Praise for

THE REAL STORY OF INFORMIX SOFTWARE AND PHIL WHITE

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—Jon Hanson, Vice President of Sales, Cornerstone Software

"*The Real Story of Informix Software and Phil White* provides very practical real-world business lessons intertwined with a rare view of a strong leader."

—Adriaan Ligtenberg, Founder, Storm Technology, C-Cube, and Takumi Technology

"I found myself intrigued by the assertion that despite his personal failings, Phil White does not deserve the criminal treatment that the world seems all too eager to impose upon executives at the top of failed companies."

—Angel Mehta, **The Sterling Report**

"Anyone who worked in the software industry during the heyday of the '90s will definitely enjoy this trip down memory lane."

—Kapil Nanda, President and CEO, Infogain

"Informix was the dominant Silicon Valley story for many years. If you want to understand Silicon Valley, you have to study the rise and eventual consolidation of the database software industry."

—Tom Foremski, Founder and Publisher, Silicon Valley Watcher

THE REAL STORY *of* INFORMIX SOFTWARE *and* PHIL WHITE

LESSONS IN BUSINESS AND LEADERSHIP FOR THE EXECUTIVE TEAM

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To Brooke, Michael,
and Emily,

This is the story of a once-great company where
your Dad worked from 1991 through 1997.

Contents

Preface

SILICON VALLEY HAS been around only for about sixty years, so it's still in its historical infancy. The history that has been written so far tends to romanticize the past, focus on the "geeks" who struck it rich, or relegate the Valley to trivia. For example, you probably have heard about David Packard's legendary Palo Alto garage, known as the "birthplace of Silicon Valley." Most certainly you have read about Larry Ellison, Steve Jobs, Jerry Yang, and the other high-tech billionaires. You may even know that the late Stanford University professor Fred Terman is the answer to the trivia question, "Who is the father of Silicon Valley?"

However, history is a collection of remembrances, and none of the existing writings accurately represent my Silicon Valley experience. I think this is due in part to the writers' motivation for recording the Valley's history in the first place. Some scribes have been zealous journalists in search of a career-making scoop. They sensationalized reality. Others were industry insiders who wrote to proliferate their ideas, expound their technology, or promote their company. They edited reality. And finally, some have been disenfranchised columnists who never worked for a high-technology company. Their purpose has been to denigrate the world's epicenter of wealth creation. They never truly experienced the reality of Silicon Valley.

My reasons for writing *The Real Story of Informix Software and Phil White* do not fall into any of these categories. First, I wrote this book to explain the incredible events surrounding the rise and fall of what was once a great company. Second, I wanted to record a unique chapter in Silicon Valley history between 1991 and 1997—the period after the technology recession of the late 1980s and before the Internet boom shifted into high gear in the latter half of the 1990s. Third, this book is a remembrance of a time when Silicon Valley mattered. We worked there with the hopes and dreams of making our marks on the world during a time frame that can be best described as California's second gold rush. While the environment was challenging and success was never guaranteed, back then we felt we had a fair chance of striking the "mother lode." We felt that we were taking part in history, not merely trying to survive and make a living like today. Finally and most importantly, history repeats itself. For the past five years, the Valley has experienced a malaise, and many of the business and sales strategies that enabled Informix to survive and succeed in similarly tough times and a hypercompetitive market are directly applicable today.

INFORMIX SOFTWARE'S PLACE IN SILICON VALLEY HISTORY

History must be based upon the truth. While this book is primarily based upon my personal experience at Informix, I have incorporated public comments from company officials and customers and editorial comments from technology periodicals of the day to accurately reconstruct the times. You will also find private conversations with former employees along with quotations from relevant legal documents. Of primary importance are the in-depth interviews I held with Phil White, former Informix CEO (chief executive officer) on the eve of his imprisonment. From all of these sources, a picture of the truth emerges.

History does not usually make real sense until long after it has occurred. When I joined Informix Software in 1991, I had no idea of the tremendous highs and lows I would experience over the following six years. I witnessed a company grow from just over a hundred million dollars to a billion dollars in sales, from hundreds of employees to almost five thousand, and I saw a two-dollar stock rise, split, and increase to over ninety dollars. The times were exciting and the pace was frenetic. However, only through the passage of time have I been able to put these events into proper perspective.

In 1991, Informix was just one of many database suppliers in a market that included companies such as Sybase, Ingres, Unify, Progress, Interbase, and Empress. Together, we were competing against Oracle, the eight-hundred-pound Gorilla. In only four years, Informix was able to challenge Oracle's dominance, moving past all these other companies in the process. This was a truly remarkable feat and provides business lessons that are well worth studying today.

History records both triumphs and failures. History has a tendency to make some people feel good and others bad. Along with the accomplishments during my tenure at Informix, I also remember a company that launched products that no one wanted and that didn't work, squandered half a billion dollars on failed business strategies, and participated in a merger without winners. Worse yet, I witnessed Informix Software's complete collapse—culturally, ethically, and financially.

History is also full of surprises. Perhaps the biggest surprise happened when I viewed the following information on the Federal Bureau of Prisons Web site seven years after I left Informix.

Inmate Information for PHILLIP E. WHITE	
Inmate Register Number:	92769-011
Name:	PHILLIP E. WHITE
Age:	61
Race:	WHITE
Sex:	MALE
Projected Release Date:	UNKNOWN
Location:	Lompoc

This book details the history of Informix Software between 1991 and 1997. During this time, Phil White served as president, chairman, and CEO of the company. Throughout his tenure, Informix employees called Phil by his first name and he in turn called them by their last names. This naming convention has been kept throughout this book. In addition, the correct way to say the company name is "InFORmix," with the emphasis on the second syllable. Finally, the following timeline shows the chronology of major Informix-related milestones.

Table 1. Informix Timeline

1980	Informix is founded by Roger Sippl as Relational Database Systems Inc.
1986	The company conducts an initial public offering and changes its name to Informix.
1988	Informix merges with Innovative Software and flounders financially.
1989	Phil White joins Informix as president and CEO.
1991	Oracle restates revenues and is hit with class-action lawsuits.
1992	Sybase is the darling of the database industry and is involved in a bitter war against Oracle.
	Informix voluntarily restates revenues for 1991.
1993	Oracle, Sybase, and Informix databases are on par technically.
	Informix stock is ranked number one for return on equity in the Silicon Valley Top 150.
	$32,000 worth of Informix stock purchased at 1991 low is now worth $1 million.
1994	Informix introduces an entirely rewritten database named OnLine Dynamic Server.
	Phil White is named *Financial World* magazine's CEO of the year for the second straight year.
	Enterprise application vendors, including PeopleSoft and SAP (Systems Analysis and Program Development), back Informix.

1995	Sybase announces a first-quarter-revenue shortfall and is hit with class-action lawsuits.
	Informix overtakes Sybase as the number one challenger to Oracle.
	Informix stock is named the top five-year performer by the *Wall Street Journal.*
	Informix purchases Illustra, an object-relational database software company, in December.
1996	Informix announces Universal Server, the merging of Informix and Illustra.
	Phil White declares war on Oracle, sues the company, and calls it "sleazy."
	Phil White receives NASDAQ's Legend in Leadership Award.
	Informix posts $939 million in annual sales.
1997	Informix misses its first-quarter revenue projection, its first revenue miss in seven years.
	Informix announces a $140 million loss for the first quarter, and class-action lawsuits are filed.
	Phil White names Robert Finocchio Jr. president and CEO.
	Phil White resigns as chairman. Informix restates revenues by $311 million for 1994–1996.
1998	Sybase restates revenues and is hit with class-action suits. Informix restates revenues for the second time in six months.
1999	Class-action lawsuits against Informix are settled for $142 million.
2000	Informix acquires Ardent Software for $880 million. Informix moves its operations from California to Ardent's Massachusetts headquarters.
2001	Informix database assets are sold to IBM for $1 billion.
2004	The Securities and Exchange Commission civil case against Phil White is settled.
	Phil White pleads guilty to securities registration fraud in the criminal case. He serves a prison sentence at the United States Federal Correctional Institute at Lompoc, California.

Introduction

> ***Whoever wishes to foresee the future must consult the past; for human events ever resemble those of preceding times. This arises from the fact that they are produced by men who ever have been, and ever shall be, animated by the same passions, and thus they necessarily have the same results.***
>
> NICCOLO MACHIAVELLI

In 200 BC Emperor Shi Huangdi ordered the building of a great wall to keep the Mongols from attacking his empire. He dictated that the wall should be five men high and six horses wide, with watchtowers posted every three hundred feet. Surprisingly, invaders overcame this seemingly impenetrable barrier three times during the first one hundred years of its existence alone. The invading armies didn't have to take long marches around it nor incur huge losses trying to scale it in a massive frontal assault. All they had to do was bribe the guards who manned the gates. History tells us many important lessons if we choose to listen, like this one about strategy, tactics, and the eternalness of greed.

THE PATRIARCH OF INFORMIX

In 1997 Phil White was the president, CEO, and chairman of Informix Software. But his importance went far beyond what these titles convey. He was the leader, visionary, guiding force, and patriarch of

Informix. In one sense, Informix and Phil White were one and the same. Even though the company had tens of thousands of shareholders and thousands of employees, Informix was his company.

He was also the greatest salesperson I have ever seen. This is a statement I do not make lightly since sales has been my profession for the past twenty years and I have written books on the subject. Whether Phil was communicating with employees, winning over the investment community, or persuading customers to buy, he spoke with a conviction and natural sense of ease that turned doubters into believers.

While many people described him as "charismatic," he possessed something greater. In my own terms he had "juice"—a presence that motivated others, instilled confidence, and gained their willing obedience. People sought his approval and would do almost anything to obtain it.

But working for Phil also had a contradictory and quirky side. Although a hands-off manager by nature, he wanted to be the center of control, and he personally named every Informix product. He was a technologist who could make sense of disjointed industrywide happenings, but he didn't use e-mail or computers and he wrote notes exclusively in longhand. He was also a somewhat aloof person. You felt you never really knew him personally, but you found yourself liking him just the same. While he had little empathy for nonperformers, he would be the first one to jump on a plane and fly anywhere in the world to help close a deal. Finally, he always left you with the impression that he was continually grading you into one of two columns: those who were helping the cause and those who weren't. Once a person was out of his good graces, his or her career at Informix was over.

Just as Phil engineered Informix's success, his single-minded obsession with Oracle and his desire to upstage its founder and CEO, Larry Ellison. eventually drove the company to ruin. Informix shocked its investors in the spring of 1997 when it reported an unexpected first-quarter loss of $140 million. Revenues were half those of the preceding quarter. As a result, Phil, the man who once said, "I don't think I have to fight Oracle,"[1] resigned as president and CEO on July 22, 1997. He was dismissed from the board of directors a week later when accounting irregularities were brought to the board's attention.

The Securities and Exchange Commission (SEC) subsequently began an investigation and ultimately concluded that Phil White signed financial statements knowing they were inaccurate. The SEC charged that Phil had inappropriately included revenue from contracts where side letters existed (secret agreements that enable customers to cancel contracts and receive their money back) and engaged in barter transactions with computer manufacturers where reciprocal purchases of hardware for software were made. At the SEC's urging, the Department of Justice began a criminal investigation that would go on for years.

THE MOTHER OF ALL FINANCIAL ANNOUNCEMENTS

On November 18, 1997, Phil White's successor at Informix, former 3Com executive Robert Finocchio Jr. made the "the mother of all financial announcements": $311 million of revenues for the preceding three years had been overstated, and the company would restate revenues for 1994 through 1996.[2]

Informix's revenue restatement was by no means an isolated incident in the business world. The United States General Accounting Office reported that one of every ten publicly held companies restated their financial statements between 1997 and 2002 because of accounting irregularities that skewed financial results. As is usually the case, most of these restatements were lower than the original statements. In a total of 919 restatements, these companies lost an estimated $100 billion in market capitalization as a result.[3]

Furthermore, the Informix restatement was nowhere near the biggest in the high-technology industry. The information below taken from United States Securities and Exchange Commission databases shows a few of the recent restatements.[4]

Table 2. Recent Revenue Restatements of High-Technology Companies

Restatement Years	*Company*	*Amount (millions)*
2001–2002	Worldcom	$3,800
1995–2001	Adelphia Communications	$2,300
2000–2001	Qwest Communications	$2,200
2000–2001	Computer Associates	$2,200
2000	Lucent Technologies	$ 679
1999–2001	Peregrine Systems	$ 509
1999–2002	I2 Software	$ 359
1998–1999	McKesson HBOC	$ 327
1994–1996	Informix Software	$ 311

Revenue restatements are more than just accounting reversals. Their impact affects a company in every possible way. Customers are hesitant to purchase products, investors watch stock prices free-fall, employee morale is ruined (along with the value of employees' stock options), and flurries of class-action lawsuits are filed by lawyers eager to capitalize on misfortune. It's a devastating experience that almost always results in a management change and sometimes in bankruptcy. As I2's CEO and chairman said about the company's recent restatement, "Surely, the audit was no fun for us or our customers, and our customers were asked a lot of questions internally by their own people."[5]

If these restatements are "no fun," then why are they commonplace today? John Coffee Jr., professor of law at Columbia University, offers the following reasons: "First, there is intensifying or weakening of a particular company's stock, which usually occurs during a stock market bubble. Second, there is an overall decline in business morality and in the words of Federal Reserve Chairman an atmosphere of 'Infectious greed.' Third, the company has a weak board of directors who are not independent from senior management. Finally and most importantly, it's gatekeeper failure—the failure of the auditors, securities analysts, and securities attorneys, who prepare, review or analyze disclosure documents."[6]

When a restatement occurs, almost everyone loses, and Informix's auditor, Ernst & Young, was one of the biggest losers of Informix's 1997 restatement. In one of the largest securities fraud settlements in the history of Silicon Valley, Ernst & Young paid the majority of the cash portion of the $142 million required to settle the dozens of class-action lawsuits filed against Informix in 1999.[7]

While Professor Coffee would rightly argue that Informix's downfall was the result of greed, cronyism among the board of directors, and a gatekeeper that wasn't independent, I would like to suggest four additional reasons for revenue restatements that are specific to the high-technology industry.

- *Pride.* The high-tech industry is filled with leaders who have a fundamental desire to become rich and, equally important, famous. Since one of their most important possessions is their pride, they will go to any length to prove they are right and to avoid embarrassment, even if they have to cheat. I would argue that the CEOs' desire to protect their egos is just as powerful a motivator as greed.
- *Pressure.* The pressure starts at the local sales office, where proving oneself is a matter of survival. Pressure is exerted on the finance department to keep the numbers up. Pressure is on the gatekeeper to keep the client happy, and an incredible amount of pressure is placed on the CEO from investors, analysts, and the press alike. Pressure at all these points encourages revenue fraud.
- *Politics.* When the management regime changes at a troubled technology company, it is in the best interest of the new

leaders to restate earnings and make the largest restatement possible. By doing so, they reset expectations extremely low and improve their likelihood of turnaround success. In other words, they debook as much revenue as possible, regardless of necessity, so that it can be recounted later and improve the financial numbers under their watch.

- *Past history.* History naturally repeats itself. Prior to Informix, Phil had served as the president of computer maker Wyse Technology. Wyse's CFO (chief financial officer), Howard Graham, would also become Informix's CFO. In 1989, Wyse Technology and company officials including White and Graham were sued for fraud and insider trading. According to court documents, computers were shipped "around the corner" to warehouses and then returned after the quarter ended. The lawsuit was settled in 1992 for $15.2 million in cash and served as a precursor of the future.[8]

REVENUE RESTATEMENT LOSERS

While customers, investors, and employees all lose during a restatement, some of the biggest losers are usually the individuals who were responsible for the error (whether a mistake or fraud) in the first place. These executives are forced to disgorge themselves of their proceeds from stock sales for the period in question, assessed penalties and fines, prevented from serving as company officers in the future, and sometimes sentenced to prison. Let's examine typical punishments handed out to high-technology executives involved in revenue manipulations.[9]

The former CEO of one software company was convicted by a federal jury on charges of securities fraud. The evidence at trial established that he engaged in a scheme to overstate third-quarter revenues in 1999 by directing other employees to write side letters giving two customers a right to cancel their contracts and concealing those side letters from accounting personnel. Revenues from the two software sales transactions inflated sales by approximately $5 million. He was ordered to pay a $50,000 penalty and a $12,500 fine and serve twenty-seven months in prison.

The former president of another software and services company pled guilty to securities fraud in the third and fourth quarters of 2000. Specifically, he admitted his participation in six transactions that improperly recognized revenue. In one fraudulent transaction, he signed a side letter that gave a customer more time to pay for the software. In a transaction with a software company, he participated in negotiations for a quid pro quo exchange known as a "software swap." In this barter transaction, the companies exchanged software in order to inflate revenue numbers. He was sentenced to one year and one day in federal prison and ordered to pay a civil penalty of $110,000, a fine of $7,500, and restitution.

Many SEC investigations result in large fines and the return of monies made from stock sales. The copresident of one technology firm was ordered to return $733,360 and pay a civil penalty of $1 million. The CEO, COO (chief operating officer), and CFO of another software company were forced to disgorge approximately $10 million of stock proceeds and paid $350,000 each in fines.

Against this background, what happened to Phil White is quite surprising. Perhaps Phil's attorney spoke a little too soon when he said, "When Mr. White is ultimately cleared, we hope the public and the media will ask why an innocent man was forced to answer these baseless charges."[10] On May 12, 2004, Phil White pled guilty to one count of false statements in a registration statement, a felony.

Legal documents show that Phil White made $8,149,015 from the sale of Informix stock between February 7, 1995, and November 18, 1997.[11] However, the sentence judge Charles R. Breyer, brother of Supreme Court Justice Stephen Breyer, gave him was quite astonishing. The former *Financial World* magazine's CEO of the year for 1993 and 1994 was sentenced to a $10,000 fine, a $100 special assessment, and sixty days in prison.[12] It seems the world's greatest salesman had closed the biggest and best deal of his life.

Informix as a company was the ultimate restatement loser, and the times that followed were not particularly kind to the company. Following Phil's eight-year tenure, three CEOs would occupy the corner office in three years. After a less-than-successful merger with Ardent Software, the company was renamed "Ascential." In the bitter end, Informix's database assets were sold off to IBM in 2001 in what one analyst called "a fire sale, but nobody can find the fire."[13] As a database company, Informix no longer exists today. This is a sad statement about what was once a great company.

CLOSING THOUGHTS

Nearly five hundred years ago William Shakespeare wrote one of his final tragedies. It's a play about a soldier who initially receives a hero's welcome upon his return from conquering the enemy. However, as the soldier tries to become a statesman, his pride infuriates the masses and he is sent into exile.

The story of Informix has all the essentials of a great Shakespearian tragedy. It's a story about the transformation of a laggard firm into one of the most respected companies in Silicon Valley. It's also the story of an overzealous press corps that was just as eager to promote the hero worship of the industry's high-tech leaders as it was to declare the same people as devils incarnate. It's also a story about a man who achieved the stardom he always craved and all the hometown recognition he always wanted but for all the wrong reasons. Finally, it's a story that continues to repeat itself at other high-tech companies around the world. And this shouldn't surprise anyone. History repeats itself because no one was paying attention the first time.

The only thing new in the world is the history you don't know.

HARRY S. TRUMAN