture that delivers a high level of performance, availability and reliability by offering server replication, load balancing, fail-over and recovery, and publish-and-subscribe capabilities. VISION AppServer is available for Microsoft Windows NT, Linux, and all leading UNIX server platforms.

Unify VISION AppBuilder

The development environment for VISION AppServer is VISION AppBuilder, an object oriented, repository-based component framework designed to enable developers to rapidly create and easily modify application components. Its powerful pre-built components enable developers to focus on the business components and processes that make up the heart of their applications.

VISION Internet Integrator

VISION Internet Integrator provides a simple yet robust Object Oriented 4GL-programming environment to develop, debug and deploy business rules to drive dynamic Web applications. Internet Integrator is available as part of the Unify VISION Application Server product and takes advantage of all of the capabilities provided by the VISION development environment and application server.

ACCELL

ACCELL is a family of UNIX-based and Linux-based application development tools designed for the cost-effective development of mission-critical enterprise host-based applications. They are designed to maximize developer productivity through tight integration of 4GL technologies and optimized database features in a flexible development environment. ACCELL's database independent technology supports

native interfaces to leading database products including Oracle, Informix, a division of IBM, Sybase and Unify DataServer.

Unify DataServer

Unify DataServer is a high performance, easy-to-use family of database management products with minimal maintenance and memory requirements that can quickly accommodate the growth of user requirements over time. Unify DataServer allows developers to create graphical applications and migrate existing database applications to enterprise network and Internet environments. Unify DataServer products support all major UNIX platforms, Linux, and Microsoft Windows NT.

Sales, Marketing and Distribution

The Company's products and services are marketed and distributed to customers using a combination of direct and indirect distribution channels, including a corporate sales force, international distributors, sales through VARs and online. As of April 30, 2001, the Company had 30 employees engaged in sales and marketing activities, 18 in North America, 8 in Europe, and 4 in Japan.

General marketing activities include public relations and advertising, publishing newsletters, direct mailings, product datasheets, attending trade shows, coordinating the Company's participation in industry programs and forums, establishing and maintaining close relationships with partners, and establishing and maintaining close relationships with recognized industry analysts. The Company also offers marketing support materials to assist distributors in their sales efforts. These materials include product literature, advertising specialties and e-commerce.

The Company markets its products internationally through subsidiaries in the United Kingdom, France, and Japan, and through distributors in Europe, Japan, Asia Pacific, Australia, Latin America, South Africa, India, and Russia. International revenues accounted for 57%, 55% and 52% of total revenues in fiscal 2001, 2000 and 1999 respectively.

The Company complements its domestic and international direct sales efforts with its indirect sales channels. Indirect sales channels include VARs, SIs, and distributors. Such indirect sales channels leverage the Company's own sales, support and consulting resources in providing complete solutions to customers.

The Company's e-commerce site at www.unifyewave.com allows visitors to download, evaluate and purchase Unify eWave products. Electronic distribution provides the Company with a low-cost, globally accessible, 24-hour sales channel.

Unify has a broad customer base including businesses, educational institutions and government organizations. As of April 30, 2001, the Company's customers worldwide, included AT&T, Bear Stearns, Credit Lyonnais, Hitachi Systems Europe, Lucent Technologies, Sherwood International Systems, Triple G, US Marshals Services, Verizon Wireless and hundreds more. No customer accounted for more than 10% of the Company's revenues for fiscal 2001, 2000 or 1999.

Support and Professional Services

The Company believes that unparalleled support and professional services, including product support and maintenance, consulting services and customer training, are critical for achieving and maintaining customer satisfaction and continued license sales.

Support

The Company has extensive experience in supporting application development and database products. Its modular customer support plans allow customers to tailor support programs that match their

development cycles. Customers can also tailor service levels including response time, information reporting, and other features such as 24-hour a day, seven-day a week support. During each of the past three fiscal years, over 80% of the Company's support customers have renewed their support contracts.

The Company's technical support hotline is staffed by engineers from 8:00 a.m. to 8:00 p.m., Eastern time, Monday through Friday, from the corporate office in Sacramento, California. Distribution partners provide telephone support to international customers with technical assistance from the U.S. Support personnel who also respond to e-mail inquiries. The Company tracks support requests through a series of customer databases, including current status reports and historical customer interaction logs and uses customer feedback as a source of ideas for product improvements and enhancements.

Consulting

The Company offers a full range of consulting services through its consulting organization as well as through partnerships with third party solution providers. The objective of Unify's consulting services organization ("UCS") is to deliver solutions that help companies maximize return on investment and get to market quickly. UCS provides a level of consulting support that is tailored to customer-defined needs. This means that UCS is prepared to guide customers on development plans, assist with hands-on development tasks, or assists with the project management.

Training

The Company is committed to offering its customers a comprehensive selection of training courses and materials. Customers may attend a broad range of courses provided on a regularly scheduled basis at Unify training centers located in Sacramento, California; London, England; Paris, France; and Tokyo, Japan. The Company also offers on-site training at customers' facilities.

As of April 30, 2001, the Company had a total of 15 employees engaged in providing professional services, 11 in support and 4 in consulting and training. Of those employees, 7 were located in the United States, 5 were located in Europe and 3 were located in Japan.

Product Development

The computer software industry is highly competitive and rapidly changing. Since its inception, the Company has made substantial investments in product development and anticipates that it will continue to commit significant resources to product development in the future to enhance existing product lines and to develop new products to meet new market opportunities. Most of the Company's current software products have been developed internally; however, the Company has acquired certain software components from third parties in the past and expects that it will do so again in the future.

The Company's product development activities are conducted at its Sacramento, California facility. As of April 30, 2001, the Company had a total of 25 employees in product development and porting, including 21 software development engineers. The market for qualified development engineers remains highly competitive. The Company's product development expenditures for fiscal 2001, 2000 and 1999, were \$4.9 million, \$6.7 million and \$5.9 million, respectively, representing approximately 34%, 32% and 20% of total revenues for those periods.

Competition

The application development and Web application products markets are intensely competitive, subject to rapid change and significantly affected by new product introductions and other activities of market participants.

The Company has experienced and expects to continue to experience intense competition from current and future competitors. Competition to Unify eWave includes BEA Systems Inc. ("BEA"), Macromedia

Corporation ("Macromedia"), and IBM. With VISION AppServer and VISION AppBuilder, the Company competes with Sybase Inc. ("Sybase"), Borland Software Corp. ("Borland"), Progress Software Corporation ("Progress") and Sun Microsystems ("Sun").

For its Unify DataServer and ACCELL/SQL products, the Company's business generally derives from sales of license upgrades or additional deployment licenses. As a result, the competitive factors are generally the consideration by a customer as to whether to develop a new application rather than whether to use a competitor's products with the existing application built using the Company's products. Vendors of products that compete with the Company's Unify DataServer and ACCELL/SQL products include companies such as Oracle, Informix, a division of IBM, and Sybase.

The Company also expects to face additional competition as other established and emerging companies enter the Internet application server market, and new products and technologies are introduced. Increased competition could result in price reductions, fewer customer orders, reduced gross margins and loss of market share, any one of which could adversely affect the Company's business, operating results, and financial condition.

In addition, current and potential competitors may make strategic acquisitions or establish cooperative relationships among themselves or with third parties, thereby increasing the ability of their products to address the needs of the Company's prospective customers. Accordingly, it is possible that new competitors or alliances among current and new competitors may emerge and rapidly gain significant market share. Such competition could adversely affect the Company's ability to sell additional licenses and maintenance and support renewals on terms favorable to the Company. Further, competitive pressures could require the Company to reduce the price of its products and related services, which could adversely affect the Company's business, operating results, and financial condition.

The Company believes that the most significant competitive factors include ease of use and time to market for application development and deployment; application management functionality; product performance and quality; product architecture and scalability; conformance applicable standards; customer support; consulting and training services; and price. The Company believes that it presently competes favorably with respect to each of these factors.

Intellectual Property

The Company relies on a combination of copyright, trademark and trade-secret laws, non-disclosure agreements and other methods to protect its proprietary technology. Despite the Company's efforts to protect its proprietary rights, unauthorized parties may attempt to copy aspects of the Company's products or to obtain and use information that the Company regards as proprietary. Policing unauthorized use of the Company's products is difficult, and while the Company is unable to determine the extent to which piracy of its software products exists, software piracy can be expected to be a persistent problem. In addition, the laws of some foreign countries do not protect the Company's proprietary rights as fully as do the laws of the United States. There can be no assurance that the Company's means of protecting its proprietary rights in the United States or abroad will be adequate or that competition will not independently develop similar technology.

Although there are no pending lawsuits against the Company regarding infringement of any existing patents or other intellectual property rights or any notices that the Company is infringing the intellectual property rights of others, there can be no assurance that such infringement claims will not be asserted by third parties in the future. If any such claims are asserted, there can be no assurance that the Company will be able to defend such claim or obtain licenses on reasonable terms. The Company's involvement in any patent dispute or any other intellectual property dispute or action to protect trade secrets and know-how may have an adverse effect on the Company's business, operating results, and financial condition. Adverse determinations in any litigation may subject the Company to significant liabilities to third parties, require the Company to seek licenses from third parties, and

prevent the Company from developing and selling its products. Any of these situations could have a adverse effect on the Company's business, operating results, and financial condition.

The Company is dependent on third-party suppliers for software, which is embedded in certain of its products. Although the Company believes that the functionality provided by software which is licensed from third parties is obtainable from multiple sources or could be developed by the Company if any such third-party licenses were terminated or not renewed or if these third parties fail to develop new products in a timely manner, the Company could be required to develop an alternative approach to developing its products, which could require payment of substantial fees to third parties, internal development costs and delays and might not be successful in providing the same level of functionality. Such delays, increased costs, or reduced functionality could adversely affect the Company's business, operating results, and financial condition.

Employees

As of April 30, 2001, the Company had a total of 90 employees, including 25 in product development, 30 in sales and marketing, 19 in support, consulting, and training, and 16 in finance, information systems, operations and general administration. Of these employees, 64 were located in the United States, 15 were located in Europe, and 11 were located in Japan.

The success of the Company depends in large part upon its ability to attract and retain qualified employees, particularly senior management, engineering, direct sales and support personnel. The competition for such employees is intense. There can be no assurance that the Company will be successful in attracting or retaining key employees. Any failure by the Company to attract and retain qualified senior management, engineering, direct sales, and support personnel could adversely affect the Company's business, operating results, and financial condition. None of the Company's employees are represented by a collective bargaining agreement, nor has the Company experienced any work stoppage. The Company considers its relations with its employees to be good.

RISK FACTORS

In evaluating the Company's business, readers should carefully consider the business risks discussed in this section in addition to the other information presented in this Annual Report on Form 10-K and in the Company's other filings with the SEC.

Uncertainty About Ability to Continue as Going Concern

The accompanying consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. As shown in the accompanying consolidated financial statements, the Company incurred a net loss of \$12,331,000 during the year ended April 30, 2001, and has an accumulated deficit of \$59,434,000 as of April 30, 2001. The Company has experienced a decline in annual revenues and a decrease in cash flow from operations and incurred significant special charges as a result of the Audit Committee's investigation (See "Management's Discussion and Analysis of Financial Conditions and Results of Operations" and Note 10 of Notes to Consolidated Financial Statements), and may continue to incur significant expenses in defense of the litigation. These factors indicate that the Company may potentially be unable to continue as a going concern.

The consolidated financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or the amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going concern. The Company's continuation as a going concern is dependent upon its ability to continue to generate sufficient cash flows to meet its obligations on a timely basis, the ability to continue to work with key vendors to accept payment terms for certain payables, to obtain additional financing or refinancing as may be required, and ultimately to return to profitability and significant positive cash flows. Management has realigned the Company's operations including a reduction of its workforce. Management plans to grow revenues, increase its investment in marketing, while aggressively controlling costs, and seek additional financing that is acceptable to the Company. There is no assurance that management's plans will be successful or if successful, that they will result in the Company continuing as a going concern. The Company's ability to obtain additional financing on acceptable terms may be adversely affected as a result of the delisting of the Company's Common Stock from the NASDAQ National Market. If adequate funds are not available to satisfy the Company's short-term or long-term capital requirements, the Company will be required to significantly reduce its operations. Additionally, the sale of additional equity or other securities will result in dilution of the Company's stockholders.

Pending Litigation and SEC Investigation

Beginning on July 1, 2000 and through October 2000, a series of class action complaints were filed in the U.S. District Court for the Northern District of California, against Unify and certain of its directors and former officers. The plaintiffs in each of these actions claim to be suing on behalf of a class of persons who purchased the Company's Common Stock during periods specified in the complaint. These actions have been consolidated and the court has selected lead plaintiffs' counsel. In April 2001, the United States district court stayed the consolidated actions, pursuant to the stipulation of the parties, until June 2001, to give the parties an opportunity to mediate the dispute in conjunction with other litigation discussed below.

From August through October 2000, five shareholder derivative actions were filed; four in the Superior Court of the State of California and one in the U.S. District Court for the Northern District of California. The plaintiffs in these actions each claims to be suing on behalf of the Company. These actions name as defendants certain of the Company's present and former officers and directors. The complaints allege substantially the same conduct, and concern the same time period, as the shareholder class actions filed in the U.S. District Court for the Northern District of California. The complaints

allege that, as a result of this conduct, certain of the present and former officers and directors breached their fiduciary duties to Unify and engaged in improper insider trading. The complaints seek an unspecified amount in damages and injunctive relief. The action pending in U.S. District court has been voluntarily stayed by the parties pending resolution of the derivative actions in state court. The parties to the derivative actions in state court have agreed to attempt to mediate the derivative actions in conjunction with the federal class actions discussed above.

In February and April 2001, two alleged institutional investors filed actions in U.S. District Court for the Northern District of California against the Company and its former chief executive officer and former chief financial officer alleging violations of federal securities laws. The complaint alleges the same conduct and concerns generally the same time period as that alleged in the shareholder class actions discussed above. The Company intends to seek mediation of these disputes with the other pending litigation arising from the same alleged facts and circumstances.

In June 2001, the Company participated in a day long mediation of the litigation discussed above. While the matters were not resolved during that day, the mediator is continuing in his mediation efforts with the encouragement of the Company and it remains the goal of the Company to resolve all of the litigation. In July 2001, the Company determined that a global settlement was likely and the estimated costs to settle such lawsuits have been accrued as of April 30, 2001. However, there can be no assurance that the proposed global settlement will be approved by federal and state courts or that such complaints discussed above will be resolved without costly litigation, or in a manner that is not adverse to the Company's financial position, results of operations or cash flows.

The Company has become aware that the SEC and the Department of Justice are conducting investigations into the facts and circumstances surrounding the Company's restatement of its quarterly financial statements and other matters. The Company is fully cooperating with the investigations.

Intense Competition

The Company has experienced and expects to continue to experience intense competition from current and future competitors. With Unify eWave, the Company competes with BEA, Macromedia and IBM. The Company also continues to compete with vendors of traditional enterprise network development tools including, Borland, Sun, Oracle and Sybase. Companies offering products competitive with the Company's Unify DataServer and ACCELL/SQL products include Oracle, Sybase, and Informix, a division of IBM.

Many of the Company's competitors have significantly greater financial, technical, marketing and other resources than the Company. The Company's competitors may be able to respond more quickly to new or emerging technologies and changes in customer requirements or devote greater resources to the development, promotion and sale of their products than the Company. Also, many current and potential competitors have greater name recognition and more extensive customer bases that could be leveraged.

The Company expects to face additional competition as other established and emerging companies enter the Web application server and enterprise network development tools markets, and new products and technologies are introduced. Increased competition could result in price reductions, fewer customer orders, reduced gross margins and loss of market share, any one of which could adversely affect the Company's business, operating results, and financial condition.

In addition, current and potential competitors may make strategic acquisitions or establish cooperative relationships among themselves or with third parties, thereby increasing the ability of their products to address the needs of the Company's prospective customers. Accordingly, it is possible that new competitors or alliances among current and new competitors may emerge and rapidly gain significant market share. Such competition could adversely affect the Company's ability to sell additional licenses

and maintenance and support renewals on terms favorable to the Company. Further, competitive pressures could require the Company to reduce the price of its products and related services, which could adversely affect the Company's business, operating results, and financial condition. There can be no assurance that the Company will be able to compete successfully against current and future competition, and the failure to do so would have a adverse effect upon the Company's business, operating results, and financial condition. See "Business—Competition."

Employee Retention

The Company's future performance depends on the continued service of key technical, sales and senior management personnel. The Company's technical, sales or senior management personnel are not bound by an employment agreement. The loss of the services of one or more of the Company's officers or other key employees could seriously harm the business, operating results and financial condition. Future success also depends on the Company's continuing ability to attract and retain highly qualified technical, sales and managerial personnel. Competition for such personnel is intense, and the Company may fail to retain its key technical, sales and managerial employees, or attract, assimilate or retain other highly qualified technical, sales and managerial personnel in the future.

History of Operating Losses; Transition of Business

The Company has incurred net losses in four of the past five fiscal years. The Company's ability to achieve revenue growth and profitability are substantially dependent upon the success of its current and future Internet products. No assurance can be given that Unify's current or future Internet products will achieve market acceptance or that the Company will attain profitability. See "Management's Discussion and Analysis of Financial Condition and Results of Operations."

Fluctuating Quarterly Results and Seasonality; Uncertainty of Operating Results

The Company's quarterly operating results have varied significantly in the past, and the Company expects that its operating results are likely to vary significantly from time to time in the future. Such variations could result from the following factors: the size and timing of significant orders and their fulfillment; demand for the Company's products; the quantity, timing and significance of product enhancements and new product announcements by the Company and its competitors; ability of the Company to attract and retain key employees; seasonality; changes in pricing policies by the Company or its competitors; realignments of the Company's organizational structure; changes in the level of the Company's operating expenses; changes in the Company's sales incentive plans; budgeting cycles of the Company's customers; customer order deferrals in anticipation of enhancements or new products offered by the Company or its competitors; product life cycles; product defects and other product quality problems; currency fluctuations; and general domestic and international economic and political conditions.

Due to the foregoing factors, quarterly revenues and operating results are difficult to forecast. Revenues are also difficult to forecast because the market for Internet and e-commerce application development software is rapidly evolving, and the Company's sales cycle, from initial evaluation to purchase and the providing of maintenance services, is lengthy and varies substantially from customer to customer. Because the Company normally delivers products within a short time of receiving an order, it typically does not have any material backlog. As a result, to achieve its quarterly revenue objectives, the Company is dependent upon obtaining orders in any given quarter for shipment in that quarter. Furthermore, because many customers place orders toward the end of a fiscal quarter, the Company generally recognizes a substantial portion of its revenues at the end of a quarter. As the Company's expense levels are based in significant part on the Company's expectations as to future revenues and are therefore relatively fixed in the short term, if revenue levels fall below expectations, operating results are likely to be disproportionately adversely affected.

The Company expects that its operating results will be affected by seasonal trends. The Company also anticipates that it may experience relatively weaker demand in fiscal quarters ending July 31 and October 31 as a result of reduced business activity in Europe during the summer months.

Lengthy Sales Cycle

The Company's products are typically used to develop applications that are critical to a customer's business, and the purchase of the Company's products is often part of a customer's larger business process re-engineering initiative or implementation of enterprise network or Internet computing. As a result, the licensing and implementation of the Company's software products generally involve a significant commitment of management attention and resources by prospective customers. Accordingly, the Company's sales process is subject to delays associated with the long approval process that typically accompanies significant initiatives or capital expenditures. The Company's business, operating results, and financial condition could be adversely affected if customers reduce or delay orders. There can be no assurance that the Company will not continue to experience these and additional delays in the future. Such delays may contribute to significant fluctuations of quarterly operating results in the future and may adversely affect those results.

Dependence on New Product Acceptance; Dependence on Growth of Web Application Server and E-Commerce Market

The Company currently expects its new enterprise and Unify eWave products and related services to account for an increasingly significant percentage of Company's future revenues and accordingly the Company is devoting a substantial portion of its resources to these products. As a result, factors adversely affecting the pricing of or demand for Unify's Internet products such as, but not limited to, competition or technological change, would have an adverse effect on the Company's business, operating results, and financial condition. The Company's future financial performance will depend in significant part on the successful development, introduction and customer acceptance of new and enhanced versions of products. There can be no assurance that the Company will timely and successfully develop, introduce and sell such new or enhanced versions. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Overview;" "Business—Products" and "—Product Development."

If the Company's customers are not able to successfully develop and deploy Internet and e-commerce applications with the Unify eWave product family or Unify VISION, the viability of these products could be questioned and the Company's reputation could be damaged, which could have an adverse effects on the Company's business, operating results, and financial condition. In addition, the Company expects that a significant percentage of its future revenues will be derived from sales to existing customers of its client/server products. If these existing customers fail to migrate to Web applications, purchase competitive products, or have difficulty deploying applications built with Unify's Internet products, the Company's relationships with these customers, revenues from sales of the Company's Internet products and other products, and the Company's business, operating results, and financial condition could be adversely affected. See "Selected Financial Data" and "Management's Discussion and Analysis of Financial Condition and Results of Operations."

There can be no assurance that the market for Internet and e-commerce applications and associated development tools will continue to grow. If the Internet and e-commerce market fails to grow, or grows more slowly than the Company currently anticipates, the Company's business, operating results, and financial condition could be adversely affected.

Rapid Technological Change

The software market in which the Company competes is characterized by rapid technological change, frequent introductions of new and enhanced products, changes in customer demands and evolving industry standards. The introduction of products embodying new technologies and the emergence of new industry standards can render existing products obsolete and unmarketable.

The Company's future success will depend in part upon its ability to address the increasingly sophisticated needs of customers by developing new products and product enhancements that keep pace with technological developments, emerging industry standards and customer requirements.

There can be no assurance that the Company will be successful in developing and marketing enhancements to Unify eWave and new products that respond to technological change, evolving industry standards or customer requirements, that the Company will not experience difficulties that could delay or prevent the successful development, introduction and sale of such enhancements or products or that such enhancements or products will adequately meet the requirements of the marketplace and achieve any significant degree of market acceptance. If the release dates of any future Unify eWave enhancements, or new products are delayed or if when released they fail to achieve market acceptance, the Company's business, operating results, and financial condition would be adversely affected. In addition, the introduction or announcement of new product offerings or enhancements by the Company or the Company's competitors may cause customers to defer or forgo purchases of current versions of Unify eWave which could have a adverse effect on the Company's business, operating results, and financial condition. See "Business—Product Development."

Dependence on Indirect Sales Channels

A significant portion of the Company's total revenues are derived from indirect sales channels, including VARs and distributors. Revenues from VARs and distributors accounted for approximately 50%, 57% and 57% of the Company's software license revenues for fiscal 2001, 2000 and 1999, respectively. The success of the Company therefore depends in part upon the performance of its indirect sales channels, over which the Company has limited influence. The Company's ability to achieve significant revenue growth in the future will depend in part on its success in maintaining and expanding its indirect sales channels worldwide. The loss of any of the Company's major channel partners, either to competitive products offered by other companies or to products developed internally by those partners, or the failure to attract effective new channel partners could have an adverse effect on the Company's business, operating results, and financial condition. See "Business—Sales, Marketing and Distribution."

Risks Associated With International Operations and Sales

Revenues derived from international customers accounted for 57%, 55% and 52% of total revenues in fiscal 2001, 2000 and 1999, respectively. If the revenues generated by international operations are not adequate to offset the expense of maintaining such operations, the Company's business, operating results, and financial condition will be adversely affected. Although the Company has had international operations for a number of years, there can be no assurance that the Company will be able to successfully market, sell and deliver its products in these markets. In addition to the uncertainty as to the Company's ability to expand its international presence, there are certain risks inherent in doing business on an international level, such as: unexpected changes in regulatory requirements; export restrictions, tariffs and other trade barriers; difficulties in staffing and managing foreign operations; longer payment cycles; problems in collecting accounts receivable; political instability; fluctuations in currency exchange rates; seasonal reductions in business activity during the summer months in Europe and certain other parts of the world; and potentially adverse tax consequences, any of which could adversely impact the success of the Company's international operations. There can be no assurance that

one or more of these factors will not have an adverse effect on the Company's future international operations and, consequently, on the Company's business, operating results, and financial condition. In addition, the Company's subsidiaries in Europe and Japan operate in local currencies. If the value of the U.S. dollar increases relative to foreign currencies, the Company's business, operating results, and financial condition could be adversely affected. See "Management's Discussion and Analysis of Financial Condition and Results of Operations", "Business—Sales, Marketing and Distribution" and Note 2 of Notes to Consolidated Financial Statements.

European Monetary Conversion

On January 1, 1999, eleven of the fifteen member countries of the European Union ("EU") 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 using both the Euro and existing national currencies. On January 1, 2002, the Euro will become the sole currency in these countries.

Based on current information, the Company does not expect the cost of any necessary corrective action to have an adverse effect on its business. However, the Company continues to evaluate the impact of the possible effects of the conversion to the Euro on its business. There can be no guarantee that the costs associated with conversion to the Euro will not have an adverse effect on the Company's business, operating results, and financial position in the future.

Software Defects and Potential Release Delays

Software products frequently contain errors or defects, especially when first introduced or when new versions or enhancements are released. Although the Company has not experienced adverse effects resulting from any such defects or errors to date, there can be no assurance that, despite testing by the Company and by current and potential customers, defects and errors will not be found in current versions, new versions or enhancements after commencement of commercial shipments, resulting in loss of revenues, delay in market acceptance, or unexpected re-programming costs, which could have an adverse effect upon the Company's business, operating results, and financial condition. Additionally, if the release dates of any future Unify product line additions or enhancements are delayed or if when released they fail to achieve market acceptance, the Company's business, operating results, financial condition and cash flows would be adversely affected. See "Business—Product Development."

Product Liability

The Company's license agreements with its customers typically contain provisions designed to limit the Company's exposure to potential product liability claims. It is possible, however, that the limitation of liability provisions contained in the Company's license agreements may not be effective as a result of existing or future federal, state or local laws or ordinances or unfavorable judicial decisions. The sale and support of current and future Internet products by the Company may involve the risk of such claims, any of which are likely to be substantial in light of the use of these products in the development of core business applications. A successful product liability claim brought against the Company could have an adverse effect upon the Company's business, operating results, and financial condition.

Dependence Upon Key Personnel

The Company's success depends largely on the efforts and abilities of certain key personnel. The loss of the services of one or more of the Company's executive officers or the inability to attract and retain additional senior management could have an adverse effect on the Company's business, operating results, and financial condition. The loss of other management and/or key personnel could also have an

adverse effect on the Company's business, operating results, and financial condition. See "Business—Employees."

The success of the Company also depends in large part upon the ability of the Company to attract and retain qualified employees, particularly highly skilled engineering, direct sales and support personnel. The competition for such employees is intense. There can be no assurance that the Company will be successful in attracting or retaining key personnel. Any failure by the Company to attract and retain engineering, direct sales and support personnel would adversely affect the Company's business, operating results, and financial condition. See "Business—Employees."

Management of Growth

The Company's potential expansion may significantly strain the Company's management, financial, customer support, operational and other resources. If the Company achieves successful market acceptance of its current and future Internet products, the Company may undergo a period of rapid growth. To accommodate this growth, the Company is continuing to implement a variety of new and upgraded operating and financial systems, procedures and controls, including the improvement of its internal management systems. There can be no assurance that such efforts can be accomplished successfully. Any failure to expand these areas in an efficient manner, could have an adverse effect on the Company's business, operating results, and financial condition. Moreover, there can be no assurance that the Company's systems, procedures and controls will be adequate to support the Company's future operations. Any rapid growth could require that the Company secure additional facilities or expand in its current facilities. Any move to new facilities or expansion of its present facilities could be disruptive and could have an adverse effect on the Company's business, operating results, and financial condition.

Third-Party Licenses

The Company is dependent on third-party suppliers for software, which is embedded in certain of its products. Although the Company believes that the functionality provided by software which is licensed from third parties is obtainable from multiple sources or could be developed by the Company, if any such third-party licenses were terminated or not renewed or if these third parties fail to develop new products in a timely manner, the Company could be required to develop an alternative approach to developing its products, which could require payment of substantial fees to third parties, internal development costs and delays and might not be successful in providing the same level of functionality. Such delays, increased costs or reduced functionality could adversely affect the Company's business, operating results, and financial condition. See "Business—Intellectual Property."

Intellectual Property Rights

The Company relies on a combination of copyright, trademark and trade secret laws, non-disclosure agreements and other intellectual property protection methods to protect its proprietary technology. Despite the Company's efforts to protect its proprietary rights, unauthorized parties may attempt to copy aspects of the Company's products or to obtain and use information that the Company regards as proprietary. Policing unauthorized use of the Company's products is difficult, and while the Company is unable to determine the extent to which piracy of its software products exists, software piracy can be expected to be a persistent problem. In addition, the laws of some foreign countries do not protect the Company's proprietary rights as fully as do the laws of the United States. There can be no assurance that the Company's means of protecting its proprietary rights in the United States or abroad will be adequate or that competition will not independently develop similar technology.

Although there are no pending lawsuits against the Company regarding infringement of any existing patents or other intellectual property rights or any notices that the Company is infringing the

intellectual property rights of others, there can be no assurance that such infringement claims will not be asserted by third parties in the future. If any such claims are asserted, there can be no assurance that the Company will be able to defend such claim or obtain licenses on reasonable terms. The Company's involvement in any patent dispute or other intellectual property dispute or action to protect trade secrets and know-how may have an adverse effect on the Company's business, operating results, and financial condition. Adverse determinations in any litigation may subject the Company to significant liabilities to third parties, require the Company to seek licenses from third parties and prevent the Company from developing and selling its products. Any of these situations could have an adverse effect on the Company's business, operating results, and financial condition. See "Business—Intellectual Property."

Volatility of Stock Price

The Company's common stock price has been and is likely to continue to be subject to significant volatility. A variety of factors could cause the price of the Company's common stock to fluctuate, perhaps substantially, including: announcements of developments related to the Company's business; fluctuations in the Company's or its competitors' operating results and order levels; general conditions in the computer industry or the worldwide economy; announcements of technological innovations; new products or product enhancements by the Company or its competitors; changes in financial estimates by securities analysts; developments in patent, copyright or other intellectual property rights; and developments in the Company's relationships with its customers, distributors and suppliers; legal proceedings brought against the Company or its officers; significant changes in the Company's senior management team. In addition, in recent years the stock market in general, and the market for shares of equity securities of many high technology companies in particular, has experienced extreme price fluctuations which have often been unrelated to the operating performance of those companies. Such fluctuations may adversely affect the market price of the Company's common stock.

The Company's stock is now traded over the counter on the "pink sheets." Companies whose shares trade over-the-counter generally receive less coverage and are subject to greater price volatility, than those trading on the major stock exchanges.

ITEM 2. PROPERTIES

The Company's principal administrative and headquarters is maintained in Sacramento California where it leases a 38,000 square foot facility. The company currently subleases 10,000 square feet that it currently does not require for its operation. The Company also currently subleases its former administrative headquarters in San Jose, California and its former sales offices in Reston, Virginia and Dallas, Texas. In addition, the Company leases international sales and support offices in the United Kingdom, France and Japan. The Company believes that its existing facilities are adequate for its current needs and that suitable additional or alternative space will be available in the future on commercially reasonable terms as needed.

ITEM 3. LEGAL PROCEEDINGS

Beginning on July 1, 2000 and through October 2000, a series of class action complaints were filed in the U.S. District Court for the Northern District of California, against Unify and certain of its directors and former officers. The plaintiffs in each of these actions claim to be suing on behalf of a class of persons who purchased the Company's Common Stock during periods specified in the complaint. These actions have been consolidated and the court has selected lead plaintiffs' counsel. In April 2001, the United States district court stayed the consolidated actions, pursuant to the stipulation of the parties, until June 2001, to give the parties an opportunity to mediate the dispute in conjunction with other litigation discussed below.

From August through October 2000, five shareholder derivative actions were filed; four in the Superior Court of the State of California and one in the U.S. District Court for the Northern District of California. The plaintiffs in these actions each claims to be suing on behalf of the Company. These actions name as defendants certain of the Company's present and former officers and directors. The complaints allege substantially the same conduct, and concern the same time period, as the shareholder class actions filed in the U.S. District Court for the Northern District of California. The complaints allege that, as a result of this conduct, certain of the present and former officers and directors breached their fiduciary duties to Unify and engaged in improper insider trading. The complaints seek an unspecified amount in damages and injunctive relief. The action pending in U.S. District court has been voluntarily stayed by the parties pending resolution of the derivative actions in state court. The parties to the derivative actions in state court have agreed to attempt to mediate the derivative actions in conjunction with the federal class actions discussed above.

In February and April 2001, two alleged institutional investors filed actions in U.S. District Court for the Northern District of California against the Company and its former chief executive officer and former chief financial officer alleging violations of federal securities laws. The complaint alleges the same conduct and concerns generally the same time period as that alleged in the shareholder class actions discussed above. The Company intends to seek mediation of these disputes with the other pending litigation arising from the same alleged facts and circumstances.

In June 2001, the Company participated in a day long mediation of the litigation discussed above. While the matters were not resolved during that day, the mediator is continuing in his mediation efforts with the encouragement of the Company and it remains the goal of the Company to resolve all of the litigation. In July 2001, the Company determined that a global settlement was likely and the estimated costs to settle such lawsuits have been accrued as of April 30, 2001. However, there can be no assurance that the proposed global settlement will be approved by federal and state courts or that such complaints discussed above will be resolved without costly litigation, or in a manner that is not adverse to the Company's financial position, results of operations or cash flows.

The Company has become aware that the SEC and the Department of Justice are conducting investigations into the facts and circumstances surrounding the Company's restatement of its quarterly financial statements and other matters. The Company is fully cooperating with the investigations.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matter was submitted to a vote of the Company's stockholders during the fourth quarter of fiscal 2001.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED SHAREHOLDER MATTERS

Market Information for Common Stock

During fiscal 2000, the Company's common stock was listed on the NASDAQ National Market under the symbol UNFY. On July 31, 2000, NASDAQ placed a suspension of trading in the Company's stock as a result of its announcement regarding the investigation of improper accounting and financial reporting practices. On October 23, 2000, NASDAQ advised the Company that it would discontinue the listing of its securities on the NASDAQ National Market. As a result, the Company's stock is currently traded on the over-the-counter market on the "pink sheets" under the symbol UNFY. The following table sets forth the high and low closing sales prices as reported on the over-the-counter market for shares of the Company's common stock for the periods indicated. Such prices represent prices between dealers, do not include retail mark-ups, mark-downs or commissions and may not represent actual transactions.

	<u>High</u>	<u>Low</u>
Fiscal 2001		
Fourth Quarter	\$.50	\$.06
Third Quarter	.75	.03
Second Quarter	3.88	.38
First Quarter	14.75	3.63
Fiscal 2000		
Fourth Quarter	\$ 26.00	\$ 8.81
Third Quarter	34.22	13.97
Second Quarter	15.41	5.16
First Quarter	8.69	5.19

Common Stockholders of Record

At May 31, 2001, there were approximately 181 stockholders of record of the Company's common stock, as shown in the records of the Company's transfer agent, excluding stockholders whose stock was held in nominee or street name by brokers.

Dividends

The Company has never paid dividends on its common stock and its present policy is to retain anticipated future earnings for use in its business.

ITEM 6. SELECTED FINANCIAL DATA

The following selected consolidated financial data should be read in conjunction with the Company's Consolidated Financial Statements and Notes thereto in Item 8 and "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Item 7.

	Years Ended April 30,				
	2001	2000	1999	1998	1997
(In thousands, except per share data)					
Consolidated Statement of Operations Data:					
Revenues:					
Software licenses	\$ 7,229	\$ 12,576	\$ 19,768	\$ 15,580	\$ 14,856
Services	7,074	8,475	9,680	9,342	9,409
Total revenues	14,303	21,051	29,448	24,922	24,265
Cost of revenues:					
Software licenses	662	1,342	849	647	1,266
Services	3,085	4,037	4,404	4,389	4,493
Total cost of revenues	3,747	5,379	5,253	5,036	5,759
Gross margin	10,556	15,672	24,195	19,886	18,506
Operating expenses:					
Product development	4,912	6,696	5,928	5,733	6,974
Selling, general and administrative	10,697	16,835	14,463	16,353	22,903
Write-down of other investments	3,650	—	—	—	—
Special charges	3,356	—	—	—	—
Total operating expenses	22,615	23,531	20,391	22,086	29,877
Income (loss) from operations	(12,059)	(7,859)	3,804	(2,200)	(11,371)
Other income (expense), net	(213)	367	304	167	764
Income (loss) before income taxes	(12,272)	(7,492)	4,108	(2,033)	(10,607)
Provision for income taxes	59	192	231	182	192
Net income (loss)	\$ (12,331)	\$ (7,684)	\$ 3,877	\$ (2,215)	\$ (10,799)
Net income (loss) per share:					
Basic	\$ (0.65)	\$ (0.42)	\$ 0.23	\$ (0.13)	\$ (0.77)
Diluted	\$ (0.65)	\$ (0.42)	\$ 0.21	\$ (0.13)	\$ (0.77)
Shares used in computing net income (loss) per share:					
Basic	18,979	18,127	17,110	16,412	14,016
Diluted	18,979	18,127	18,102	16,412	14,016
April 30,					
	2001	2000	1999	1998	1997
(In thousands)					
Consolidated Balance Sheet Data:					
Cash, cash equivalents and investments	\$ 3,084	\$ 11,076	\$ 11,269	\$ 10,621	\$ 16,603
Restricted cash	118	118	118	118	43
Working capital (deficit)	(3,929)	5,835	12,336	7,440	8,365
Total assets	9,344	21,792	22,951	19,099	24,438
Long-term debt, net of current portion	—	—	—	4	58
Total stockholders' equity (deficit)	(1,202)	10,286	13,945	9,449	10,917

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion of the financial condition and results of operations of the Company should be read in conjunction with the Consolidated Financial Statements and Notes thereto in Item 8. This Annual Report on Form 10-K contains certain forward-looking statements that involve risks and uncertainties. The Company's actual results could differ materially from those discussed herein. Factors that could cause or contribute to such differences include, but are not limited to, the Risk Factors discussed in this Annual Report and in the Company's other filings with the SEC.

Overview

Founded in 1980, Unify develops, markets and supports database and application development and deployment software and services. Unify's products ensure companies are able to better compete by enabling them to quickly and cost-effectively develop and deploy successful business solutions. Whether a company is developing database, client/server or e-commerce applications, or just wants to take existing applications to the Web, Unify's products and services help companies solve some of their biggest IT challenges. Unify's software addresses these challenges by increasing developer productivity and by allowing customers to deliver applications with a low total cost of ownership in the application product life cycle.

In fiscal 2001, the Company renewed its focus on its installed base of customers for all product lines. Sales and marketing focused on Unify eWave, VISION, ACCELL and DataServer product families and distribution territories were realigned to better suit business objectives.

The Company expects that its ability to achieve significant revenue growth in the future will be substantially dependent upon the success of new products developed in the Unify eWave, VISION and ACCELL product families. Many of the Company's customers have the requirement to move applications to the Web and planned future releases of Unify products will help customers meet the challenge of Web-enabling existing business applications. Revenues from the Company's database and client/server products are not expected to show significant growth. As a result, factors adversely affecting the revenue from current and future Unify products could have an adverse effect on the Company's business, operating results, and financial condition.

The Company licenses its software through its direct sales force in the United States, Europe and Japan and through distributors, VARs, and other partners worldwide. Revenues from distributors, VAR's and partners accounted for approximately 50%, 57% and 57% of the Company's software license revenues for fiscal 2001, 2000 and 1999, respectively. The Company's ability to achieve significant revenue growth in the future will depend in part on its success in maintaining existing and establishing additional relationships with customers and partners worldwide.

The Company recognizes software license revenue when a noncancelable license agreement has been executed, delivery has occurred, fees are fixed and determinable, and collection of the resulting receivable is deemed probable by management. Software licenses include both development and deployment licenses, with pricing for Unify eWave based on the number of computer processing units (CPUs) and Unify VISION generally based upon the number of developers or end users, as applicable. Customer maintenance revenues are recognized ratably over the maintenance period. Payments for maintenance fees are generally received in advance and are nonrefundable. Revenues from consulting and training services are recognized as the services are performed.

The Company continues to support its database and client/server products, which the Company believes represents a significant source of potential customers for its new products. The Company also generates significant revenues from services, including customer maintenance, consulting and training.

In July 2000, Company announced that certain matters had come to the attention of the Company's Board of Directors that indicated that the Company had engaged in improper accounting practices.

Accordingly, the Board of Directors authorized its Audit Committee to conduct an investigation of the Company's accounting and financial reporting practices and to recommend remedial action, if any. In July 2000, in connection with the ongoing investigation, the Company placed its former chief executive officer and its former chief financial officer on administrative leave, and in November 2000, the Company terminated its former chief executive officer and its former chief financial officer resigned. As a result of this financial reporting investigation, the Company incurred significant costs related to the investigation itself, legal expenses and additional auditing costs. The Company's revenues in the first and second quarters of fiscal 2001 were negatively impacted by resignations and terminations of members of the U.S. and European sales team.

Results of Operations

The following table sets forth the consolidated statement of operations data of the Company expressed as a percentage of total revenues for the periods indicated:

	Years Ended April 30,		
	2001	2000	1999
Revenues:			
Software licenses	50.5%	59.7%	67.1%
Services	49.5	40.3	32.9
Total revenues	100.0	100.0	100.0
Cost of revenues:			
Software licenses	4.6	6.4	2.9
Services	21.6	19.2	14.9
Total cost of revenues	26.2	25.6	17.8
Gross margin	73.8	74.4	82.2
Operating expenses:			
Product development	34.3	31.8	20.1
Selling, general and administrative	74.8	79.9	49.1
Write-down of other investments	25.5	—	—
Special charges	23.5	—	—
Total operating expenses	158.1	111.7	69.2
Income (loss) from operations	(84.3)	(37.3)	13.0
Other income, net	(1.5)	1.7	1.0
Income (loss) before income taxes	(85.8)	(35.6)	14.0
Provision for income taxes	0.4	0.9	0.8
Net income (loss)	(86.2)%	(36.5)%	13.2%

Total Revenues

The Company's total revenues include software license revenues from sales of its new Web-based and client/server products and service revenues for customer maintenance, consulting and training. Total revenues for fiscal year 2001 decreased 32% to \$14.3 million from \$21.1 million for fiscal year 2000. In 2000, total revenues had decreased by 29% from \$29.4 million in 1999.

The decrease in total revenues was primarily driven by software license revenues, which decreased by 42%, or \$5.3 million in fiscal year 2001 from \$12.6 in 2000. In 2000, software license revenues had decreased by 36% from \$19.8 million in 1999. The decrease in fiscal 2001 was the result of the turnover in the U.S. sales team, the distractions caused by the investigation, and customer concerns over the Company's financial reporting issues that were announced in July 2000. The decrease in fiscal 2000 was

primarily related to the Company's shift in focus from its client/server product line to the Unify eWave product line where revenues did not meet the Company's expectations. As the Company emphasized the sales and marketing of the Unify eWave product line only, the Unify VISION and client/server software license revenues also declined, further accelerating the Company's total revenue decrease.

Total service revenues for fiscal year 2001 decreased 16% to \$7.1 million from \$8.5 million for fiscal year 2000. Consulting revenues for the fiscal year 2001 decreased to \$0.8 million, 38%, from \$1.3 million for the fiscal year 2000. Maintenance revenues for the fiscal year 2001 decreased by 11% to \$6.2 million from \$7.0 million for the fiscal year 2000. Consulting revenues for the fiscal year 2000 decreased to \$1.3 million from \$2.2 million in fiscal 1999. Maintenance revenues for fiscal 2000 had remained flat at \$7.0 million as compared to fiscal 1999. The decrease in both consulting and maintenance revenues for fiscal 2001 was tied to the decreases in the marketing of the Company's products to existing and new customers. In fiscal 2000, the decrease in consulting revenues was primarily the result of an increased emphasis on product sales and the deferral of revenue on a large consulting project due to concern over the customer's ability to pay. Maintenance revenues decreased primarily as a result of the reduction in license revenues.

International revenues include all software license and service revenues from customers located outside the United States. International revenues from the Company's direct sales organizations in Europe and Japan and from value added resellers, distributors, and other partners in all international locations accounted for 57%, 55% and 52% of total revenues in fiscal years 2001, 2000 and 1999, respectively.

Cost of Revenues

Cost of Software Licenses. Cost of software licenses consists primarily of product documentation, packaging and production costs in the U.S. and Japan and royalties paid for licensed technology. Cost of software licenses was \$0.7 million for fiscal year 2001, \$1.3 million for 2000 and \$0.8 million in 1999. Costs associated with royalties and other direct production costs are incurred at the time of the sale, while the software license revenue may be recognized in different periods, depending on the terms of the contract. Accordingly, these costs may fail to directly correlate to the changes in related revenues from period to period, as occurred in fiscal 2000, when sales revenues decreased while the related expenses increased.

Cost of Services. Cost of services consists primarily of employee, facilities and travel costs incurred in providing customer support under software maintenance contracts and consulting and training services. Total cost of services in fiscal 2001 decreased 23% to \$3.1 million from \$4.0 million in fiscal 2000 and \$4.4 million in 1999. In fiscal 2001 the Company, in order to bring its servicing expenses in line with its revenue, initiated a reduction in its work force resulting in a 42% decrease in support and consulting staff. The cost of services has a high component of fixed costs, and therefore does not fluctuate readily with changes in revenues.

As a result of the reductions implemented in the middle of fiscal 2001, the Company was able to reduce its cost of services as a percent of service revenues to 44% as compared to 48% in fiscal 2000. In fiscal 1999 cost of services as a percent of service revenues was 45%. The Company continues to evaluate the efficiency of its support, consulting and training operations and may expand its expertise in e-commerce and Web application development solutions in fiscal 2002 in order to capitalize on these opportunities. As a result, consulting service costs may increase, and as there is generally a delay in time when additional consulting personnel are hired and when they become fully productive, the Company's results of operations may be adversely affected by the expansion of the Company's consulting services.

Operating Expenses

Product Development. Product development expenses consist primarily of employee and facilities costs incurred in the development and testing of new products and in the porting of new and existing

products to additional hardware platforms and operating systems. Product development costs in fiscal 2001 decreased 27% to \$4.9 million from \$6.7 million in fiscal 2000 and \$5.9 million in fiscal 1999. The decrease in fiscal 2001 was as the result of a reduction in the work force in October 2000 which resulted in a 47% reduction in the product development staff. The increases in 2000 and 1999 were primarily the result of the design and development of the Unify eWave family of products. Product development costs as a percentage of total revenues was 34% in fiscal 2001, 32% in fiscal 2000 and 20% in fiscal 1999. The Company believes that substantial investment in product development is critical to maintaining technological leadership and therefore expects to continue to devote significant resources to product development in fiscal 2002.

Software development costs have been accounted for in accordance with Statement of Financial Accounting Standards No. 86, *Accounting for the Costs of Computer Software to Be Sold, Leased or Otherwise Marketed*. See Note 1 of Notes to Consolidated Financial Statements. In accordance with this policy, there were no capitalizable software development costs in fiscal year 2001, 2000 or 1999.

Selling, General and Administrative. Selling, general and administrative ("SG&A") expenses consist primarily of salaries, bonuses and commissions, promotional and travel expenses, professional services, facilities expenses and bad debt expense. SG&A expenses were \$10.7 million for 2001, \$16.8 million for 2000 and \$14.5 million for 1999. SG&A expenses for fiscal 2001 decreased \$6.1 million primarily as the result of staff reductions, curtailment of bonuses, reductions in commissions paid as a result of decreased sales, reduction of travel expenses and other cost containment programs. Sales expenses were reduced as a result of the U.S. and European sales team. Bad debt expense in fiscal 2001 decreased 53% to \$0.9 million from \$1.9 million in fiscal 2000. SG&A expenses for fiscal year 2000 were higher compared to fiscal 1999 primarily as the result of an increase in bad debt expenses which had increased from \$0.6 million in fiscal year 1999 to \$1.9 million in fiscal year 2000. Other components of SG&A that impacted fiscal 2000 included expenses for Professional Services of approximately \$0.7 million for various acquisitions and issues pertaining to customer licensing and approximately \$0.5 million of unauthorized variable compensation paid to a certain officer during fiscal year 2000.

Write-down of long-lived assets. During the third quarter of Fiscal 2001, the Company completed a comprehensive review of the Company's long-lived assets and recorded a impairment charge of \$3,650,000 related to the write-down of the carrying amount of Evergreen Internet, Inc, to its estimated realizable value.

Special charges. In July 2000, the Company announced that certain matters had come to the attention of the Company's Board of Directors that indicated that the Company had engaged in improper accounting practices. Accordingly, the Board of Directors authorized its Audit Committee to conduct an investigation of the Company's accounting and financial reporting practices and to recommend remedial action, if any. As a result of this financial reporting investigation, the company incurred additional costs related to the investigation itself, legal expenses, additional auditing costs and other litigation related costs of \$3,356,000.

Other Income (Expense), net. Other income (expense), net consists primarily of foreign exchange gains and losses, interest earned by the Company on its cash, cash equivalents and short-term investments net of interest expense on long-term debt and gain or losses on the liquidation of company assets. Other income (expense) was \$0.2 million expense in fiscal year 2001, as compared to \$0.4 million income in 2000, and \$0.3 million income in 1999. Other income (expense) for fiscal 2001 consisted primarily of net interest income of \$0.2 million, foreign currency exchange losses of \$0.2 million, the loss on the sale of Unify InterAmerica of \$0.4 million and miscellaneous other income of \$0.2 million. The slight increase in other income in fiscal year 2000 as compared to fiscal 1999 was due to increased interest income of \$0.1 million as a result of an increase in the average amount of investments for fiscal year 2000. The Company's subsidiaries in the United Kingdom, France and Japan operate in local currencies. Foreign currency gains and losses on local currency intercompany accounts held in the U.S. have been immaterial to date; however, if the value of the U.S. dollar increases relative to foreign

currencies, the Company's business, operating results, and financial condition could be adversely affected.

Provision for Income Taxes. The Company recorded no federal income or state tax provisions for the years ended April 30, 2001 and 2000 due to its net losses. No significant federal income tax provisions were recorded for the years ended April 30, 1999 due to the use of federal net operating loss carryforwards. The recorded tax provisions in these years relates primarily to foreign income tax withholding on software license royalties paid to the Company by certain foreign licensees. At April 30, 2001, the Company had available federal net operating loss carryforwards of approximately \$37.7 million.

Liquidity and Capital Resources

At April 30, 2001, the Company had cash, cash equivalents and short-term investments of \$3.2 million, compared to \$11.2 million at April 30, 2000. Working capital decreased to a negative \$3.9 million at April 30, 2001 from \$5.8 million at April 30, 2000.

The accompanying consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. As shown in the accompanying consolidated financial statements, the Company incurred a net loss of \$12,331,000 during the year ended April 30, 2001, and has an accumulated deficit of \$59,434,000 as of April 30, 2001. The Company has experienced a decline in annual revenues and incurred significant special charges as a result of the Audit Committee's investigation and may continue to incur significant expenses in defense of the litigation. These factors indicate that the Company may potentially be unable to continue as a going concern.

The consolidated financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or the amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going concern. The Company's continuation as a going concern is dependent upon its ability to continue to generate sufficient cash flows to meet its obligations on a timely basis, the ability to continue to work with key vendors to accept payment terms for certain payables, to obtain additional financing or refinancing as may be required, and ultimately to return to profitability and significant positive cash flows. Management has realigned the Company's operations including a reduction of its workforce. Management plans to continue to grow revenues, increase the investment in marketing, while aggressively controlling costs, and seek additional financing that is acceptable to the Company. There is no assurance that management's plans will be successful or if successful, that they will result in the Company continuing as a going concern. The Company's ability to obtain additional financing on acceptable terms may be adversely affected as a result of the delisting of the Company's Common Stock from the NASDAQ National Market. If adequate funds are not available to satisfy the Company's short-term or long-term capital requirements, the Company will be required to significantly reduce its operations. Additionally, the sale of additional equity or other securities will result in dilution of the Company's stockholders.

Operating Cash Flows. The Company had negative cash flows from operations totaling \$6.0 million for fiscal year 2001 and \$0.4 million for fiscal 2000 as compared to generating \$0.9 million of positive cash flows in fiscal year 1999. The negative operating cash flows for fiscal year 2001 resulted from a net loss of \$12.3 million, a decrease in deferred revenues of \$1.5 million and a decrease in accrued compensation and related expenses of \$0.4 million, partially offset by a decrease in accounts receivable of \$2.3 million, the write down of other investments of \$3.7 million, depreciation of \$0.9 million, \$0.8 million increase in accounts payable, \$0.2 million decreases in prepaid expenses and \$0.4 million increase in other accrued liabilities. The negative operating cash flows for fiscal year 2000 resulted from a net loss of \$7.7 million, offset primarily by depreciation of \$0.9 million and increases in deferred revenue of \$1.3 million and other accrued liabilities of \$1.6 million and a decrease to accounts receivable of \$3.8 million. Net cash provided by operations in fiscal year 1999 consisted primarily of net

income of \$3.9 million, plus depreciation of \$1.1 million, offset by the increase in accounts receivable of \$3.6 million, and a decrease in other accrued liabilities of \$0.7 million.

Investing Cash Flows. Net cash and cash equivalents provided by investing activities totaled \$0.8 million for fiscal year 2001, \$1.5 million in fiscal 2000, compared to cash used of \$1.3 million in fiscal year 1999. Net cash provided by investing activities of \$1.0 million in fiscal year 2001 consisted primarily of \$3.7 million in sales from available for sale securities partially offset by the net increase in other investments of \$2.1 million which represents \$2.2 million in additional investment in Evergreen Internet Inc. less the sale of the iChatterbox investment for \$0.1 million. The remaining offset to fiscal 2001 investing activities was the result of the sale of other assets and property and equipment purchases. Net cash provided by investing activities of \$1.5 million in fiscal year 2000 consisted primarily of \$6.0 million in sales from available for sale securities and a decrease in other assets of \$0.3 million, offset by \$3.7 million in securities purchases and \$0.6 million in property and equipment purchases and \$0.6 million in other investments. Net cash used of \$1.3 million in fiscal year 1999 consisted primarily of the net increase of securities of \$0.6 million and the purchase of property and equipment of \$0.6 million.

Financing Cash Flows. Financing activities provided cash of \$0.7 million in fiscal year 2001, \$1.2 million in fiscal year 2000, and \$0.5 million in fiscal year 1999. Cash provided by financing activities in fiscal year 2001 of \$0.7 million was provided from stock option exercises and purchases under the employee stock purchase plan of \$0.6 million and an increase in note payable to minority interest stockholders of \$0.1 million. Cash provided by financing activities in fiscal year 2000 of \$1.2 million was provided from stock option exercises and purchases under the employee stock purchase plan of \$1.3 million and collection of notes receivable from stockholders of \$0.1 million offset by a reduction in note payable to minority interest stockholders of \$0.2 million. Cash provided by financing activities for fiscal year 1999 consisted primarily of the proceeds from the sales of common stock under the Company's stock option and stock purchase plans of \$0.7 million partially offset by an increase in note payable to minority interest stockholders of \$0.2 million.

Recently Issued Accounting Standards

In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards ("SFAS") No. 133, *Accounting for Derivative Instruments and Hedging Activities*. This statement establishes accounting and reporting standards for derivative instruments and hedging activities and is effective for all fiscal quarters of fiscal years beginning after June 15, 2000. The statement requires balance sheet recognition of derivatives as assets or liabilities measured at fair value. Accounting for gains and losses resulting from changes in the values of derivatives is dependent on the use of the derivative and whether it qualifies for hedge accounting. The Company determined that the adoption of SFAS No. 133 will not have a material impact on its financial position or results of operations.

In June 2001, the Financial Accounting Standards Board approved for issuance Statement of Financial Accounting Standard (SFAS) No. 141, *Business Combinations* and SFAS No.142, *Goodwill and Other Intangible Assets*. SFAS No. 141 addresses the initial recognition and measurement of goodwill and other intangible assets acquired in a business combination and SFAS No. 142 addresses the initial recognition and measurement of intangibles assets acquired outside of a business combination whether acquired individually or with a group of other assets. SFAS No. 142 also addresses the recognition and measurement of goodwill and other intangibles assets subsequent to their acquisition. SFAS No. 141 is applicable to business combinations beginning July 1, 2001. SFAS No. 142 is effective no later than the fiscal year beginning May 1, 2002. The Company does not expect the adoption of SFAS No. 141 and SFAS No. 142 to have a material effect on its financial position, results of operations and cash flows.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest Rate Risk. The Company's exposure to market rate risk for changes in interest rates relates primarily to its investment portfolio, which consists of cash equivalents and short-term investments. Cash equivalents are highly liquid investments with original maturities of three months or less and are stated at cost. Cash equivalents are generally maintained in money market accounts which have as their objective preservation of principal and which hold investments with maturity dates of less than 90 days. The Company does not believe its exposure to interest rate risk is material for cash and investments, which totaled \$3.2 million at April 30, 2001. The securities in the Company's investment portfolio are generally classified as available for sale and, consequently, are recorded on the consolidated balance sheet at fair value with unrealized gains or losses reported as a separate component of stockholders' equity.

Investments totaled \$0.1 million at April 30, 2001. Unify does not use derivative financial instruments in its short-term investment portfolio, and places its investments with high quality issuers only and, by policy, limits the amount of credit exposure to any one issuer. The Company is averse to principal loss and attempts to ensure the safety of its invested funds by limiting default, market and reinvestment risk. Unify's investments at April 30, 2001 consisted of \$0.1 million in corporate bonds maturing within one year. This investment is exposed to changes in market interest rates as an indicator of changes in the level of interest rates for that maturity. If market interest rates were to change immediately and uniformly by ten percent from levels at April 30, 2001, the fair value of the Company's cash equivalents and short-term investments would change by an insignificant amount.

Foreign Currency Exchange Rate Risk. As a global concern, the Company faces exposure to adverse movements in foreign currency exchange rates. These exposures may change over time as business practices evolve and could have an adverse impact on the Company's business, operating results and financial position. Historically, the Company's primary exposures have related to local currency denominated sales and expenses in Europe, Japan and Australia. For example, when the U.S. dollar strengthens against the major European currencies, it results in lower revenues and expenses recorded for those regions when translated into U.S. dollars.

Due to the substantial volatility of currency exchange rates, among other factors, the Company cannot predict the effect of exchange rate fluctuations on its future operating results. Although Unify 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. The Company also has currency exchange rate exposures on intercompany accounts receivable owed to the Company as a result of local currency sales of software licenses by the Company's international subsidiaries in the United Kingdom, France and Japan. At April 30, 2001, the Company had \$0.2 million each in such receivables denominated in British pounds, French francs and Japanese yen, respectively. The Company encourages prompt payment of these intercompany balances in order to minimize its exposure to currency fluctuations, but it engages in no hedging activities to reduce the risk of such fluctuations. A hypothetical ten percent change in foreign currency rates would have an insignificant impact on the Company's business, operating results and financial position. The Company has not experienced material exchange losses on intercompany balances in the past; however, due to the substantial volatility of currency exchange rates, among other factors, it cannot predict the effect of exchange rate fluctuations on its future business, operating results and financial position.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

See Item 14(a) for an index to the financial statements and supplementary financial information, which are filed, as part of this report.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Not applicable.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The following table sets forth certain information concerning the Company's Directors and Executive Officers:

Name	Age	Position with the Company
Todd Wille	38	President and Chief Executive Officer
David Adams	56	Vice President, Finance & Administration and Chief Financial Officer
Frank Verardi	52	Vice President, Worldwide Sales & Marketing
Dave Glende	41	Vice President, Products and Chief Technology Officer
Steve Whiteman	49	Director
Kurt M. Garbe	40	Director
Reza Mikaili	49	Director

Todd Wille joined the Company on October 1, 2000 as the Chief Operating Officer and Acting Chief Financial Officer. In November 2000, Mr. Wille was appointed President and Chief Executive Officer. Mr. Wille originally joined the Company in August 1995 as the Corporate Controller. In September 1997, Mr. Wille was promoted to Vice President, Finance and Chief Financial Officer. In March 1998, Mr. Wille left the Company and joined FRx Software Corporation as the Vice President of Finance and CFO. Subsequently, Mr. Wille was promoted to Senior Vice President of Operations. Mr. Wille continues to serve on the FRx Software board of advisors. Mr. Wille received a B.A. in Business Administration with concentrations in Accounting, Finance and MIS from Wartburg College.

David Adams joined Unify as the Corporate Controller and Acting Chief Financial Officer in November 2000, after serving as a consultant to the Company since June 2000. In May 2001, Mr. Adams was appointed Vice President, Finance & Administration and Chief Financial Officer. Mr. Adams has more than 30 years experience in financial management and Securities and Exchange Commission reporting. Mr. Adams served as Senior Vice President and CFO for Bancorp Financial Services from 1997 to 1999. Prior to that he served as Senior Vice President and CFO for Commerce Security Bank from 1994 until the bank was sold in 1996. Mr. Adams received a B.A. in Business Administration with concentrations in Accounting from Humboldt State University and is a graduate of the Pacific Coast Banking School.

Frank Verardi joined the Company in August 1988 as Manager of Consulting Services and was named Director of Client Services in 1989. In November 1995, Mr. Verardi was appointed Vice President of Worldwide Product Delivery and Customer Support, and in May 1999 he was appointed Vice President of Worldwide Professional Services. In November 2000, Mr. Verardi was appointed Vice President, Enterprise Product and International, and in May 2001, appointed Vice President of Sales and Marketing. Before joining Unify, Mr. Verardi held various positions with Computer Sciences Corporation where his most recent assignment was Director of Commercial Professional Services. Mr. Verardi received a B.S. in Computer Science from California State University, Chico.

David Glende joined Unify in 1985 and has held various management positions in product development over the past 16 years before being appointed Chief Technology Officer in February 2000. In May 2001, Mr. Glende was appointed Vice President, Products and Chief Technology Officer. Mr. Glende oversees the Company's product strategy and product development activities. Prior to joining Unify, Mr. Glende served as the manager of engineering for Advance Data Institute. Mr. Glende holds a B.S. in Computer Science from California State University, Sacramento.

Steven D. Whiteman has served as a director of the Company since May 1997. He served as Acting Chief Executive Officer and Acting Chief Financial Officer from July 31, 2000 to October 2000. From

May 1993 until June 2000, Mr. Whiteman served as President of Viasoft, Inc., a publicly traded software products and services company, where he also served as Chief Executive Officer and Director from February 1994 to June 2000, and Chairman of the Board of Directors from April 1997 to June 2000. Mr. Whiteman is also a director of Actuate Corporation and Netpro. Mr. Whiteman holds a B.A. in Business Administration from Taylor University and a M.B.A. from the University of Cincinnati.

Kurt M. Garbe has served as a director of the Company since August 1999. Mr. Garbe has served as the Chief Operating Officer for Asera Inc., a leading eBusiness service provider of pre-integrated custom software solutions, from September 1999 until recently. Mr. Garbe previously served as Executive Vice President of Field Operations at U.S. Web/CKS, a strategic Internet and marketing communications services company, from October 1997 to September 1999. From September 1995 to June 1997, he was Vice President and General Manager of Professional Services at Synopsys, Inc., an engineering design automation software company, and from 1991 to August 1995, he was Vice President at Gemini Consulting, a management-consulting firm. Mr. Garbe holds a B.S. in Electrical Engineering from Clarkson University, a M.E. degree from Cornell University, and a M.B.A. from the Wharton School of the University of Pennsylvania.

Reza Mikaili has served as a director of the Company since November 1994. Mr. Mikaili served as the Company's President and Chief Executive Officer from November 1994 until June 2000, when he was placed on medical leave. In November 2000, Mr. Mikaili was terminated as President and Chief Executive Officer. From October 1992 to November 1994, Mr. Mikaili served as the Company's Senior Vice President of Products. Mr. Mikaili holds an M.S. degree in computer science from Santa Clara University, and a B.S. degree in Computer Science and an M.S. degree in Mathematics from the University of Tehran, Iran.

The Company's bylaws currently authorize up to four directors. Each director holds office until the next annual meeting of stockholders and until his successor is duly elected and qualified. The executive officers of the Company serve at the discretion of the Board. There are no family relationships between any of the directors or executive officers of the Company.

ITEM 11. EXECUTIVE COMPENSATION

The information required by this item is included under the caption "Executive Compensation and Other Matters" in the Company's proxy statement for the 2001 Annual Meeting of Stockholders and is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information required by this item is included under the caption "Executive Compensation and Other Matters" in the Company's proxy statement for the 2001 Annual Meeting of Stockholders and is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information required by this item is included under the caption "Executive Compensation and Other Matters" in the Company's proxy statement for the 2001 Annual Meeting of Stockholders and is incorporated herein by reference.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

(a)

The following documents are filed as part of this Annual Report on Form 10-K:

1.

Consolidated Financial Statements

	Page Number
Independent Auditors' Report	32
Consolidated Balance Sheets as of April 30, 2001 and 2000	33
Consolidated Statements of Operations for the years ended April 30, 2001, 2000 and 1999	34
Consolidated Statements of Stockholders' Equity for the years ended April 30, 2001, 2000 and 1999	35
Consolidated Statements of Cash Flows for the years ended April 30, 2001, 2000 and 1999	36
Notes to Consolidated Financial Statements	37

2.

Financial Statement Schedules

Schedule II—Valuation and Qualifying Accounts	52
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All other schedules are omitted because they are not applicable, or the required information is shown in the Consolidated Financial Statements or Notes thereto.

3.

Exhibits—See Item 14(c) below.

(b)

Reports on Form 8-K

No reports on Form 8-K were filed during the quarter ended April 30, 2001.

(c)

Exhibits

Exhibit No.	Description
3.1	Restated Certificate of Incorporation of the Company(1)
3.2	Bylaws of the Registrant(1)
4.1	Form of Stock Certificate(1)
4.2	Series E Stock Purchase Agreement by and among the Company and the purchasers named therein, dated April 2, 1992(1)
10.1*	Employment Agreement by and between Reza Mikaili and the Registrant dated May 1, 1998(2)
10.2*	1991 Stock Option Plan, as amended(1)
10.3*	1996 Employee Stock Purchase Plan(1)
10.4	Form of Indemnification Agreement(1)
10.5	Joint Venture Agreement, dated September 3, 1990, as amended, by and among the Registrant, Unify Japan Corporation, Sumitomo Metals Industries, Ltd. and Artificial Intelligence Research(1)
10.6	Office Building Lease for Sacramento Facility, Dated December 17, 1999(3)
10.7	ServletExec OEM Agreement by Registrant and New Atlanta Communications, LLC(3)
10.8*	Employment Agreement by and between Todd Wille and the Registrant dated December 27, 2000
21.1	Subsidiaries of the Registrant(1)
23.1	Independent Auditors' Consent

(1) Incorporated by reference to the exhibit of the same number filed with Registrant's Form S-1 Registration Statement (No. 333-3834) declared effective by the Securities and Exchange Commission on June 14, 1996.

(2) Incorporated by reference to the exhibit of the same number filed with Registrant's Form 10-Q on December 15, 1998.

(3) Incorporated by reference to the exhibit of the same number filed with Registrant's form 10-K on December 22, 2000.

* Exhibit pertains to a management contract or compensatory plan or arrangement.

(d) **Financial Statement Schedule**

See Item 14(a)(2) above.

INDEPENDENT AUDITORS' REPORT

To the Stockholders and Board of Directors of Unify Corporation:

We have audited the accompanying consolidated balance sheets of Unify Corporation and subsidiaries (the "Company") as of April 30, 2001 and 2000, and the related consolidated statements of operations, stockholders' equity (deficit) and cash flows for each of the three years in the period ended April 30, 2001. Our audit also comprehended the Company's financial statement schedule listed in item 14(a)2. These consolidated financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the 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, such consolidated financial statements present fairly, in all material respects, the financial position of Unify Corporation and subsidiaries as of April 30, 2001 and 2000, and the results of their operations and their cash flows for each of the three years in the period ended April 30, 2001 in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 2 to the consolidated financial statements, the Company's net loss during the year ended April 30, 2001, its accumulated deficit as of April 30, 2001, the decline in the Company's revenues, the significant increase in expenses as a result of the Audit Committee's investigation and shareholder litigation, and the uncertainty of the availability of financing needed to fund the Company's operating cash requirements, raise substantial doubt about its ability to continue as a going concern. Management's plans concerning these matters are also described in Note 2. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

DELOITTE & TOUCHE LLP
Sacramento, California
July 10, 2001

UNIFY CORPORATION
CONSOLIDATED BALANCE SHEETS
(In thousands, except share data)

	<u>April 30,</u> <u>2001</u>	<u>April 30,</u> <u>2000</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 2,984	\$ 7,407
Restricted cash	118	118
Investments	100	3,669
Accounts receivable, net of allowances of \$902 in 2001, and \$1,757 in 2000	2,815	5,313
Prepaid expenses and other current assets	600	834
	<u>6,617</u>	<u>17,341</u>
Total current assets	6,617	17,341
Property and equipment, net	744	1,033
Other investments	1,850	3,370
Other assets	133	48
	<u>9,344</u>	<u>21,792</u>
Total assets	\$ 9,344	\$ 21,792
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)		
Current liabilities:		
Accounts payable	\$ 1,877	\$ 1,125
Other accrued liabilities	3,406	3,075
Accrued compensation and related expenses	1,013	1,412
Note payable to minority interest stockholders	528	471
Deferred revenue	3,722	5,423
	<u>10,546</u>	<u>11,506</u>
Total current liabilities	10,546	11,506
Commitments and contingencies (Note 15)		
Stockholders' equity (deficit):		
Preferred stock, \$0.001 par value; 5,000,000 shares authorized; no shares issued or outstanding in 2001 and 2000	—	—
Common stock, \$0.0005 par value; 80,000,000 shares authorized; 19,604,548 and 18,745,079 shares outstanding in 2001 and 2000, respectively	9	9
Additional paid-in capital	58,934	58,272
Note receivable from stockholder	(60)	—
Accumulated other comprehensive loss	(651)	(892)
Accumulated deficit	(59,434)	(47,103)
	<u>(1,202)</u>	<u>10,286</u>
Total stockholders' equity (deficit)	(1,202)	10,286
	<u>9,344</u>	<u>21,792</u>
Total liabilities and stockholders' equity (deficit)	\$ 9,344	\$ 21,792

See accompanying notes to consolidated financial statements.

UNIFY CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per share data)

	Years Ended April 30,		
	2001	2000	1999
Revenues:			
Software licenses	\$ 7,229	\$ 12,576	\$ 19,768
Services	7,074	8,475	9,680
	14,303	21,051	29,448
Cost of revenues:			
Software licenses	662	1,342	849
Services	3,085	4,037	4,404
	3,747	5,379	5,253
Gross margin	10,556	15,672	24,195
Operating expenses:			
Product development	4,912	6,696	5,928
Selling, general and administrative	10,697	16,835	14,463
Write-down of other investments	3,650	—	—
Special charges	3,356	—	—
	22,615	23,531	20,391
Income (loss) from operations	(12,059)	(7,859)	3,804
Other income (expense), net	(213)	367	304
	(12,272)	(7,492)	4,108
Provision for income taxes	59	192	231
	(12,331)	(7,684)	3,877
Net income (loss) per share:			
Basic	\$ (0.65)	\$ (0.42)	\$ 0.23
Diluted	\$ (0.65)	\$ (0.42)	\$ 0.21
Shares used in computing net income (loss) per share:			
Basic	18,979	18,127	17,110
Diluted	18,979	18,127	18,102

See accompanying notes to consolidated financial statements.

UNIFY CORPORATION
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT)
(In thousands, except share data)

	Common Stock		Additional Paid-In Capital	Note Receivable from Stockholder	Accumulated Other Comprehensive Income (loss)	Accumulated Deficit	Total Stockholders' Equity (deficit)	Comprehensive Income (Loss)
	Shares	Amount						
Balances at April 30, 1998	16,690,514	8	53,474	(216)	(521)	(43,296)	9,449	
Comprehensive income								
Net income	—	—	—	—	—	3,877	3,877	\$ 3,877
Translation adjustments	—	—	—	—	(122)	—	(122)	(122)
Total comprehensive income								\$ 3,755
Exercise of stock options	645,752	1	580	—	—	—	581	
Issuance of common stock under employee stock purchase plan	235,906	—	228	—	—	—	228	
Repurchase of common stock	(105,000)	—	(159)	—	—	—	(159)	
Payment on note receivable from stockholder, net of interest	—	—	—	91	—	—	91	
Balances at April 30, 1999	17,467,172	9	54,123	(125)	(643)	(39,419)	13,945	
Comprehensive loss								
Net loss	—	—	—	—	—	(7,684)	(7,684)	\$ (7,684)
Translation adjustments	—	—	—	—	(210)	—	(210)	(210)
Unrealized holding losses arising during period	—	—	—	—	(39)	—	(39)	(39)
Total comprehensive loss								\$ (7,933)
Exercise of stock options	945,840	—	1,112	—	—	—	1,112	
Issuance of common stock:								
Under employee stock purchase plan	111,755	—	217	—	—	—	217	
Acquisition of investment	216,931	—	2,820	—	—	—	2,820	
Payment on note receivable from stockholder, net of interest	—	—	—	125	—	—	125	
Other	3,381	—	—	—	—	—	—	
Balances at April 30, 2000	18,745,079	\$ 9	\$ 58,272	\$ 0	\$ (892)	\$ (47,103)	\$ 10,286	
Comprehensive loss								
Net loss	—	—	—	—	—	(12,331)	(12,331)	\$ (12,331)
Translation adjustments	—	—	—	—	202	—	202	202
Unrealized holding gains arising during period	—	—	—	—	39	—	39	39
Total comprehensive loss								\$ (12,090)
Exercise of stock options	733,554	—	352	—	—	—	352	
Issuance of common stock under employee stock purchase plan	125,915	—	310	—	—	—	310	
Note receivable from stockholder	—	—	—	(60)	—	—	(60)	
Balances at April 30, 2001	19,604,548	\$ 9	\$ 58,934	\$ (60)	\$ (651)	\$ (59,434)	\$ (1,202)	

See accompanying notes to consolidated financial statements.

UNIFY CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	Years Ended April 30,		
	2001	2000	1999
Cash flows from operating activities:			
Net income (loss)	\$ (12,331)	\$ (7,684)	\$ 3,877
Reconciliation of net income (loss) to cash provided by (used in) operating activities:			
Depreciation	881	942	1,099
Write-down of other investments	3,650	—	—
Changes in operating assets and liabilities:			
Accounts receivable	2,294	3,805	(3,638)
Prepaid expenses and other current assets	212	(103)	38
Accounts payable	777	(43)	99
Accrued compensation and related expenses	(359)	(226)	(242)
Other accrued liabilities	370	1,620	(740)
Deferred revenue	(1,533)	1,250	383
Net cash provided by (used in) operating activities	(6,039)	(439)	876
Cash flows from investing activities:			
Purchases of available-for-sale securities	(100)	(3,669)	(4,072)
Maturities/sale of available-for-sale securities	3,669	6,033	3,459
Purchases of property and equipment	(605)	(564)	(596)
Increase in other investments	(2,130)	(550)	—
Other assets	(55)	298	(97)
Net cash provided by (used in) investing activities	779	1,548	(1,306)
Cash flows from financing activities:			
Proceeds from issuance of common stock, net	602	1,329	651
Principal payments under debt obligations	—	—	(22)
Note payable to minority interest stockholders	135	(207)	(216)
Collection of notes receivable from stockholders, net of interest accrual	—	125	91
Net cash provided by financing activities	737	1,247	504
Effect of exchange rate changes on cash	100	(146)	(38)
Net increase (decrease) in cash and cash equivalents	(4,423)	2,210	36
Cash and cash equivalents, beginning of year	7,407	5,197	5,161
Cash and cash equivalents, end of year	\$ 2,984	\$ 7,407	\$ 5,197
Supplemental noncash investing and financing activities:			
Common stock issued for acquisition of investment	\$ —	\$ 2,820	\$ —
Loan to stockholder on common stock issued	\$ 60	\$ —	\$ —
Supplemental cash flow information:			
Cash paid during the year for:			
Interest	\$ 6	\$ 115	\$ 53
Income taxes	\$ 17	\$ 464	\$ 119

See accompanying notes to consolidated financial statements.

UNIFY CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. The Company and Summary of Significant Accounting Policies

The Company

Unify's products help companies develop, deploy and manage business and Web applications easily and cost-effectively. Unify's mix of fourth generation ("4GL") and Java technologies allows companies to choose the platform best suited for their business goals. Unify's product families include Unify eWave, Unify VISION, Unify ACCELL and Unify DataServer.

Basis of Presentation

The accompanying consolidated financial statements include the accounts of the Company, its wholly owned subsidiaries and Unify Japan KK, which is 66% owned by the Company. All significant intercompany balances and transactions have been eliminated. At April 30, 2001 and 2000, Unify Japan KK was in a negative equity position, and as a result, the Company did not allocate any of Unify Japan KK net loss to the minority interest shareholders.

The functional currencies of the Company's foreign subsidiaries are their local currencies. Assets and liabilities denominated in foreign currencies are translated into U.S. dollars at period-end exchange rates. Income and expense accounts are translated at average rates of exchange in effect during the reporting period. Foreign currency transaction gains or losses are included in other income, net. Foreign currency adjustments resulting from the translation process are excluded from net income and recorded in other comprehensive income.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash Equivalents

Cash equivalents are highly liquid investments with original maturities of three months or less when purchased and are stated at cost. Cash equivalents consist primarily of demand deposits with banks, certificates of deposit, money market funds, and corporate debt securities.

Investments

The Company's investments are classified as available-for-sale. The investments are carried at fair value, which approximated cost at April 30, 2001. Unrealized gains or losses are reported as accumulated other comprehensive 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, net. The cost of securities sold is based on the specific identification method.

Fair Value of Financial Instruments

The carrying amounts of cash and cash equivalents, accounts receivable, notes receivable and accounts payable approximate fair value because of the short-term maturity of these instruments.

Concentrations of Credit Risk And Credit Evaluations

Financial instruments potentially subjecting the Company to concentrations of credit risk consist primarily of cash, cash equivalents, accounts receivable and investments. The Company places its cash, cash equivalents and investments primarily with three financial institutions. The Company licenses its products principally to companies in the United States, Europe, and Japan and no single customer accounted for 10% or more of consolidated revenues in the years ended April 30, 2001, 2000 and 1999. The Company performs periodic credit evaluations of its customers and generally does not require collateral. Allowances are maintained for potential credit losses.

Other Investments

The Company carries other investments at cost, subject to evaluation for impairment.

Property and Equipment

Property and equipment are stated at cost. Depreciation is recorded on a straight-line basis over the estimated useful lives of the related assets, generally three to five years. Leasehold improvements are amortized over the shorter of their estimated useful lives or the lease term.

Capitalized Software

Software development costs are accounted for in accordance with SFAS No. 86, *Accounting for the Costs of Computer Software to Be Sold, Leased or Otherwise Marketed*. Under this standard, capitalization of software development costs begins upon the establishment of technological feasibility, which for the Company is usually upon completion of a working model, and ends when the product is offered for sale. There are generally no significant capitalizable costs for the Company's software development projects. In the event that capitalizable software development costs do arise, amortization of those costs is computed on a product-by-product basis as the greater of the ratio of current product revenues to the total of current and anticipated product revenues or the straight-line method over the software's estimated economic life, generally one to three years.

Long-Lived Assets

The Company evaluates its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets or intangibles may not be recoverable. 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 exceeds the fair value of the assets.

The Company periodically reevaluates the original assumptions and rationale utilized in the establishment of the carrying value and estimated useful lives of the long-lived assets. The criteria used for these evaluations include management's estimate of the asset's continuing ability to generate income from operations and positive cash flows in future periods as well as the strategic significance of any intangible asset in the Company's business objectives.

Revenue Recognition

Software license revenue is recognized when a noncancelable license agreement has been executed, delivery has occurred, fees are fixed and determinable, and collection of the resulting receivable is deemed probable by management. Service revenue includes support revenue, which is recognized ratably over the support period (generally a one year term), and revenue from consulting and training

services, which is recognized as services are performed. Fees for support are billed in advance and included in deferred revenue until recognized. The Company's revenue recognition policies are in compliance with the provisions of the American Institute of Certified Public Accountants' Statement of Position No. 97-2, *Software Revenue Recognition*.

Stock-Based Compensation

The Company accounts for stock-based awards using the intrinsic value method of accounting in accordance with Accounting Principles Board Opinion ("APB") No. 25, *Accounting For Stock Issued To Employees* and related interpretations. As such, compensation is recorded on the measurement date, generally the date of issuance or grant, as the excess of the current estimated fair value of the underlying stock over the purchase or exercise price. Any deferred compensation is amortized over the respective vesting periods of the equity instruments, if any.

Income Taxes

Deferred taxes are recorded for the difference between the financial statement and tax basis of the Company's assets and liabilities and net operating loss carryforwards. A valuation allowance is recorded to reduce deferred tax assets to an amount whose realization is more likely than not. U.S. income taxes are not provided on the undistributed earnings of foreign subsidiaries as they are considered to be permanently invested.

Earnings (Loss) Per Share

SFAS No. 128, *Earnings Per Share*, requires a dual presentation of basic and diluted income (loss) per share ("EPS"). Basic EPS excludes dilution and is computed by dividing net income attributable to common stockholders by the weighted average of common shares outstanding for the period. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common stock (e.g. convertible preferred stock, warrants, and common stock options) were exercised or converted into common stock. Potential common shares in the diluted EPS computation are excluded for fiscal years 2001 and 2000 as their effect would be antidilutive.

Comprehensive Income (Loss)

In fiscal 1999, the Company adopted SFAS No. 130, *Reporting Comprehensive Income*, which requires that an enterprise report and display, by major components and as a single total, the change in its net assets during the period from nonowner sources. The adoption of this statement resulted in a change in financial statement presentation but had no impact on the Company's consolidated financial position, results of operations, or cash flows.

Comprehensive Income (Loss)

Comprehensive income (loss) includes net income and comprehensive income (loss). The Company's source of other comprehensive income (loss) is derived from gains and losses on the exchange rate of foreign currency as it relates to transactions between the Company and its foreign subsidiaries and distributors, and unrealized gains and losses on securities available for sale.

Segment Reporting

The Company has three reportable operating segments, the United States, Europe, and Japan, which are organized, managed and analyzed geographically and operate in one industry segment: the

development and marketing of Internet and client/server software and related services. The Company evaluates operating segment performance primarily based on net revenues and certain operating expenses. The Company's products and services are marketed internationally through the Company's subsidiaries in the United Kingdom, France and Japan, and through distributors, value added resellers and OEMs.

Recently Issued Accounting Standards

Accounting for gains and losses resulting from changes in the values of derivatives is dependent on the use of the derivative and whether it qualifies for hedge accounting. The Company believes that the adoption of SFAS No. 133 will not have a material impact on its financial position or results of operations.

In June 2001, the Financial Accounting Standards Board approved for issuance Statement of Financial Accounting Standard (SFAS) No. 141, *Business Combinations* and SFAS No. 142, *Goodwill and Other Intangible Assets*. SFAS No. 141 addresses the initial recognition and measurement of goodwill and other intangible assets acquired in a business combination and SFAS No. 142 addresses the initial recognition and measurement of intangibles assets acquired outside of a business combination whether acquired individually or with a group of other assets. SFAS No. 142 also addresses the recognition and measurement of goodwill and other intangibles assets subsequent to their acquisition. SFAS No. 141 is applicable to business combinations beginning July 1, 2001. SFAS No. 142 is effective no later than the fiscal year beginning May 1, 2002. The Company does not expect the adoption of SFAS No. 141 and SFAS No. 142 to have a material effect on its financial position, results of operations and cash flows.

Reclassifications

Certain items in the fiscal 2000 and 1999 consolidated financial statements have been reclassified to conform to the fiscal 2001 presentation. These reclassifications had no effect on net loss or stockholders' equity (deficit).

Note 2. Results of Operations and Management's Plan

The accompanying consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. As shown in the accompanying consolidated financial statements, the Company incurred a net loss of \$12,331,000 during the year ended April 30, 2001, and has an accumulated deficit of \$59,434,000 as of April 30, 2001. The Company has experienced a decline in annual revenues and incurred significant special charges as a result of the Audit Committee's investigation and may continue to incur significant expenses in the defense of the litigation. These factors indicate that the Company may potentially be unable to continue as a going concern.

The consolidated financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or the amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going concern. The Company's continuation as a going concern is dependent upon its ability to continue to generate sufficient cash flows to meet its obligations on a timely basis, the ability to continue to work with key vendors to accept payment terms for certain payables, to obtain additional financing or refinancing as may be required, and ultimately to return to profitability and significant positive cash flows. Management has realigned the Company's operations including a reduction of its workforce. Management plans to continue to grow revenues, increase the investment in marketing, while aggressively controlling costs, and seek additional financing

that is acceptable to the Company. There is no assurance that management's plans will be successful or if successful, that they will result in the Company continuing as a going concern.

Note 3. Acquisitions and Divestitures

On April 1, 2000, the Company acquired privately held New Atlanta Communications, LLC a developer of a leading high-performance, scalable Web application server and servlet engine that implements the Java Servlet API and JSP standards.

Pursuant to the terms of the purchase agreement, the Company agreed to purchase all of the outstanding membership interests of New Atlanta in exchange for 500,000 shares of the Company's common stock with a guaranteed value of \$15,000,000 at the end of a two year period. In November 2000, the Company and New Atlanta agreed to rescind the purchase agreement retroactive to April 1, 2000. Accordingly, the purchase has not been reflected in the accompanying financial statements. Under the terms of the rescission agreement, Unify has transferred its interests in New Atlanta back to the original owners in exchange for the Unify stock that was to be issued in the original acquisition. Concurrent with the rescission, Unify and New Atlanta entered into a one year OEM agreement in which the Company is able to embed New Atlanta's product, ServletExec, with the Unify eWave Engine. From November 1, 2000 to April 30, 2001, the Company provided support, sales and marketing staff to New Atlanta for a fee which has been recorded as service revenues in the consolidated financial statements.

In June 2000, the Company acquired privately-held Unify InterAmerica, the Company's master distributor in Latin America. The acquisition was in support of Unify's strategy to rapidly expand into the growing Latin America e-commerce market. After review of this strategy by the Company's new management, the Company changed its strategic approach to the Latin America market. As a result in September 2000, the Company sold Unify InterAmerica to its original stockholders, which resulted in the Company recording a loss of approximately \$400,000. The consolidated financial statements reflect the results of operations of Unify InterAmerica, which were not material, for the period it was owned by the Company.

Note 4. Investments

Investments at April 30, 2001 consisted of a corporate bond for \$100,000 maturing within one year. Investments at April 30, 2000 consisted of \$2,569,000 in corporate bonds and \$1,000,000 in government bonds maturing within one year, and \$100,000 in corporate bonds maturing within two years.

Note 5. Accounts Receivable

During fiscal years 2001 and 2000, the Company had agreements to factor accounts receivable on a non-recourse and full recourse basis, which expired in July 2000. During all of fiscal year 2001, the Company had no accounts receivable sold under such agreements and for fiscal year 2000, \$5,600,000 of accounts receivable were sold under such agreements. As of April 30, 2000, all receivables factored were sold on a non-recourse basis.

UNIFY CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 6. Property and Equipment

Property and equipment at April 30 consisted of the following (in thousands):

	2001	2000
Equipment	\$ 4,993	\$ 5,127
Furniture and leasehold improvements	1,079	1,229
	6,072	6,356
Less accumulated depreciation and amortization	(5,328)	(5,323)
	\$ 744	\$ 1,033

Note 7. Other Investments

Other investments represents common stock in three closely held technology companies. The Company's ownership interest in each company is less than 10%. At April 30, 2001 and 2000 other investments consisted of the following (in thousands):

	2001	2000
Arrango Software International, Inc.	\$ 500	\$ 500
iChatterbox, Inc.	—	50
Evergreen Internet, Inc.	1,350	2,820
	\$ 1,850	3,370

On February 25, 2000, the Company entered into an agreement to exchange shares of its common stock or cash, or a combination of the two, with an aggregate value of \$5.0 million for 1,040,993 shares of the common stock of Evergreen Internet, Inc. ("Evergreen"), a developer of software. On March 14, 2000, the Company issued 216,931 shares of its common stock with a value of \$2.8 million to Evergreen as partial payment. On August 1, 2000, the Company paid \$2.2 million in cash to Evergreen. Based upon a comprehensive review of its investments and long-lived assets during the third quarter of fiscal 2001, the Company recorded a noncash charge of \$3,650,000 to write-down the carrying amount of Evergreen Internet, Inc to its estimated realizable value.

In February 2001 the Company sold its interest in iChatterbox for \$100,000, resulting in a gain of \$50,000.

Note 8. Stockholders' Equity (Deficit)

Common stock

In fiscal year 2000, the Company split its stock 2 for 1 for shareholders of record on December 21, 1999. The effect of the split has been reflected in the consolidated financial statements for all years presented.

Preferred Stock

The Company may issue up to 5,000,000 shares of preferred stock in one or more series upon authorization by the Company's board of directors. The board of directors, without further approval of the stockholders, is authorized to fix the dividend rights and terms, conversion rights, voting rights,

redemption rights and terms, liquidation preferences, and any other rights, preferences, privileges and restrictions applicable to each series of preferred stock.

Common Stock Repurchase Plan

In September 1998, the Company announced that its board of directors had authorized the repurchase of up to 1,000,000 of its outstanding common shares. During fiscal year 1999, 105,000 shares of common stock were repurchased and retired under this program at an average price of \$1.52 per share. The Company did not repurchase any shares in fiscal year 2000 or 2001.

Stock Option Plan

Under the 1991 Stock Option Plan (the "Option Plan"), the Company may grant options to purchase up to 5,400,000 shares of common stock to eligible employees, directors, and consultants at prices not less than the fair market value at the date of grant for incentive stock options and not less than 85% of the fair market value at the date of grant for non-statutory stock options. Options granted under the Option Plan generally vest over four years, are exercisable to the extent vested, and expire 10 years from the date of grant. As of March 2001, this stock option plan expired. The Company plans to adopt a new stock option plan after shareholder approval at the next Annual Meeting. A summary of stock option activity under the Option Plan is as follows:

	Number of Shares	Weighted Average Exercise Price
Outstanding at April 30, 1998	1,874,040	\$ 1.38
Granted (weighted average fair value of \$0.94)	1,430,704	1.63
Exercised	(645,752)	0.90
Cancelled/expired	(382,872)	1.31
	<hr/>	
Outstanding at April 30, 1999	2,276,120	1.49
Granted (weighted average fair value of \$4.99)	530,800	7.92
Exercised	(945,840)	1.18
Cancelled/expired	(176,680)	4.04
	<hr/>	
Outstanding at April 30, 2000	1,684,400	3.42
Granted (weighted average fair value of \$0.17)	1,170,711	0.22
Exercised	(733,554)	0.46
Cancelled/expired	(783,774)	3.05
	<hr/>	
Outstanding at April 30, 2001	1,337,783	2.46

Additional information regarding options outstanding at April 30, 2001 is as follows:

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Number Outstanding	Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Number Outstanding	Weighted Average Exercise Price
\$ 0.12 – 0.12	513,500	4.82	\$ 0.12	—	\$ —
0.18 – 1.19	206,063	3.91	0.86	163,715	0.94
1.22 – 1.50	158,584	5.98	1.40	150,832	1.39
1.52 – 5.88	227,977	7.43	4.19	133,508	3.52
6.03 – 6.31	151,434	7.33	6.17	74,794	6.16
6.38 – 17.75	69,625	8.72	10.12	21,643	9.81
18.63 – 27.25	10,600	8.66	22.68	3,406	22.67
0.12 – 27.25	1,337,783	5.78	2.46	547,898	2.89

Options to purchase 441,428 and 821,988 shares at weighted average prices of \$1.59 and \$1.19 were exercisable at April 30, 2000 and 1999. At April 30, 2001, 423,274 shares were reserved for future grants under the Option Plan subject to changes or amendments as approved at the Company's Annual Meeting.

Stock Purchase Plan

Under the 1996 Employee Stock Purchase Plan (the "Purchase Plan"), as Amended effective August 7, 1997, eligible employees may purchase the Company's common stock through payroll deductions of up to 15% of their base compensation. Offering periods under the Purchase Plan are of 24 months' duration with purchases occurring every six months. Common stock is purchased for the accounts of participating employees at a price per share equal to the lower of (i) 85% of the fair market value of a share of common stock at the beginning of the offering period or (ii) 85% of the fair market value of a share of common stock on the date of purchase. Common stock issued under the Purchase Plan during fiscal 2001, 2000 and 1999 totaled 125,915, 117,755 and 235,906 shares at weighted average prices of \$2.46, \$1.93 and \$0.97, respectively. The weighted average fair values of the fiscal 2001, 2000 and 1999 awards were \$0.40, \$9.43 and \$1.28 per share, respectively. At April 30, 2001, 566,280 shares were reserved for future issuance under the Purchase Plan.

Additional Stock Plan Information

As discussed in Note 1, the Company accounts for its stock-based awards using the intrinsic value method in accordance with APB No. 25. Accordingly, no compensation expense has been recognized in the financial statements for employee stock arrangements issued at fair value.

SFAS No. 123, *Accounting for Stock-Based Compensation*, requires the disclosure of pro forma net income (loss) and net income (loss) per share had the Company adopted the fair value method to account for its stock-based awards. Under SFAS No. 123, the fair value of stock-based awards to employees is calculated through the use of option pricing models which were developed to estimate the fair value of freely tradeable, fully transferable options without vesting restrictions. Such options differ significantly from the Company's stock-based awards. These models require subjective assumptions, including future stock price volatility and expected time to exercise, which greatly affect the calculated values. The Company's calculations were made using the minimum value method for the periods prior to June 1996, the date of the Company's initial public offering of common stock and the Black-Scholes

option pricing model for subsequent periods, with the following weighted average assumptions: expected option life, 12 months following vesting; stock volatility, 139% in fiscal 2001, 93% in fiscal 2000 and 83% in fiscal 1999; risk-free interest rates, 5.7% in fiscal 2001, 5.9% in fiscal 2000 and 5.1% in fiscal 1999; and no dividends during the expected term. The Company's calculations are based on a multiple option valuation approach and forfeitures are recognized as they occur. If the computed fair values of the Company's stock-based awards had been amortized to expense over the vesting period of the awards, pro forma net loss would have been \$12,827,000 or \$0.68 loss per basic share and diluted share in fiscal 2001 while pro forma net loss would have been \$9,042,000 or \$0.50 loss per basic and diluted share in fiscal 2000 and pro forma earnings of \$3,193,000 or \$0.19 per basic and \$0.18 per diluted share in fiscal 1999.

Note Receivable from Stockholder

Note receivable from stockholder at April 30, 2001 consisted of the principal balance due on a \$60,000 full recourse note from one of the Company's officers. The note has an interest rate of 5% annually, and is secured by 375,000 shares of common stock and is due and payable on October 1, 2003.

Note 9. Income Taxes

The Company recorded no federal income or state tax provisions for the years ended April 30, 2001 and 2000 due to its net losses. No significant federal income tax provisions were recorded for the year ended April 30, 1999 due to the availability of federal net operating loss carryforwards. The Company's tax provisions relate primarily to foreign income tax withholding on software license royalties paid to the Company by certain licensees. Income (loss) before income taxes and provision for income taxes, which consisted solely of current tax expense, for the years ended April 30 were as follows (in thousands):

	2001	2000	1999
Domestic	\$ (11,176)	\$ (6,216)	\$ 3,921
Foreign	(1,096)	(1,276)	187
Total income (loss) before income taxes	\$ (12,272)	\$ (7,492)	\$ 4,108
Foreign taxes	\$ 52	\$ 190	\$ 130
Federal and state income taxes	7	2	101
Total provision for income tax	\$ 59	\$ 192	\$ 231

The provision for income taxes for the years ended April 30, 2001, 2000 and 1999 differs from the amounts computed by applying the statutory U.S. federal income tax rate to pretax income (loss) as a result of the following (in thousands):

	2001	2000	1999
Computed tax expense (benefit)	\$ (4,295)	\$ (2,622)	\$ 1,438
Increases (reductions) in tax expense resulting from:			
Foreign withholding taxes	52	190	130
Increase (decrease) in valuation allowance for deferred tax assets	4,423	2,767	(2,006)
Other	(121)	(143)	669
Actual provision for income tax	\$ 59	\$ 192	\$ 231

The Company provides deferred income taxes which reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and for income tax purposes. Significant components of the Company's deferred tax assets and liabilities at April 30 were as follows (in thousands):

	<u>2001</u>	<u>2000</u>
Deferred tax assets:		
Net operating loss carryforwards	\$ 15,442	\$ 10,091
Foreign tax credits	550	1,463
Deferred revenue	713	2,285
Reserves and other accruals	1,891	388
Allowance for losses on accounts receivable	767	789
Other	189	113
	<u>19,552</u>	<u>15,129</u>
Total deferred tax assets	19,552	15,129
Valuation allowance	(19,552)	(15,129)
	<u>—</u>	<u>—</u>
Net deferred tax assets	\$ —	\$ —

Due primarily to changes in the deferred tax assets recorded for net operating loss carryforwards, and deferred revenue, the valuation allowance increased by \$4,423,000 and \$2,767,000 in the years ended April 30, 2001 and 2000 respectively. At April 30, 2001, the Company had approximately \$37,739,000 in federal net operating loss carryforwards, approximately \$5,838,000 in state net operating loss carryforwards, approximately \$5,668,000 in foreign net operating loss carryforwards, and approximately \$550,000 in foreign tax credit carryforwards. The Company's federal net operating loss carryforwards expire beginning in fiscal 2006. The Company's other net operating loss and tax credit carryforwards have various expiration dates beginning in fiscal year 2002. The Company's ability to utilize these net operating loss carryforwards may be subject to certain limitations in the event of a change in ownership.

Note 10. Special Charges

In July 2000, Company announced that certain matters had come to the attention of the Company's Board of Directors that indicated that the Company had engaged in improper accounting practices. Accordingly, the Board of Directors authorized its Audit Committee to conduct an investigation of the Company's accounting and financial reporting practices and to recommend remedial action, if any. As a result of this financial reporting investigation, the Company incurred additional costs related to the investigation itself, legal expenses, additional auditing costs and other litigation related costs of \$3,356,000.

Note 11. Other Income (Expense)

Other income (expenses), net for the years ended April 30, consisted of the following (in thousands):

	<u>2001</u>	<u>2000</u>	<u>1999</u>
Interest income	\$ 191	\$ 471	\$ 448
Interest expense	—	(118)	(53)
Foreign currency exchange loss	(242)	(61)	(99)
Loss on asset disposition	(388)	—	—
Other	226	75	8
	<u>(213)</u>	<u>367</u>	<u>304</u>
Other income (expense), net	\$ (213)	\$ 367	\$ 304

UNIFY CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 12. Earnings Per Share

The following is a reconciliation of the numerators and denominators of the basic and diluted earnings per share computations for the years ended April 30. All share and per share amounts have been adjusted to give effect to the 2 for 1 stock split in fiscal 2000 (in thousands except per share amounts):

	<u>2001</u>	<u>2000</u>	<u>1999</u>
Net Income (Loss) (Numerator):			
Net income (loss), basic and diluted	\$ (12,331)	\$ (7,684)	\$ 3,877
Shares (Denominator):			
Weighted average shares of common stock outstanding, basic	18,979	18,127	17,110
Effect of dilutive securities (stock options)	—	—	992
Weighted average shares of common stock outstanding, diluted	<u>18,979</u>	<u>18,127</u>	<u>18,102</u>
Per Share Amount:			
Net income (loss) per share, basic	\$ (0.65)	\$ (0.42)	\$ 0.23
Effect of dilutive securities	—	—	(0.02)
Net income (loss) per share, diluted	<u>\$ (0.65)</u>	<u>\$ (0.42)</u>	<u>\$ 0.21</u>
Antidilutive Shares:	<u>1,773</u>	<u>1,533</u>	<u>—</u>

Note 13. Related Party Transactions

Unify Japan KK ("Unify Japan") has been the exclusive distributor and master licensee for the Company's products in Japan since July 1994. Prior to March 1999, the Company, Sumitomo Metals Industries, Ltd. ("SMI") and Artificial Intelligence Research, Ltd. ("AIR") owned 51%, 34% and 15% interests, respectively, in Unify Japan. In March 1999, the Company purchased AIR's entire interest in Unify Japan. At April 30, 2001, the Company and SMI own 66% and 34% of Unify Japan, respectively.

Transactions with SMI

Total revenues include revenues from SMI of \$220,000, \$413,000 and \$549,000 in fiscal years 2001, 2000 and 1999, respectively. Unify Japan leases office space from SMI; rent expense for this office space totaled approximately \$57,000, \$63,000 and \$74,000 in fiscal years 2001, 2000 and 1999, respectively. Unify Japan also paid SMI approximately \$118,000, \$26,000 and \$61,000 for the services of SMI employees in fiscal years 2001, 2000 and 1999, respectively. In September 1995, Unify Japan entered into a 100 million yen loan agreement with a bank affiliated with SMI. The loan bears interest at the Tokyo International Bank Offered Rate ("TIBOR") plus 50 basis points (approximately 1% at April 30, 2001), and is secured by the assets of Unify Japan. The agreement due date has been extended to September 2001. At April 30, 2001, 65 million yen, or \$528,000, was outstanding under this loan agreement. Note payable to minority interest stockholders at April 30, 2001 and 2000 consisted entirely of the balances due under this loan agreement.

Transactions with Directors

Included in other current assets at April 30, 2001 is a note receivable, which has been fully reserved, from the Company's former Chief Executive Officer relating to commissions, bonuses and other payments made to the Company's former chief executive officer during the fiscal years 2000 and 2001, which the Company believes were unauthorized. The Company is seeking to have these amounts repaid. Included as a component of stockholders equity (deficit) at April 30, 2001, is a note receivable

from the Company's current Chief Executive Officer in the amount of \$60,000 for the purchase of the Company's common stock, upon the exercise of stock options. This full recourse note is due and payable on October 1, 2003 and bears interest at 5% per annum.

Note 14. Employee Retirement Plan

The Company maintains a 401(k) profit sharing plan (the "401(k) Plan"). Eligible employees may contribute up to 15% of their pre-tax annual compensation to the 401(k) Plan, subject to certain statutory limitations. The Company voluntarily matches 75% of participating employees' contributions up to 6% of each employee's annual compensation. In fiscal years 2001, 2000 and 1999, the Company contributed \$208,000, \$254,000 and \$187,000, respectively, to the 401(k) Plan.

Note 15. Commitments and Contingencies

Operating Leases

The Company leases office space and equipment under noncancelable operating lease arrangements. Future minimum rental payments under these leases as of April 30, 2000 were as follows, (in thousands):

Years Ending April 30,	
2002	\$ 1,114
2003	1,010
2004	935
2005	916
2006	942
Thereafter	1,643
	<hr/>
	\$ 6,560

Rent expense under operating leases was \$1,190,000 \$1,400,000, and \$1,398,000 for the years ended April 30, 2001, 2000 and 1999, respectively.

Subleased Properties

The Company subleases certain of its office space under non-cancelable operating lease arrangements. The Company's non-cancelable operating sub-leases at April 30, 2001 provide for minimum rental income during each of the next five years of \$350,000, \$308,000, \$246,000 \$163,000 and \$0.0 respectively.

Employment Agreements and Termination and Changes of Control Arrangements

The Company had an employment agreement with its former chief executive officer that contained termination and change in control arrangements. In November 2000, the Company terminated the employment of its chief executive officer. In light of the circumstances of the termination, the Company does not believe that he is entitled to any termination benefits under the employment agreement.

Litigation

Beginning on July 1, 2000 and through October 2000, a series of class action complaints were filed in the U.S. District Court for the Northern District of California, against Unify and certain of its directors and former officers. The plaintiffs in each of these actions claim to be suing on behalf of a class of persons who purchased the Company's Common Stock during periods specified in the complaint. These

actions have been consolidated and the court has selected lead plaintiffs' counsel. In April 2001, the United States district court stayed the consolidated actions, pursuant to the stipulation of the parties, until June 2001, to give the parties an opportunity to mediate the dispute in conjunction with other litigation discussed below.

From August through October 2000, five shareholder derivative actions were filed; four in the Superior Court of the State of California and one in the U.S. District Court for the Northern District of California. The plaintiffs in these actions each claims to be suing on behalf of the Company. These actions name as defendants certain of the Company's present and former officers and directors. The complaints allege substantially the same conduct, and concern the same time period, as the shareholder class actions filed in the U.S. District Court for the Northern District of California. The complaints allege that, as a result of this conduct, certain of the present and former officers and directors breached their fiduciary duties to Unify and engaged in improper insider trading. The complaints seek an unspecified amount in damages and injunctive relief. The action pending in U.S. District court has been voluntarily stayed by the parties pending resolution of the derivative actions in state court. The parties to the derivative actions in state court have agreed to attempt to mediate the derivative actions in conjunction with the federal class actions discussed above.

In February and April 2001, two alleged institutional investors filed actions in U.S. District Court for the Northern District of California against the Company and its former chief executive officer and former chief financial officer alleging violations of federal securities laws. The complaint alleges the same conduct and concerns generally the same time period as that alleged in the shareholder class actions discussed above. The Company intends to seek mediation of these disputes with the other pending litigation arising from the same alleged facts and circumstances.

In June 2001, the Company participated in a day long mediation of the litigation discussed above. While the matters were not resolved during that day, the mediator is continuing in his mediation efforts with the encouragement of the Company and it remains the goal of the Company to resolve all of the litigation. In July 2001, the Company determined that a global settlement was likely and the estimated costs to settle such lawsuits has been accrued as of April 30, 2001. However, there can be no assurance that the proposed global settlement will be approved by federal and state courts or that such complaints discussed above will be resolved without costly litigation, or in a manner that is not adverse to the Company's financial position, results of operations or cash flows.

The Company has become aware that the SEC and the Department of Justice are conducting investigations into the facts and circumstances surrounding the Company's restatement of its quarterly financial statements and other matters. The Company is fully cooperating with the investigations.

Note 16. Segment Information

The Company has three reportable operating segments, the United States, Europe, and Japan, which are organized, managed and analyzed geographically and operate in one industry segment: the development and marketing of Internet and client/server software and related services. The Company evaluates operating segment performance primarily based on net revenues and certain operating expenses. The Company's products and services are marketed internationally through the Company's subsidiaries in the United Kingdom, France and Japan, and through distributors, value added resellers and OEMs. No single customer accounted for 10% or more of the consolidated revenues of the Company in fiscal 2001, 2000 or 1999.

Financial information for the Company's reportable operating segments is summarized below (in thousands):

	2001	2000	1999
Total net revenues:(1)			
Americas	\$ 7,152	\$ 11,024	\$ 16,899
Europe	5,002	7,417	9,346
Japan	2,149	2,610	3,203
Total net revenues	\$ 14,303	\$ 21,051	\$ 29,448
Operating income (loss):			
Americas(2)	\$ (10,430)	\$ (6,111)	\$ 4,106
Europe	(1,265)	(1,356)	(239)
Japan	(364)	(392)	(63)
Total operating income (loss)	\$ (12,059)	\$ (7,859)	\$ 3,804
Interest income(3)	\$ 191	\$ 471	\$ 448
Interest expense(3)	\$ —	\$ 118	\$ 53
Identifiable assets:			
Americas	\$ 1,913	\$ 8,159	\$ 7,993
Europe	3,129	4,121	5,808
Japan	892	1,848	1,851
Subtotal identifiable assets	5,934	14,128	15,652
Corporate assets(4)	3,909	13,256	9,184
Elimination of inter-company balances	(499)	(5,592)	(1,885)
Total assets	\$ 9,344	\$ 21,792	\$ 22,951
Depreciation expense(5)	\$ 643	\$ 942	\$ 1,099
Capital expenditures(5)	\$ 367	\$ 564	\$ 596

- (1) The Company allocates revenues to operating segments based on the location of the country where the license is installed or service is delivered. There were no transfers between segments during the periods presented. The accounting policies of the segments are the same as those described in Note 1.
- (2) Americas operating income (loss) is net of corporate product development and administrative expenses.
- (3) Interest income and interest expense were primarily attributable to the United States in the periods presented. Interest income and interest expense in Europe and Japan were not significant in those periods.
- (4) Corporate assets consist primarily of cash and cash equivalents, investments, purchased technology, and property and equipment in the Americas.
- (5) The majority of the Company's capital expenditures are incurred for software (which occurs exclusively in the Americas) and for corporate infrastructure. Consequently, capital expenditures and depreciation expense were primarily attributable to the Americas in the periods presented.

Net revenues and long-lived assets by geographic area were as follows (in thousands):

	2001	2000	1999
Total net revenues:			
Americas	\$ 7,152	\$ 11,024	\$ 16,899
United Kingdom	3,088	4,599	6,480
France	1,914	2,818	2,866
Subtotal Europe	5,002	7,417	9,346
Japan	2,149	2,610	3,203
Total net revenues	\$ 14,303	\$ 21,051	\$ 29,448
Long-lived assets:			
Americas	\$ 2,636	\$ 4,238	\$ 1,350
Foreign	91	213	259
Total long-lived assets	\$ 2,727	\$ 4,451	\$ 1,609

Note 17. Quarterly Results of Operations (Unaudited)

The following interim financial information presents the 2001 and 2000 results of operation on a quarterly basis:

	Quarter Ended			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
(In thousands, except per share data)				
Year ended April 30, 2001:				
Total revenues	\$ 2,850	\$ 3,562	\$ 3,729	\$ 4,162
Gross margin	\$ 1,438	\$ 2,771	\$ 2,900	\$ 3,447
Net loss	\$ (3,649)	\$ (4,575)	\$ (4,054)	\$ (53)
Net loss per share, basic	\$ (0.19)	\$ (0.24)	\$ (0.21)	\$ (0.00)
Net loss per share, diluted	\$ (0.19)	\$ (0.24)	\$ (0.21)	\$ (0.00)
Year ended April 30, 2000:				
Total revenues	\$ 5,393	\$ 5,819	\$ 5,254	\$ 4,585
Gross margin	\$ 4,035	\$ 4,480	\$ 4,260	\$ 2,897
Net loss	\$ (2,411)	\$ (1,307)	\$ (844)	\$ (3,122)
Net loss per share, basic	\$ (0.14)	\$ (0.07)	\$ (0.05)	\$ (0.16)
Net loss per share, diluted	\$ (0.14)	\$ (0.07)	\$ (0.05)	\$ (0.16)

Note 18. Subsequent Events

During July 2001, the mediation to settle the consolidated class action lawsuit and shareholder derivative actions had progressed such that the Company determined a settlement was likely and accordingly, accrued the estimated costs to settle these lawsuits and made adjustments to previously accrued legal expenses as a result of such anticipated settlement.

UNIFY CORPORATION
VALUATION AND QUALIFYING ACCOUNTS AND RESERVES
(In thousands)

	Balance at Beginning of Period	Additions Charged to Operating Expenses	Deductions of Write-offs of Accounts	Additions (Deductions) Transfers Between Accounts	Balance at End of Period
Allowance for doubtful accounts receivable:					
Year ended April 30, 1999	\$ 563	\$ 607	\$ (294)	\$ (26)	\$ 850
Year ended April 30, 2000	\$ 850	\$ 1,852	\$ (404)	\$ (541)	\$ 1,757
Year ended April 30, 2001	\$ 1,757	\$ 353	\$ (969)	\$ (239)	\$ 902
Allowance for amounts due from minority interest stockholders:					
Year ended April 30, 1999	\$ 326	\$ —	\$ —	\$ —	\$ 326
Year ended April 30, 2000	\$ 326	\$ —	\$ (326)	\$ —	\$ —
Year ended April 30, 2001	\$ —	\$ —	\$ —	\$ —	\$ —
Allowance for long-term accounts and notes receivable—other assets:					
Year ended April 30, 1999	\$ 257	\$ —	\$ (222)	\$ 26	\$ 61
Year ended April 30, 2000	\$ 61	\$ 23	\$ —	\$ 541	\$ 625
Year ended April 30, 2001	\$ 625	\$ 511	\$ —	\$ 236	\$ 1,372

**UNIFY CORPORATION
INDEX TO EXHIBITS**

Exhibit No.	Description	Prior Filing or Sequential Page Number Herein
3.1	Restated Certificate of Incorporation of the Company	(1)
3.2	Bylaws of the Registrant	(1)
4.1	Form of Stock Certificate	(1)
4.2	Series E Stock Purchase Agreement by and among the Company and the purchasers named therein, dated April 2, 1992	(1)
10.1*	Employment Agreement by and between Reza Mikaili and the Registrant dated May 1, 1998	(2)
10.2*	1991 Stock Option Plan, as amended	(1)
10.3*	1996 Employee Stock Purchase Plan	(1)
10.4	Form of Indemnification Agreement	(1)
10.5	Joint Venture Agreement, dated September 3, 1990, as amended, by and among the Registrant, Unify Japan Corporation, Sumitomo Metals Industries, Ltd. and Artificial Intelligence Research	(1)
10.6	Office Building Lease for Sacramento Facility, Dated December 17, 1999	(3)
10.7	Servletexec OEM Agreement by Registrant and New Atlanta Communication, LLC.	(3)
10.8*	Employment Agreement by and between Todd. Wille and the Registrant dated December 29, 2000	
21.1	Subsidiaries of the Registrant	(1)
23.1	Independent Auditors' Consent	54

(1) Incorporated by reference to the exhibit of the same number filed with Registrant's Form S-1 Registration Statement (No. 333-3834) declared effective by the Securities and Exchange Commission on June 14, 1996.

(2) Incorporated by reference to the exhibit of the same number filed with Registrant's Form 10-Q on December 15, 1998.

(3) Incorporated by reference to the exhibit of the same number filed with Registrant's form 10-K on December 22, 2000.

* Exhibit pertains to a management contract or compensatory plan or arrangement.

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EXECUTIVE EMPLOYMENT AGREEMENT

This Executive Employment Agreement ("Agreement") is made effective as of October 1, 2000 ("Effective Date"), by and between Unify Corporation ("Company") and Todd Wille ("Executive").

The parties agree as follows:

1. *Employment.* Company hereby employs Executive, and Executive hereby accepts such employment, upon the terms and conditions set forth herein.

2. *Duties.*

2.1 *Position.* Executive is employed as Chief Executive Officer and shall have the duties and responsibilities assigned by Company's Board of Directors ("Board of Directors") both upon initial hire and as may be reasonably assigned from time to time. Executive shall perform faithfully and diligently all duties assigned to Executive. Company reserves the right to modify Executive's position and duties at any time in its sole and absolute discretion.

2.2 *Best Efforts/Full-time.* Executive will expend Executive's best efforts on behalf of Company, and will abide by all policies and decisions made by Company, as well as all applicable federal, state and local laws, regulations or ordinances. Executive will act in the best interest of Company at all times. Executive shall devote Executive's full business time and efforts to the performance of Executive's assigned duties for Company, unless Executive notifies the Board of Directors in advance of Executive's intent to engage in other paid work and receives the Board of Directors' express written consent to do so.

3. *At-Will Employment Relationship.* Executive's employment with Company is not for any specified period and may be terminated at any time, with or without cause or advance notice, by either Executive or Company. In addition, Company reserves the right to modify Executive's position or duties to meet business needs and to use discretion in deciding on appropriate discipline. No representative of Company, other than the President, has the authority to alter the at-will employment relationship. Any change to the at-will employment relationship must be by specific, written agreement signed by Executive and President of Company. Nothing in this Agreement is intended to or should be construed to contradict, modify or alter this at-will relationship.

4. *Compensation.*

4.1 *Base Salary.* As compensation for Executive's performance of Executive's duties hereunder, Company shall pay to Executive an initial Base Salary of \$17,500 per month, payable in accordance with the normal payroll practices of Company, less required deductions for state and federal withholding tax, social security and all other employment taxes and payroll deductions.

4.2 *Signing Bonus.* Executive will receive a one-time signing bonus of \$75,000 following execution of this Agreement. If Executive resigns without "good reason" or is terminated for "cause" (as defined in paragraph 7.1.1 and 7.1.2 below) within six months of the Effective Date of this Agreement, Executive must repay the signing bonus within 60 days of separation of employment.

4.3 *Incentive Compensation.* Executive will be eligible to receive incentive compensation, up to a maximum of \$150,000 per year, the terms, amount and payment of which shall be determined by Company in its sole and absolute discretion.

4.4 *Stock Options.* Subject to the Board of Directors' approval, Executive will be granted an incentive stock option to purchase 500,000 shares of Company's Common Stock under Company's Amended and Restricted 1991 Stock Option Plan (the "Plan") at an exercise price equal to the fair market value of that stock on the Date of Grant (the "Option"). The shares will vest over a two year period in 24 equal installments on a monthly basis, beginning on the month anniversary

of the effective date of this Agreement, unless such vesting is accelerated pursuant to the terms and conditions of this Agreement. The Option will be subject to the terms and conditions of the Plan and the standard stock option agreement provided pursuant to the Plan, which Executive will be required to sign as a condition of receiving the Option.

4.5 *Vacation.* During the term of the Agreement, Executive shall earn twenty (20) days of paid vacation annually, on a prorated basis until Executive has accrued thirty (30) days of vacation. At that time, no further vacation shall be earned until Executive has used some portion of his accrued vacation, thereby reducing the total amount of accrued vacation below the permitted maximum. Executive shall schedule his vacation so that it does not interfere in any material respect with the performance of his duties hereunder. Executive will also use his best efforts to schedule vacation period to minimize disruption to the Company's business.

5. *Customary Fringe Benefits.* Executive will be eligible for all customary and usual fringe benefits generally available to executives of Company subject to the terms and conditions of Company's benefit plan documents. Company reserves the right to change or eliminate the fringe benefits on a prospective basis, at any time, effective upon notice to Executive.

6. *Business Expenses.* Executive will be reimbursed for all reasonable, out-of-pocket business expenses incurred in the performance of Executive's duties on behalf of Company. To obtain reimbursement, expenses must be submitted promptly with appropriate supporting documentation in accordance with Company's policies.

7. *Termination of Executive's Employment.*

7.1 *Definitions.* For purposes of this Agreement, the following definitions will apply:

7.1.1 *Cause*. For purposes of this Agreement, "cause" is defined as: (a) acts or omissions constituting gross negligence, recklessness or willful misconduct on the part of Executive with respect to Executive's obligations or otherwise relating to the business of Company; (b) Executive's material breach of this Agreement or Company's Executive Innovations and Proprietary Rights Agreement; (c) Executive's conviction or entry of a plea of nolo contendere for fraud, misappropriation or embezzlement, or any felony or crime of moral turpitude; (d) Executive's willful neglect of duties as determined in the sole and exclusive discretion of the Board of Directors after thirty (30) days written notice to Executive and a failure to cure within that thirty (30) days; (e) Executive's failure to perform the essential functions of Executive's position, with or without reasonable accommodation, due to a mental or physical disability; and (f) Executive's death.

7.1.2 *Good Reason*. For purposes of this Agreement, a resignation for "good reason" is defined as: (a) any material change in Executive's job description, duties or responsibilities or the assignment to Executive of any duties or work responsibilities which are inconsistent with such status, position or work responsibilities, unless otherwise agreed to by Executive; (b) a material reduction in Executive's level of compensation or the failure to offer Executive employment benefits comparable to those made generally available to other senior executives of the Company; or (c) a relocation of Executive's place of employment by more than 50 miles; provided, however, that the hiring of additional corporate officers who report to Executive or Executive's subordinates shall not, in and of itself, be deemed to result in a material change in Executive's job description, duties or responsibilities for purposes of (a) above.

7.1.3 *Change In Control.* A Change in Control is defined as any one of the following occurrences:

- (i) Any "person" (as such term is used in Sections 13(d) and 14(d) of the Securities Exchange Act of 1934 (the "Exchange Act")), other than a trustee or other fiduciary holding securities of Company under an employee benefit plan of Company, becomes the "beneficial owner" (as defined in Rule 13d-3 promulgated under the Exchange Act), directly or indirectly, of the securities of Company representing more than 50% of (A) the outstanding shares of common stock of Company or (B) the combined voting power of the Company's then-outstanding securities; or
- (ii) the sale or disposition of all or substantially all of Company's assets (or any transaction having similar effect is consummated);
- (iii) Company is party to a merger or consolidation that results in the holders of voting securities of Company outstanding immediately prior thereto failing to continue to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity) more than 50% of the combined voting power of the voting securities of Company or such surviving entity outstanding immediately after such merger or consolidation; or
- (iv) There occurs a sale to a "person" (as such term is defined in Section 13(d) of the Securities Exchange Act of 1934, as amended) of securities of the Company representing more than fifty percent (50%) of the total number of votes that may be cast for the election of directors of the Company.

7.2 *At-Will Employment.* Although Company anticipates a mutually rewarding employment relationship with Executive, Executive's employment is terminable at-will, as explained in paragraph 3.

7.3 *Severance if Termination Without Cause or if Resignation for Good Reason by Company.* Although Company or Executive may terminate this Agreement at-will, if Company terminates Executive without "cause" or Executive resigns for "good reason" (as defined above), Executive will be eligible to receive the following Termination Severance Package: (1) severance payment equivalent to twelve months of Executive's Base Salary then in effect on the date of termination, payable in accordance with Company's regular payroll cycle; (2) the continuance of Executive's existing health insurance benefits for a twelve month period if permitted by Company's health insurance plan, or, if not permitted by Company's health insurance plan, Company will reimburse Executive for the cost of twelve months of his COBRA health insurance benefits (assuming Executive meets all COBRA eligibility requirements); and (3) the vesting of the Option shall accelerate so that the lesser of 208,333 shares or the remaining unvested shares shall fully vest as of the date of the termination. All other Company obligations to Executive will be automatically terminated and completely extinguished. Provision of this Termination Severance Package is contingent upon the following: (a) Executive complies with all surviving provisions of this Agreement as specified in subsection 12.8 below; and (b) Executive executes a full general release, releasing all claims, known or unknown, that Executive may have against Company arising out of or any way related to Executive's employment or termination of employment with Company.

7.4 *Severance if Change in Control.* Although Company or Executive may terminate this Agreement at-will, if this Agreement is terminated upon a Change in Control (as defined above), Executive will be eligible to receive the following Change in Control Severance Package: (1) severance payment equivalent to twelve months of Executive's Base Salary then in effect on the date of termination, payable in accordance with Company's regular payroll cycle; (2) the continuance of Executive's existing health insurance benefits for a twelve month period if

permitted by Company's health insurance plan, or, if not permitted by Company's health insurance plan, Company will reimburse Executive for the cost of twelve months of his COBRA health insurance benefits (assuming Executive meets all COBRA eligibility requirements); and (3) the vesting of the Option shall fully accelerate so that 100% of the shares shall vest as of the date of the termination. All other Company obligations to Executive will be automatically terminated and completely extinguished. Provision of this Change in Control Severance Package is contingent upon the following: (a) Executive complies with all surviving provisions of this Agreement as specified in subsection 12.8 below; and (b) Executive executes a full general release, releasing all claims, known or unknown, that Executive may have against Company arising out of or any way related to Executive's employment or termination of employment with Company.

8. *No Conflict of Interest.* During the term of Executive's employment with Company and during any period Executive is receiving payments from Company, Executive must not engage in any work, paid or unpaid, that creates an actual or potential conflict of interest with Company. Such work shall include, but is not limited to, directly or indirectly competing with Company in any way, or acting as an officer, director, employee, consultant, stockholder, volunteer, lender, or agent of any business enterprise of the same nature as, or which is in direct competition with, the business in which Company is now engaged or in which Company becomes engaged during the term of Executive's employment with Company, as may be determined by the Board of Directors in its sole discretion. If the Board of Directors believes such a conflict exists during the term of this Agreement, the Board of Directors may ask Executive to choose to discontinue the other work or resign employment with Company. If the Board of Directors believes such a conflict exists during any period in which Executive is receiving payments pursuant to this Agreement, the Board of Directors may ask Executive to choose to discontinue the other work or forfeit the remaining severance payments. In addition, Executive agrees not to refer any client or potential client of Company to competitors of Company, without obtaining Company's prior written consent, during the term of Executive's employment and during any period in which Executive is receiving payments from Company pursuant to this Agreement.

9. *Confidentiality and Proprietary Rights.* Executive agrees to read, sign and abide by Company's Executive Innovations and Proprietary Rights Assignment Agreement, which is provided with this Agreement and incorporated herein by reference.

10. *Injunctive Relief.* Executive acknowledges that Executive's breach of the covenants contained in sections 8 and 9 (collectively "Covenants") would cause irreparable injury to Company and agrees that in the event of any such breach, Company shall be entitled to seek temporary, preliminary and permanent injunctive relief without the necessity of proving actual damages or posting any bond or other security.

11. *Agreement to Arbitrate.* To the fullest extent permitted by law, Executive and Company agree to arbitrate any controversy, claim or dispute between them arising out of or in any way related to this Agreement, the employment relationship between Company and Executive and any disputes upon termination of employment, including but not limited to breach of contract, tort, discrimination, harassment, wrongful termination, demotion, discipline, failure to accommodate, family and medical leave, compensation or benefits claims, constitutional claims; and any claims for violation of any local, state or federal law, statute, regulation or ordinance or common law. Claims for workers' compensation, unemployment insurance benefits, breach of Company's Executive Innovations and Proprietary Rights Agreement and Company's right to obtain injunctive relief pursuant to section 10 above are excluded. By accepting employment with Company, Executive waives his right to a jury trial with respect to any such disputes (excluding those aforementioned). For the purpose of this agreement to arbitrate, references to "Company" include all parent, subsidiary or related entities and their employees, supervisors, officers, directors, agents, pension or benefit plans, pension or benefit plan sponsors, fiduciaries, administrators, affiliates and all successors and assigns of any of them, and this

agreement shall apply to them to the extent Executive's claims arise out of or relate to their actions on behalf of Company.

11.1 *Consideration.* The mutual promise by Company and Executive to arbitrate any and all disputes between them (except for those referenced above) rather than litigate them before the courts or other bodies, provides the consideration for this agreement to arbitrate.

11.2 *Initiation of Arbitration.* Either party may exercise the right to arbitrate by providing the other party with written notice of any and all claims forming the basis of such right in sufficient detail to inform the other party of the substance of such claims. In no event shall the request for arbitration be made after the date when institution of legal or equitable proceedings based on such claims would be barred by the applicable statute of limitations.

11.3 *Arbitration Procedure.* The arbitration will be conducted in Sacramento, California by a single neutral arbitrator and in accordance with the then current rules for resolution of employment disputes of the American Arbitration Association ("AAA"). The parties are entitled to representation by an attorney or other representative of their choosing. The arbitrator shall have the power to enter any award that could be entered by a judge of the trial court of the State of California, and only such power, and shall follow the law. The parties agree to abide by and perform any award rendered by the arbitrator. The arbitrator shall issue the award in writing and therein state the essential findings and conclusions on which the award is based. Judgment on the award may be entered in any court having jurisdiction thereof.

11.4 *Costs of Arbitration.* Company shall bear the costs of the arbitration filing and hearing fees and the cost of the arbitrator.

12. *General Provisions.*

12.1 *Successors and Assigns.* The rights and obligations of Company under this Agreement shall inure to the benefit of and shall be binding upon the successors and assigns of Company. Executive shall not be entitled to assign any of Executive's rights or obligations under this Agreement.

12.2 *Waiver.* Either party's failure to enforce any provision of this Agreement shall not in any way be construed as a waiver of any such provision, or prevent that party thereafter from enforcing each and every other provision of this Agreement.

12.3 *Attorneys' Fees.* If any arbitration or other proceeding is instituted to enforce or interpret this Agreement, the prevailing party shall be entitled to recover from the losing party, in addition to statutory costs, the reasonable attorneys' fees the prevailing party incurred in connection with such arbitration or proceeding.

12.4 *Severability.* In the event any provision of this Agreement is found to be unenforceable by an arbitrator or court of competent jurisdiction, such provision shall be deemed modified to the extent necessary to allow enforceability of the provision as so limited, it being intended that the parties shall receive the benefit contemplated herein to the fullest extent permitted by law. If a deemed modification is not satisfactory in the judgment of such arbitrator or court, the unenforceable provision shall be deemed deleted, and the validity and enforceability of the remaining provisions shall not be affected thereby.

12.5 *Interpretation; Construction.* The headings set forth in this Agreement are for convenience only and shall not be used in interpreting this Agreement. This Agreement has been drafted by legal counsel representing Company, but Executive has participated in the negotiation of its terms. Furthermore, Executive acknowledges that Executive has had an opportunity to review and revise the Agreement and have it reviewed by legal counsel, if desired, and, therefore, the

normal rule of construction to the effect that any ambiguities are to be resolved against the drafting party shall not be employed in the interpretation of this Agreement.

12.6 *Governing Law.* This Agreement will be governed by and construed in accordance with the laws of the United States and the State of California. Each party consents to the jurisdiction and venue of the state or federal courts in Sacramento, California, if applicable, in any action, suit, or proceeding arising out of or relating to this Agreement.

12.7 *Notices.* Any notice required or permitted by this Agreement shall be in writing and shall be delivered as follows with notice deemed given as indicated: (a) by personal delivery when delivered personally; (b) by overnight courier upon written verification of receipt; (c) by telecopy or facsimile transmission upon acknowledgment of receipt of electronic transmission; or (d) by certified or registered mail, return receipt requested, upon verification of receipt. Notice shall be sent to the addresses set forth below, or such other address as either party may specify in writing.

12.8 *Survival.* Sections 8 ("No Conflict of Interest"), 9 ("Confidentiality and Proprietary Rights"), 10 ("Injunctive Relief"), 11 ("Agreement to Arbitrate"), 12 ("General Provisions") and 13 ("Entire Agreement") of this Agreement shall survive Executive's employment by Company.

13. *Entire Agreement.* This Agreement, including the Company Innovations and Proprietary Rights Assignment Agreement incorporated herein by reference and Company's and related option documents described in subsection 4.4 of this Agreement, constitutes the entire agreement between the parties relating to this subject matter and supersedes all prior or simultaneous representations, discussions, negotiations, and agreements, whether written or oral. This Agreement may be amended or modified only with the written consent of Executive and the Board of Directors of Company. No oral waiver, amendment or modification will be effective under any circumstances whatsoever.

THE PARTIES TO THIS AGREEMENT HAVE READ THE FOREGOING AGREEMENT AND FULLY UNDERSTAND EACH AND EVERY PROVISION CONTAINED HEREIN. WHEREFORE, THE PARTIES HAVE EXECUTED THIS AGREEMENT ON THE DATES SHOWN BELOW.

Todd Wille

Dated: December 29, 2000

By: /s/ TODD E WILLE

Unify Corporation

Dated: December 27, 2000

By: /s/ STEVE WHITEMAN

Steve Whiteman
Unify Board Director

QuickLinks

[EXECUTIVE EMPLOYMENT AGREEMENT](#)

INDEPENDENT AUDITORS' CONSENT

We consent to the incorporation by reference in Registration Statements No. 333-13203 and 333-61705 of Unify Corporation on Form S-8 of our report (which is unqualified and contains an explanatory paragraphs regarding the substantial doubt about the Company's ability to continue as a going concern) dated July 10, 2001, appearing in this Annual Report on Form 10-K of Unify Corporation for the year ended April 30, 2001.

DELOITTE & TOUCHE LLP
Sacramento, California
July 30, 2001

QuickLinks

[Exhibit 23.1](#)

[INDEPENDENT AUDITORS' CONSENT](#)

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