# FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

Filing Date: **1999-09-10** | Period of Report: **1999-07-31**
**SEC Accession No.** 0001047469-99-035296



## FILER

**UNIFY CORP**
CIK:**880562**| IRS No.: **770427069** | State of Incorp.:**DE** | Fiscal Year End: **0430**
Type: **10-Q** | Act: **34** | File No.: **001-11807** | Film No.: **99708896**
SIC: **7372** Prepackaged software

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

FORM 10-Q

[ X ] Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

FOR THE QUARTERLY PERIOD ENDED JULY 31, 1999

OR

[ ] Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

COMMISSION FILE NUMBER: 001-11807

UNIFY CORPORATION
(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

| | |
|---|---|
| Delaware | 94-2710559 |
| (STATE OR OTHER JURISDICTION OF INCORPORATION OR ORGANIZATION) | (I.R.S. EMPLOYER IDENTIFICATION NUMBER) |

100 CENTURY CENTER COURT, THIRD FLOOR
SAN JOSE, CALIFORNIA 95112
(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES)

TELEPHONE: (408) 451-2000
(REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE)

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 X NO

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

8,853,614 shares of Common Stock, $0.001 par value, as of August 31, 1999

UNIFY CORPORATION
FORM 10-Q

INDEX

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<CAPTION>

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PART I. FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

UNIFY CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS
(IN THOUSANDS)

| ASSETS | July 31, 1999 (unaudited) | April 30, 1999 (1) |
|---|---|---|
| Current assets: | | |
| Cash and cash equivalents | $ 8,993 | $ 5,315 |
| Short-term investments | 3,663 | 6,072 |
| Accounts receivable, net | 8,636 | 9,156 |
| Prepaid expenses and other current assets | 663 | 732 |
| Total current assets | 21,955 | 21,275 |
| Property and equipment, net | 1,290 | 1,417 |
| Other assets | 368 | 242 |
| Total assets | $ 23,613 | $ 22,934 |

| | | |
|---|---|---|
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Accounts payable | $ 1,059 | $ 1,138 |
| Amounts due to minority interest stockholders | 517 | 608 |
| Accrued compensation and related expenses | 1,346 | 1,650 |
| Other accrued liabilities | 2,105 | 2,621 |
| Deferred revenue | 2,890 | 3,326 |
| Total current liabilities | 7,917 | 9,343 |
| Minority interest | 313 | 265 |
| Stockholders' equity: | | |
| Common stock | 9 | 9 |
| Additional paid-in capital | 54,439 | 54,123 |
| Notes receivable from stockholders | (101) | (125) |
| Cumulative other comprehensive income | (682) | (653) |
| Accumulated deficit | (38,282) | (40,028) |
| Total stockholders' equity | 15,383 | 13,326 |
| Total liabilities and stockholders' equity | $ 23,613 | $ 22,934 |

</TABLE>

(1) Derived from the audited consolidated financial statements for the year ended April 30, 1999.

See accompanying notes to condensed consolidated financial statements.



UNIFY CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(IN THOUSANDS, EXCEPT PER SHARE DATA)
(UNAUDITED)

<TABLE>
<CAPTION>

| | Three Months Ended July 31, | |
|---|---|---|
| | 1999 | 1998 |
| <S> | <C> | <C> |
| Revenues: | | |
| Software licenses | $ 6,004 | $ 4,242 |
| Services | 2,704 | 2,418 |
| Total revenues | 8,708 | 6,660 |
| Cost of revenues: | | |
| Software licenses | 229 | 226 |
| Services | 1,143 | 1,053 |
| Total cost of revenues | 1,372 | 1,279 |

| | | |
|---|---|---|
| Gross margin | 7,336 | 5,381 |
| Operating expenses: | | |
| Product development | 1,564 | 1,449 |
| Selling, general and administrative | 4,033 | 3,653 |
| Total operating expenses | 5,597 | 5,102 |
| Income from operations | 1,739 | 279 |
| Other income, net | 135 | 23 |
| Income before income taxes | 1,874 | 302 |
| Provision for income taxes | (128) | (44) |
| Net income | $ 1,746 | $ 258 |
| Net income per share | | |
| Basic | $ 0.20 | $ 0.03 |
| Diluted | $ 0.18 | $ 0.03 |
| Shares used in computing net income per share: | | |
| Basic | 8,800 | 8,388 |
| Diluted | 9,618 | 8,524 |

</TABLE>

See accompanying notes to condensed consolidated financial statements.



UNIFY CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(IN THOUSANDS)
(UNAUDITED)

<TABLE>
<CAPTION>

| | Three Months Ended July 31, | |
|---|---|---|
| | 1999 | 1998 |
| <S> | <C> | <C> |
| Cash flows from operating activities: | | |
| Net income | $ 1,746 | $ 258 |
| Reconciliation of net income to net cash provided by (used in) operating activities: | | |
| Depreciation | 266 | 276 |
| Minority interest | 48 | (36) |
| Forgiveness of note receivable from stockholder, | | |

| | | |
|---|---|---|
| net of interest accrual | 24 | (3) |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | 548 | 623 |
| Prepaid expenses and other current assets | 68 | (60) |
| Accounts payable | (83) | 69 |
| Amounts due to minority interest stockholders | (105) | (182) |
| Accrued compensation and related expenses | (304) | (411) |
| Other accrued liabilities | (518) | (180) |
| Deferred revenue | (436) | (594) |
| Net cash provided by (used in) operating activities | 1,254 | (240) |
| Cash flows from investing activities: | | |
| Purchases of available-for-sale securities | (3,663) | (1,250) |
| Sales of available-for-sale securities | 6,072 | 1,561 |
| Purchases of property and equipment | (140) | (212) |
| Other assets | (126) | 20 |
| Net cash provided by investing activities | 2,143 | 119 |
| Cash flows from financing activities: | | |
| Principal payments under debt obligations | - | (19) |
| Proceeds from issuance of common stock, net | 316 | 157 |
| Net cash provided by financing activities | 316 | 138 |
| Effect of exchange rate changes on cash | (35) | 1 |
| Net increase in cash and cash equivalents | 3,678 | 18 |
| Cash and cash equivalents, beginning of period | 5,315 | 5,279 |
| Cash and cash equivalents, end of period | $ 8,993 | $ 5,297 |
| Supplemental schedule of noncash investing and financing activities: | | |
| Cash paid during the period for: | | |
| Interest | $ 38 | $ 26 |
| Income taxes | $ 123 | $ 32 |

</TABLE>

See accompanying notes to condensed consolidated financial statements.



UNIFY CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PRESENTATION

The condensed consolidated financial statements have been prepared by Unify Corporation (the "Company") pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC"). While the interim financial information contained in this filing is unaudited, such financial statements reflect all adjustments (consisting only of normal recurring adjustments) which the Company considers necessary for a fair presentation. The results for interim periods are not necessarily indicative of the results to be expected for the entire fiscal year. These financial statements should be read in conjunction with the Consolidated Financial Statements and Notes thereto, together with Management's Discussion and Analysis of Financial Condition and Results of Operations, which are included in the Company's Annual Report on Form 10-K for the year ended April 30, 1999 as filed with the SEC.

2. EARNINGS PER SHARE

SFAS No. 128, EARNINGS PER SHARE, requires a dual presentation of basic and diluted earnings 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. common stock options) were exercised or converted into common stock.

The following is a reconciliation of the numerators and denominators of the basic and diluted earnings per share computations for the periods indicated (in thousands, except per share amounts):

<TABLE>
<CAPTION>

| | Three Months Ended July 31, | |
|---|---|---|
| | 1999 | 1998 |
| NET INCOME (NUMERATOR): | | |
| Net income, basic and diluted | $ 1,746 | $ 258 |
| SHARES (DENOMINATOR): | | |
| Weighted average shares of common stock outstanding, basic | 8,800 | 8,388 |
| Weighted average common equivalent shares outstanding | 818 | 136 |
| Weighted average shares of common stock outstanding, diluted | 9,618 | 8,524 |
| PER SHARE AMOUNT: | | |
| Net income per share, basic | $ 0.20 | $ 0.03 |
| Reduction in net income per share due to weighted average common equivalent shares | (0.02) | - |
| Net income per share, diluted | $ 0.18 | $ 0.03 |
| ANTIDILUTIVE SHARES: | - | 433 |

</TABLE>

3. OTHER COMPREHENSIVE INCOME

The Company's total other comprehensive income for the periods shown was as follows:

| | Three Months Ended July 31, 1999 | Three Months Ended July 31, 1998 |
|---|---|---|
| Net income | $ 1,746 | $ 258 |
| Foreign currency translation | (29) | (34) |
| Total other comprehensive income | $ 1,717 | $ 224 |





ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

THE DISCUSSION IN THIS QUARTERLY REPORT ON FORM 10-Q CONTAINS 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 "VOLATILITY OF STOCK PRICE AND GENERAL RISK FACTORS AFFECTING QUARTERLY RESULTS" AND IN THE COMPANY'S ANNUAL REPORT ON FORM 10-K UNDER "BUSINESS - 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 SEC, PARTICULARLY THE COMPANY'S ANNUAL REPORTS ON FORM 10-K, QUARTERLY REPORTS ON FORM 10-Q AND ANY CURRENT REPORTS ON FORM 8-K.

The following discussion should be read in conjunction with the unaudited Condensed Consolidated Financial Statements and Notes thereto in Part I, Item 1 of this Quarterly Report on Form 10-Q and with the audited Consolidated Financial Statements and Notes thereto, together with Management's Discussion and Analysis of Financial Condition and Results of Operations, which are included in the Company's Annual Report on Form 10-K for the year ended April 30, 1999 as filed with the SEC.

RESULTS OF OPERATIONS

REVENUES

The Company's strategy is to aggressively market and enhance its Internet products. The Company continues to support its extensive installed base of client/server products, which the Company believes represents a significant source of potential customers for its Internet products. The Company also generates significant revenues from services, including customer maintenance, consulting and training. The following table sets forth revenues from licenses of its Internet and client/server products and from services for the periods indicated:





<TABLE>
<CAPTION>

| | Three Months Ended July 31, | |
|---|---|---|
| | 1999 | 1998 |
| <S> | <C> | <C> |
| License revenues: | | |
| Internet products | $ 3,817 | $ 2,150 |
| Client/server products | 2,187 | 2,092 |
| Total license revenues | 6,004 | 4,242 |
| Services revenues | 2,704 | 2,418 |
| Total revenues | $ 8,708 | $ 6,660 |

</TABLE>

Total revenues for the quarter ended July 31, 1999 increased 31% over the same quarter of the prior year to $8.7 million. Internet license revenues of $3.8 million in the first quarter of fiscal 2000 were 78% higher as compared with the same quarter of the prior year. This increase reflects continuing improved customer acceptance of the Company's Internet products, particularly in vertical application partner accounts. Client/server license revenues of $2.2 million were stable as compared with the same quarter of the prior year. In light of the age of these product lines and the Company's primary focus on developing and marketing its Internet products, the Company continues to anticipate that revenues from its client/server products may decline in the future. Service revenues increased slightly in the first quarter of fiscal 2000 as compared to the same quarter of the previous year, principally due to higher consulting revenues which resulted from the Company's pursuit of new Internet consulting opportunities during the quarter ended July 31, 1999.

International revenues were comparable at 53% and 52% of total revenues in the quarters ended July 31, 1999 and 1998, respectively.

COST OF REVENUES

Cost of software licenses were stable in absolute dollars and represented 4% and 5% of license revenues for the quarters ended July 31, 1999 and 1998, respectively. The decrease in cost of software licenses as a percentage of license revenues in the fiscal 2000 quarter was due to economies of scale associated with the growth in license revenues.

Cost of services were comparable at $1.1 million, or 42% and 44% of service revenues for the quarters ended July 31, 1999 and 1998, respectively. Within total services, the levels of customer maintenance and consulting and training revenues and expenses were also stable in the first quarter of fiscal 2000 as compared with the same quarter of the prior year. The rapid emergence of the Internet has created new consulting opportunities. The Company plans to expand its expertise in e-commerce and Internet application development solutions in fiscal 2000 in order to capitalize on these opportunities and as a result it expects that its consulting service costs may increase. Because there is generally a delay between the time additional consulting personnel are hired and when they become productive, the Company's results of operations may be adversely affected by the expansion of the Company's consulting services.





PRODUCT DEVELOPMENT

Product development expenses increased 8% to $1.6 million, or 18% of total revenues, in the quarter ended July 31, 1999, as compared with $1.4 million, or 22% of total revenues, for the same quarter of the prior year. The decrease in product development expenses as a percentage of total revenues was due to the growth in first quarter fiscal 2000 license revenues as compared with the same quarter of the prior year. The Company believes that substantial investment in product development is critical to maintaining technological leadership and therefore intends to continue to devote significant resources to product development in fiscal 2000.

SELLING, GENERAL AND ADMINISTRATIVE

Selling, general and administrative ("SG&A") expenses for the quarter ended July 31, 1999 increased 10% to $4.0 million, or 46% of total revenues, as compared to $3.7 million, or 55% of total revenues, for the same quarter of the prior year. Fiscal 2000 SG&A expenses were higher in absolute dollars compared to the same period of the prior year as the Company executed marketing programs to support the launch of its new eWave family of Internet products and augmented its bad debt reserves. These increases were partially offset by a decrease in sales expense due to open sales positions. The decrease in SG&A expenses as a percentage of total revenues was primarily attributable to the increase in first quarter fiscal 2000 license revenues as compared with the same quarter of the prior year. The Company expects that total SG&A expenses may fluctuate from quarter to quarter primarily because of variability in marketing program spending and sales commission expense.

PROVISION FOR INCOME TAXES

The Company recorded tax provisions for the quarters ended July 31, 1999 and 1998 which related primarily to foreign income tax withholding on software license royalties paid to the Company by certain foreign licensees. For the same periods, the Company recorded no significant federal or state income tax provisions as the Company had substantial net operating loss carryforwards.

VOLATILITY OF STOCK PRICE AND GENERAL RISK FACTORS AFFECTING QUARTERLY RESULTS

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' quarterly 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. 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 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 result from, among other factors, the following: the size and timing of significant orders and their fulfillment; demand for the Company's products; the number, 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; the results of international expansion; currency fluctuations; and general domestic and international economic and political conditions. Because a significant portion of the Company's revenues have been, and the Company believes will continue to be, derived from orders ranging in size from $250,000 to approximately $1 million, the timing of such orders and their fulfillment has caused and is expected to continue to cause material fluctuations in the Company's operating results, particularly on a quarterly basis.

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 provision of maintenance services, is lengthy and varies substantially from customer to customer. Because the Company normally ships products within a short time after it receives 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 also expects that its operating results will be affected by seasonal trends. The Company believes that, in general, it is likely it will experience relatively higher revenues in fiscal quarters ending April 30 and relatively lower revenues in fiscal quarters ending July 31 as a result of efforts by its direct sales force to meet fiscal year-end sales quotas. 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.

LIQUIDITY AND CAPITAL RESOURCES

At July 31, 1999, the Company had cash, cash equivalents and short-term investments of $12.7 million, compared to $11.4 million at April 30, 1999. Working capital increased to $14.0 million at July 31, 1999 from $11.9 million at April 30, 1999.





The Company's operating activities generated cash of $1.3 million during the three months ended July 31, 1999, primarily from net income. Investing activities during the period generated cash of $2.1 million, consisting principally of net sales of available-for-sale securities. Cash provided by financing activities during the period was $0.3 million, representing proceeds from issuance of common stock under the Company's stock option and stock purchase plans.

The Company believes that current cash, cash equivalents and short-term investments will be sufficient to meet its cash requirements during the next 12 months. Thereafter, depending on its operating results, the Company may require additional equity or debt financing to meet its working capital or capital equipment requirements. There can be no assurance that additional financing will be available when required or, if available, that it will be on terms satisfactory to the Company.

DISCLOSURES ABOUT MARKET RATE 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 these balances, which totaled $9.0 million at July 31, 1999. The securities in the Company's short-term 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. Short-term investments totaled $3.7 million at July 31, 1999 and there were no material realized or unrealized gains or losses on short-term investments during the first quarter of fiscal 2000. Unify does not use derivative financial instruments in its short-term investment portfolio, places its investments with high quality issuers 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 short-term investments at July 31, 1999 consisted of $3.7 million in high quality corporate bonds maturing within one year, which the Company does not believe carry any material interest rate exposure. If market interest rates were to change immediately and uniformly by ten percent from levels at July 31, 1999, 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 a material 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, throughout calendar 1997 the U.S. dollar strengthened against the major European currencies, which resulted 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 July 31, 1999, the Company had $1.1 million, $0.3 million and $0.8 million 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.

YEAR 2000 COMPLIANCE

INTRODUCTION. Many of the world's computer systems currently record years in a two-digit format. Such computer systems will be unable to properly interpret dates beyond the year 1999, which could lead to business disruption (the "Year 2000" issue).

STATE OF READINESS. The Company believes that its current products are fully Year 2000 compliant. All current Unify products use four-digit years for all internal manipulations and representations. The Company has informed its customers that it will be phasing out support for certain older versions of Unify products that are not Year 2000 compliant by December 15, 1999. However, the Company's products are generally integrated with other systems involving sophisticated computer hardware and software products that the Company cannot adequately evaluate for Year 2000 compliance. There can be no assurance that the Company's products will function properly with other potentially non-compliant products, including third party software and hardware. Additionally, there can be no assurance that the Company's products contain or will contain all features and functionality considered necessary by customers and partners to be Year 2000 compliant. If Unify's products cannot manage and manipulate data related to the Year 2000, the result could be a material adverse effect on the Company's business. The Company may face claims based on Year 2000 problems in other companies' products or issues arising from the integration of multiple products within an overall system.

Although the Company has not been a party to any litigation or arbitration proceeding involving its products or services related to Year 2000 compliance issues, the Company may in the future be required to defend its products or services in such proceedings or to negotiate resolutions of claims based on Year 2000 issues. The costs of defending and resolving Year 2000 issues, regardless of the merits of such disputes, and any liability the Company may have for such Year 2000 related damages, could materially adversely affect the Company's business, operating results, and financial condition.





The Company sought to identify all significant internal applications and business processes that would require modification to ensure Year 2000 compliance during fiscal 1996 and believes that, with the exception of its accounting systems and certain older equipment and software, all appropriate modification and testing of those applications and processes were completed by the end of fiscal 1997. With regard to its accounting systems, the reprogramming necessary for Year 2000 compliance was substantially complete by the end of the first quarter of fiscal 2000; the Company expects that testing of these systems will be complete by the end of the second quarter of fiscal 2000. With regard to the older equipment and software, primarily personal computers and related software, the installment of upgrades and replacements was substantially complete by the end of the first quarter of fiscal 2000. The Company expects that the testing of new equipment and software will be complete by the end of the second quarter of fiscal 2000. However, no assurance can be given that the Company will not experience unanticipated material costs caused by undetected errors or defects in its internal systems.

An assessment of the readiness of significant suppliers and service providers with which the Company electronically interacts is ongoing. To date, the Company is not aware of any significant supplier or service provider with a Year 2000 issue that would materially impact the Company's business, operating results or financial condition. However, the Company has no means of ensuring that suppliers and service providers will be Year 2000 compliant. The inability of suppliers and service providers to complete their Year 2000 resolution process in a timely fashion could materially and adversely impact the Company.

COSTS. The costs incurred in addressing the Year 2000 issue are being expensed as incurred in compliance with generally accepted accounting principles. The total cost to date of these Year 2000 compliance activities is approximately $850,000 and the cost of future Year 2000 compliance activities is estimated to be approximately $100,000. Funding of these costs will come from existing cash resources and anticipated future operating cash flows.

RISKS. See STATE OF READINESS. Also, the Company believes that the purchasing patterns of customers and potential customers may be affected by the Year 2000 issue in a variety of ways. Many companies are expending significant resources to correct their current software systems for Year 2000 compliance. These expenditures may result in reduced funds available to purchase e-commerce and Internet application software products such as those offered by the Company. The impact of the foregoing on the Company's business, operating results and financial condition is not determinable.

CONTINGENCY PLANS. The Company currently expects that the Year 2000 issue will not pose significant internal operational problems. However, a delay in implementing new information systems, or a failure to fully identify all Year 2000 dependencies in Unify's internal systems or in the systems of the Company's suppliers and service providers could have material adverse consequences, including delays in the delivery of products. Therefore, the Company is developing contingency plans for continuing operations should these types of problems arise. The Company believes that its contingency plans will be complete and tested by the end of the second quarter of fiscal 2000.





PART II. OTHER INFORMATION

ITEM 5. OTHER INFORMATION

Kurt M. Garbe, Executive Vice President of Field Operations at U.S. Web/CKS, joined the Company's board of directors effective August 12, 1999.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

Exhibit 27 Financial Data Schedule

(b) Reports on Form 8-K

The Company filed no reports on Form 8-K during the quarter ended July 31, 1999.





SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Date: September 10, 1999

Unify Corporation
(REGISTRANT)

By:

Gary Pado
---------------------------------------------
Gary Pado
Vice President, Finance and Chief Financial Officer (Principal Financial and Accounting

Officer)

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<TABLE> <S> <C>


<ARTICLE> 5
<LEGEND>
THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE
COMPANY'S CONSOLIDATED BALANCE SHEET AS OF JULY 31, 1999 AND CONSOLIDATED
STATEMENT OF INCOME FOR THE THREE MONTHS ENDED JULY 31, 1999 AND IS QUALIFIED IN
ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.
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<PP&E>                                             6,691
<DEPRECIATION>                                   (5,401)
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<OTHER-SE>                                      (39,065)
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<SALES>                                            8,708
<TOTAL-REVENUES>                                   8,708
<CGS>                                              1,372
<TOTAL-COSTS>                                      6,969
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<INCOME-CONTINUING>                                1,746
<DISCONTINUED>                                         0
<EXTRAORDINARY>                                        0
<CHANGES>                                              0
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<EPS-DILUTED>                                       0.18
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