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INSIGNIA SOLUTIONS PLC
Form 10-K/A
May 24, 2001

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K/A

/X/ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2000
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 0-27012

INSIGNIA SOLUTIONS PLC

(Exact name of Registrant as specified in its charter)

ENGLAND AND WALES
(State or other jurisdiction of
incorporation or organization)

NOT APPLICABLE
(I.R.S. employer identification number)

41300 CHRISTY STREET
FREMONT
CALIFORNIA 94538-3115
UNITED STATES OF AMERICA
(510) 360-3700

INSIGNIA HOUSE
THE MERCURY CENTRE
WYCOMBE LANE, WOOBURN GREEN
HIGH WYCOMBE, BUCKS HP10 0HH
UNITED KINGDOM
(44) 1628-539500

(Address and telephone number of principal executive offices and principal
places of business)

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:

NONE

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SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT:

(TITLE OF CLASS)

ORDINARY SHARES (L0.20 NOMINAL 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 /X/ 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 Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment of this Form 10-K. /X/

The aggregate market value of the voting stock held by non-affiliates of the Registrant was approximately \$73,684,000 as of February 22, 2001 based upon the closing sale price on the Nasdaq National Market reported for such date. Ordinary shares held by each officer and director and by each person who owns 5% or more of the outstanding Ordinary share capital have been excluded in that such persons may be deemed to be affiliates. This determination of affiliate status is not necessarily conclusive determination for other purposes.

As of February 22, 2001, there were 19,113,994 Ordinary shares of L0.20 each nominal value, outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

NONE

PART II

ITEM 5--MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

PRICE RANGE OF ORDINARY SHARES

The Company's American Depositary Shares ("ADSs"), each ADS representing one Ordinary Share, have been traded on the Nasdaq National Market under the symbol INSGY from the Company's initial public offering in November 1995 through to December 24, 2000, and INSG since then. The following table sets forth, for the periods indicated, the high and low sales prices for the Company's ADSs as reported by Nasdaq National Market:

| 1999 ---- | HIGH ----- | LOW ----- |
|---------------------|---------------|--------------|
| First Quarter..... | \$ 6.75 | \$1.88 |
| Second Quarter..... | \$10.25 | \$4.63 |
| Third Quarter..... | \$ 8.88 | \$4.00 |
| Fourth Quarter..... | \$ 6.31 | \$4.00 |

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| 2000 | HIGH | LOW |
|---------------------|---------|--------|
| ----- | ----- | ----- |
| First Quarter..... | \$27.50 | \$4.50 |
| Second Quarter..... | \$15.13 | \$5.00 |
| Third Quarter..... | \$ 9.50 | \$5.50 |
| Fourth Quarter..... | \$13.13 | \$4.25 |

The closing sales price of the Company's ADS as reported on the Nasdaq National Market on February 22, 2001 was \$5.00 per share. As of that date, there were approximately 148 holders of record of the Company's Ordinary Shares and ADSs, excluding holders of ADSs whose ADSs are held in nominee or street name by brokers.

DIVIDENDS

The Company has not declared or paid any cash dividends on its Ordinary Shares. The Company anticipates that it will retain any future earnings for use in its business and does not anticipate paying any cash dividends in the foreseeable future. Any payment of dividends would be subject, under English law, to the Companies Act 1985, and to the Company's Memorandum of Association, and may only be paid from the retained earnings of the Company, determined on a pre-consolidated basis. As of December 31, 2000 the Company had a deficit of \$18,922,507 on a pre-consolidated basis.

RECENT SALES OF UNREGISTERED SECURITIES

On December 9, 1999, the Company entered into agreements whereby the Company issued 1,063,515 Ordinary Shares in ADS form at a price of \$4.23 per share to Castle Creek Technology Partners LLC and four other investors of whom one is a member of the Company's board of directors. The Company also issued warrants to the purchasers to purchase a total of 319,054 ADSs at the price of \$5.29 per share. An issuance of ADSs and warrants on November 24, 2000 has had a dilutive effect on the warrants, resulting in an increase in the number of ADSs issuable to 353,834, and a decrease of the exercise price to \$4.77. The issuance of ADSs and warrants on February 12, 2001 also triggered the anti-dilution provisions. However, the effect of such dilution was less than 1% of the exercise price, and consequently such adjustment is deferred until such time as the accumulation of the adjustments exceeds at least 1% of the exercise price. The warrants expire on December 9, 2004. The Company received \$4.5 million less offering expenses totaling \$0.4 million. The securities were issued by the Company in reliance upon the exemption from registration provided under Rule 506 of Regulation D promulgated under the Securities Act to five accredited investors in a transaction not involving any public offering.

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During 2000, the Company issued a total of 19,994 Ordinary Shares in ADS form at various prices, ranging from \$6.281 to \$16.50 to a director of the Company, as payment for drawdown fees under a Line of Credit arrangement entered into in March 2000. The securities were issued in reliance upon the exemption from registration provided under Section 4 (2) of the Securities Act, based on the fact that the shares were sold by the issuer in a sale not involving a public offering.

On November 24, 2000 the Company entered into agreements whereby the Company issued 3,600,000 Ordinary Shares in ADS form at a price of \$5.00 to a total of 23 investors, including Sun Microsystems, BSquare, and a member of the Company's board of directors. The Company also issued warrants to purchase 1,800,000 ADSs to the investors at an exercise price of the lower of the average quoted closing

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sale price of the Company's ADSs for the ten trading days ending on the day preceding the date of the warrant holder's intent to exercise less a 10% discount, and \$6.00. The warrants expire on November 24, 2003, however, subject to certain conditions, if the quoted sale price of the ADSs exceed \$9.00 per share for any thirty consecutive trading days, the Company may cancel the warrants upon sixty days prior written notice. The Company received \$18.0 million less offering expenses totaling \$2.0 million. The Company also issued warrants to purchase 225,000 ADSs to the placement agent exercisable at a price of \$5.00. These warrants expire on November 24, 2005. The securities were issued by the Company in reliance upon the exemption from registration provided under Rule 506 of Regulation D promulgated under the Securities Act to 23 accredited investors in a transaction not involving any public offering.

On December 31, 2000 the Company issued a total of 251,333 Ordinary Shares in ADS form to Quantum Peripherals (Europe) SA, at a per share price of \$4.23 per share under the terms of a convertible promissory note entered into on October 20, 1999. The securities were issued in reliance upon the exemption from registration provided under Section 4 (2) of the Securities Act.

On February 12, 2001 the Company entered into agreements whereby the Company issued 940,000 Ordinary Shares in ADS form at a price of \$5.00 to a total of 4 investors, including Wind River Systems, Inc., and a member of the Company's board of directors. The Company also issued warrants to purchase 470,000 ADSs to the investors at an exercise price of the lower of the average quoted closing sale price of the Company's ADSs for the ten trading days ending on the day preceding the date of the warrant holder's intent to exercise less a 10% discount, and \$6.00. The warrants expire on February 12, 2004, however, subject to certain conditions, if the quoted sale price of the ADSs exceed \$9.00 per share for any thirty consecutive trading days, the Company may cancel the warrants upon sixty days prior written notice. The Company received \$4.7 million less offering expenses totaling \$0.5 million. The Company also issued warrants to purchase 25,000 ADSs to the placement agent exercisable at a price of \$5.00. These warrants expire on February 12, 2006. The securities were issued by the Company in reliance upon the exemption from registration provided under Rule 506 of Regulation D promulgated under the Securities Act to four accredited investors in a transaction not involving any public offering.

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ITEM 6--SELECTED FINANCIAL DATA

SELECTED CONSOLIDATED FINANCIAL DATA

(in thousands, except per share data)

| | YEAR ENDED DECEMBER 31, | | | | |
|-------------------------------------|-------------------------|----------|----------|-----------|-----------|
| | 2000 | 1999 | 1998 | 1997 | 1996 |
| STATEMENT OF OPERATIONS DATA | | | | | |
| Net revenues..... | \$10,766 | \$ 6,837 | \$14,096 | \$ 38,869 | \$ 44,000 |
| Cost of net revenues..... | 3,291 | 3,800 | 9,375 | 17,062 | 17,000 |
| | ----- | ----- | ----- | ----- | ----- |
| Gross profit..... | 7,475 | 3,037 | 4,721 | 21,807 | 26,000 |
| | ----- | ----- | ----- | ----- | ----- |
| Operating expenses: | | | | | |
| Sales and marketing..... | 5,376 | 5,542 | 7,946 | 15,804 | 21,000 |
| Research and development..... | 5,960 | 5,972 | 6,228 | 9,129 | 10,000 |

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| | | | | | |
|--|------------|------------|----------|-------------|---------|
| General and administrative..... | 3,733 | 3,178 | 4,213 | 6,761 | 6, |
| Restructuring..... | -- | -- | -- | 1,995 | |
| | ----- | ----- | ----- | ----- | ----- |
| Total operating expenses..... | 15,069 | 14,692 | 18,387 | 33,689 | 38, |
| | ----- | ----- | ----- | ----- | ----- |
| Operating income (loss)..... | (7,594) | (11,655) | (13,666) | (11,882) | (11, |
| Interest and other income (expense), net..... | (5) | 380 | 15,871 | 504 | 1, |
| | ----- | ----- | ----- | ----- | ----- |
| Income (loss) before income taxes..... | (7,599) | (11,275) | 2,205 | (11,378) | (10, |
| Provision (benefit) for income taxes..... | (785) | (1,316) | 1,783 | (720) | |
| | ----- | ----- | ----- | ----- | ----- |
| Net income (loss)..... | \$ (6,814) | \$ (9,959) | \$ 422 | \$ (10,658) | \$ (10, |
| | ===== | ===== | ===== | ===== | ===== |
| Net income (loss) per share: | | | | | |
| Basic..... | \$ (0.47) | \$ (0.77) | \$ 0.03 | \$ (0.91) | \$ (0, |
| | ===== | ===== | ===== | ===== | ===== |
| Diluted..... | \$ (0.47) | \$ (0.77) | \$ 0.03 | \$ (0.91) | \$ (0, |
| | ===== | ===== | ===== | ===== | ===== |
| Weighted average number of shares and share equivalents: | | | | | |
| Basic..... | 14,571 | 12,883 | 12,159 | 11,690 | 11, |
| | ===== | ===== | ===== | ===== | ===== |
| Diluted..... | 14,571 | 12,883 | 12,378 | 11,690 | 11, |
| | ===== | ===== | ===== | ===== | ===== |

| BALANCE SHEET DATA AT DECEMBER 31, | 2000 | 1999 | 1998 | 1997 | 1996 |
|---|----------|----------|----------|-----------|--------|
| ----- | ----- | ----- | ----- | ----- | ----- |
| Cash, cash equivalents, short-term investments and restricted cash..... | \$17,351 | \$11,107 | \$16,334 | \$ 14,461 | \$ 21, |
| Working capital..... | 11,377 | (221) | 9,712 | 7,816 | 15, |
| Total assets..... | 22,336 | 13,284 | 21,011 | 25,457 | 34, |
| Long-term obligations under capital leases.... | -- | -- | -- | 111 | |
| Mandatorily redeemable capital..... | -- | 2,619 | -- | -- | |
| Mandatorily redeemable warrants..... | 1,440 | 1,440 | -- | -- | |
| Total shareholders' equity..... | 15,749 | 1,980 | 11,418 | 10,523 | 20, |

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

THIS MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS CONTAINS FORWARD-LOOKING STATEMENTS THAT REFLECT THE COMPANY'S CURRENT VIEWS WITH RESPECT TO FUTURE MATTERS SUCH AS GROSS PROFIT, GROSS MARGINS, SPENDING LEVELS, INTERNATIONAL OPERATIONS, RESTRUCTURING BENEFITS AND CAPITAL NEEDS. ACTUAL RESULTS MAY DIFFER MATERIALLY FROM THE RESULTS AND OUTCOMES DISCUSSED IN THE FORWARD-LOOKING STATEMENTS. FACTORS THAT COULD CAUSE OR CONTRIBUTE TO SUCH DIFFERENCES IN RESULTS AND OUTCOMES INCLUDE WITHOUT LIMITATION THOSE DISCUSSED BELOW AS WELL AS THOSE DISCUSSED ELSEWHERE IN THIS REPORT.

OVERVIEW

Insignia Solutions plc (the "Company"), which commenced operations in 1986, develops, markets and supports software technologies that speed the adoption of Java-based individualized computing in Internet appliances and embedded devices.

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In January 1998, the Company announced its intention to launch a new product line called the Jeode-TM- platform, based on the Company's Embedded Virtual Machine ("EVM"-TM-) technology. This followed a strategic review in late 1997 of the Company's business. The Company also explored new markets that would leverage the Company's 15 years of emulation software development experience. The Jeode platform is the Company's implementation of Sun Microsystems, Inc.'s ("Sun") Java-Registered Trademark- technology tailored for Internet appliances and embedded devices. It leverages patent-pending intellectual property to provide these resource-constrained devices with high performance, fully-compatible Java applet and application support. The product became available for sale in March 1999. The Jeode platform is now the principal product line of the Company and will be for the foreseeable future. The Jeode product line revenue model is based on original equipment manufacturer's ("OEMs") and channel partner's customer transactions.

The Company's principal product line in recent years was SoftWindows-TM-. This product enabled Microsoft Windows ("Windows"-Registered Trademark-) applications to be run on most Apple Computer Inc. ("Apple"-Registered Trademark-) Macintosh computers and many UNIX workstations. Revenues from this product line grew until 1995, but declined significantly after that date, along with margins. This was due to a declining demand for Apple Macintosh products and increased competition. In early 1999 Management took steps to discontinue the product line, and on October 18, 1999, the Company signed an exclusive licensing arrangement with FWB Software, LLC ("FWB"). This arrangement allows the Company to focus exclusively on its Jeode platform business strategy.

Between December 1995 and May 1998, the Company shipped NTRIGUE-TM-, a Windows compatibility client/server product that supported multiple X-terminals, workstation clients, Macintosh computers, PCs, network computers and Net PCs from a Windows NT-based server. The Company disposed of its NTRIGUE technology in February 1998.

The Company's operations outside of the United States are primarily in the United Kingdom, where the majority of the Company's research and development operations and its European sales activities are located. The Company distributes its Jeode platform through OEM's and distributed its SoftWindows product through independent distributors. The Company's revenues from customers outside the United States are derived primarily from Europe and Asia and are generally affected by the same factors as its revenues from customers in the United States. The operating expenses of the Company's operations outside the United States are mostly incurred in Europe and relate to its research and development and European sales activities. Such expenses consist primarily of ongoing fixed costs and consequently do not fluctuate in direct proportion to revenues. The Company's revenues and expenses outside the United States can fluctuate from period to period based on movements in currency exchange rates. Historically, movements in currency exchange rates have not had a material effect on the Company's revenues.

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The Company operates with the United States dollar as its functional currency, with a majority of revenues and operating expenses denominated in dollars. Although the Company engages in short-term currency option and forward exchange contracts in order to hedge short-term pound sterling net cash flows, pound sterling exchange rate fluctuations against the dollar can cause United Kingdom expenses, which are translated into dollars for financial statement reporting purposes, to vary from period-to-period.

DISPOSAL OF NTRIGUE TECHNOLOGY

On February 5, 1998 the Company completed the disposal of its NTRIGUE

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technology to Citrix Systems Inc. ("Citrix") for \$17.7 million. As part of the disposal, the Company transferred 45 employees to Citrix, of which 43 were development engineers.

Under the terms of the disposal agreement \$9.0 million was paid to the Company in cash on February 5, 1998, and the remainder was being held in escrow for the sole purpose of satisfying any obligations to Citrix arising from or in connection with an event against which the Company would be required to indemnify Citrix. Of this amount, \$2.5 million, \$0.9 million, \$1.0 million and \$0.3 million were released to the Company in February 1999, August 1999, February 2000 and September 2000, respectively.

On January 29, 1999, the Company received an indemnity claim from Citrix Systems, Inc. ("Citrix") for an amount estimated by Citrix to not exceed \$6.25 million. The claim was made in relation to the Asset Purchase Agreement between the Company and Citrix under which Citrix purchased the Company's NTRIGUE product line in February 1998.

Citrix's indemnity claim is based on assertions made by GraphOn Corporation ("GraphOn") in January of 1998 and declaratory relief action that Citrix filed against GraphOn in November 1998 in the United States District Court, Southern District of Florida. Citrix's action against GraphOn seeks a declaratory judgment that Citrix does not infringe any GraphOn proprietary rights and that Citrix has not misappropriated any trade secrets or breached an agreement to which GraphOn is a party. Citrix filed the action in response to and to resolve assertions first made by GraphOn, and disclosed to Citrix in January 1998, that the Company may have used GraphOn's confidential information to develop certain of the Company's products, possibly including products the Company sold to Citrix in February 1998. The Court dismissed the complaint, but Citrix has subsequently filed an appeal. The Company believes that any misappropriation or similar assertions by GraphOn are without merit or basis. Accordingly, the Company contests Citrix's indemnity claim.

On October 4, 1999, the Company filed a suit against Citrix and GraphOn in the Superior Court of the State of California, County of Santa Clara, relating to the misappropriation assertions of GraphOn's and Citrix's refusal to release funds still remaining in escrow and breach of a Cooperation Agreement between the parties. Subsequent to the filing of the lawsuit, Citrix agreed to release \$1.3 million from the escrow, leaving a balance of \$5.1 million. GraphOn answered the complaint, and claimed it had not made any claims of misappropriation against the Company or Citrix. The case is pending.

On March 15, 2000, GraphOn filed a suit against Citrix and the Company in the Superior Court of the State of California, County of Santa Clara, alleging trade secret misappropriation and breach of contract arising out of the same facts and circumstances set forth in the Company's action against GraphOn. The Company believes GraphOn's claims are without merit. The case is pending.

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REVENUES

| | YEARS ENDED DECEMBER 31, | | |
|-----------------------|--------------------------|---------|----------|
| | 2000 | 1999 | 1998 |
| | (IN THOUSANDS) | | |
| License revenues..... | \$ 8,987 | \$6,471 | \$12,998 |
| Service revenues..... | 1,779 | 366 | 1,098 |

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| | | | |
|---------------------|----------------------------|---------------------------|----------------------------|
| Total revenues..... | ----- \$10,766 ===== | ----- \$6,837 ===== | ----- \$14,096 ===== |
|---------------------|----------------------------|---------------------------|----------------------------|

The Jeode product line was the primary business of the Company for 2000. In 1999, the Company shipped two principal product lines: the Jeode platform and SoftWindows.

Revenue from the Jeode product line is derived from four main sources: the sale of a development license, the sale of annual maintenance and support contract/services, a commercial use royalty based on shipments of products that include Jeode technology, and customer-funded engineering activities. The Company derived its SoftWindows revenues from the sale of packaged software products and annual maintenance contracts, along with royalties received from bundling agreements with OEMs and customer-funded engineering activities under OEM contracts. Revenues from the sale of development licenses, packaged products and royalties received from OEMs are classified as license revenue, while revenues from customer-funded engineering activities, training, and annual maintenance contracts are classified as service revenue.

In 2000 and 1999 Jeode platform revenues accounted for 98% and 23%, respectively, of total revenues. The Jeode platform became available for sale in 1999 and generated no revenue in 1998. The Jeode platform is now the principal product of the Company and will be the principal source of revenues for the foreseeable future. The Jeode platform revenue increased 566% in 2000 compared to 1999 as a result of increased demand. In 2000 and 1999 license revenue from the sale of Jeode accounted for 83% and 23%, respectively, of total revenues. Service revenue from the Jeode platform accounted for 17% and less than 1% of total revenues for 2000 and 1999, respectively.

In 2000, 1999 and 1998 total revenues from SoftWindows accounted for 2%, 74% and 92%, respectively, of total Company revenues primarily due to reduced demand for SoftWindows and management's decision to discontinue the product line. In 1999 and 1998, license revenue from the sale of the Company's products for Macintosh computers accounted for 40% and 52% of total revenues, respectively. UNIX total revenues declined 58% in 1999 compared to 1998 as a result of reduced demand and Management's decision to discontinue the product line. In 1999 and 1998 total revenues from the Company's product for UNIX computers accounted for 34% and 40% of total revenues, respectively.

On October 18, 1999, the Company signed an exclusive licensing arrangement of its SoftWindows and RealPC product lines with FWB. The proceeds the Company will receive from the license arrangement are based on an earn-out of FWB's future revenues from the product lines and will be paid to the Company as those revenues are achieved. Upon achieving a certain revenue threshold, the SoftWindows and RealPC product lines will be transferred to FWB at no additional consideration.

In 2000, service revenues increased 386% compared to 1999. The increase is due to providing customer-funded engineering activities for the Jeode platform and additional maintenance. Service revenues in 1999 declined 67% compared to 1998, primarily because the Company performed fewer customer-funded engineering activities than in the previous year. Similarly, in 1998, service revenues declined 48% compared to 1997.

In 1998 total revenues from the Company's NTRIGUE products accounted for 7% of total revenues. The NTRIGUE product line was sold in early 1998 and generated no revenue in 1999.

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Overall, total revenues and license revenues declined 51% and 50%, respectively, in 1999 compared to 1998.

The Company distributed its SoftWindows and RealPC packaged products within the United States and internationally through distributors, resellers and OEMs. The Company offered certain return privileges to its customers including product exchange privileges and price protection. The Company recognized revenues from packaged products upon shipment with provisions for estimated future returns, exchanges and price protection being recorded as a reduction of total revenues. A significant portion of the Company's revenue in 1997 was derived from large OEM customer transactions, particularly in the UNIX and NT-related product lines.

Sales to distributors and OEM's representing more than 10% of total revenue in each period accounted for the following percentages of total revenue.

| | 2000 | 1999 | 1998 |
|--------------------------|-------|-------|-------|
| | ----- | ----- | ----- |
| Distributors: | | | |
| Ingram Micro..... | --% | * | 27% |
| Sun Microsystems..... | --% | * | 27% |
| Mitsubishi..... | --% | * | 11% |
| Victor Data Systems..... | 14% | --% | --% |
| Wind River Systems..... | 22% | --% | --% |
| All Distributors..... | 46% | 64% | 92% |
| OEM's: | | | |
| Quantum Corporation..... | 15% | 23% | --% |
| Gemstar..... | 18% | --% | --% |
| All OEMs..... | 52% | 30% | * |

 * Less than 10%

Sales to customers outside the United States, derived mainly from customers in Europe and Asia, represented approximately 18%, 15% and 24% of total revenues in 2000, 1999 and 1998, respectively. The Company markets Jeode to Internet appliance and embedded device manufacturers in the United States, Europe and Japan.

Movements in currency exchange rates did not have a material impact on total revenues in 2000, 1999 or 1998. Economic conditions in Europe and Japan, as well as fluctuations in the value of the Euro and Japanese yen against the U.S. dollar and British pound sterling, could impair the Company's revenues and results of operations. International operations are subject to a number of other special risks. These risks include foreign government regulation, reduced protection of intellectual property rights in some countries where we do business, longer receivable collection periods and greater difficulty in accounts receivable collection, unexpected changes in, or imposition of, regulatory requirements, tariffs, import and export restrictions and other barriers and restrictions, potentially adverse tax consequences, the burdens of complying with a variety of foreign laws and staffing and managing foreign operations, general geopolitical risks, such as political and economic instability, hostilities with neighboring countries and changes in diplomatic and trade relationships, and possible recessionary environments in economies outside the United States.

COST OF REVENUES AND GROSS MARGIN

| | YEARS ENDED DECEMBER 31, | | |
|-------------------------------------|------------------------------------|----------|----------|
| | 2000 | 1999 | 1998 |
| | ----- | | |
| | 2000 | 1999 | 1998 |
| | ----- | | |
| | (In thousands, except percentages) | | |
| Cost of license revenues..... | \$ 2,826 | \$ 3,296 | \$ 8,329 |
| Gross margin: license revenues..... | 69% | 49% | 36% |
| | ----- | ----- | ----- |
| Cost of service revenues..... | \$ 465 | \$ 504 | \$ 1,046 |
| Gross margin: service revenues..... | 74% | (38%) | 5% |
| | ----- | ----- | ----- |
| Total cost of revenues..... | \$ 3,291 | \$ 3,800 | \$ 9,375 |
| Gross margin: total revenues..... | 69% | 44% | 33% |
| | ===== | ===== | ===== |

Cost of license revenue is mainly comprised of royalties to third parties, along with the costs of documentation, duplication and packaging. Cost of service revenue includes costs associated with customer-funded engineering activities and end-user support under maintenance contracts.

The Company believes that the significant factors affecting the Jeode platform gross margin include pricing of the development license, pricing of the unit usage and royalties to third parties such as Sun Microsystems, Inc. ("Sun"). In early 1999, the Company signed a five-year agreement with Sun under which Sun established the Company as an Authorized Virtual Machine Provider. Under this agreement the Company will pay Sun a per unit royalty on each Jeode platform-enabled Internet appliance or embedded device shipped by the Company's customers, plus a royalty on all development licenses put in place between the Company and its customers.

License gross margins in 2000 increased to 69% from 49% in 1999, due to the Jeode product line which accounted for 83% of total license revenues in 2000. License gross margins in 1999 increased to 49% from 36% in 1998 due to the introduction of the Jeode product line which accounted for 23% of total license revenues in 1999. The prior year gross margin was lower as a result of SoftWindows pricing strategies, increased third party royalties for SoftWindows and high returns on the NTRIGUE product line. There were no sales of Jeode in 1998.

Gross margin for service revenue is impacted by the level of and pricing terms of customer funded engineering activities, which can vary from customer to customer, from contract to contract and the level of maintenance contracts sold. Service gross margins in 2000 were 74% compared to (38%) in 1999. The increase is due to Jeode customer-funded engineering activities and maintenance agreements. In 1999 and 1998, the Company earned little revenue from customer-funded engineering activities. UNIX maintenance agreement revenue declined in 1999 and 1998. The Company discontinued selling SoftWindows maintenance in late 1999 as a result of the SoftWindows license arrangement with FWB. The continued support of existing SoftWindows contracts with no renewal revenue combined with the high cost of providing support under NTRIGUE maintenance contracts resulted in the Company achieving service revenue gross margins of (38%) and 5% in 1999 and 1998, respectively.

In the event that Jeode licenses increase in future periods, service revenue

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gross margins are expected to increase due to customer-funded engineering activities and the required maintenance, and upgrade contracts for each Jeode product sale.

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OPERATING EXPENSES

| | YEARS ENDED DECEMBER 31, | | |
|-----------------------------------|------------------------------------|----------|----------|
| | 2000 | 1999 | 1998 |
| | (In thousands, except percentages) | | |
| Sales and marketing..... | \$ 5,376 | \$ 5,542 | \$ 7,946 |
| Percentage of total revenues..... | 50% | 81% | 56% |
| Research and development..... | \$ 5,960 | \$ 5,972 | \$ 6,228 |
| Percentage of total revenues..... | 55% | 87% | 44% |
| General and administrative..... | \$ 3,733 | \$ 3,178 | \$ 4,213 |
| Percentage of total revenues..... | 35% | 46% | 30% |

Sales and marketing expenses consist primarily of advertising and promotional expenses, trade shows, personnel and related overhead costs, and salesperson commissions. Sales and marketing expenses decreased in 2000 by 3%. Sales and marketing expenses were reduced in the first half of the year and began increasing the second half of the year due to staffing new hires. Sales and marketing expenses decreased in 1999 by 30% as a result of reduced spending on SoftWindows advertising programs and staffing. The Company anticipates sales and marketing expenses to increase in 2001 as the Company continues to increase its marketing and direct sales organization for its Jeode product line. The Company has established a direct sales force in the United States, Europe and Japan.

Research and development expenses consist primarily of personnel costs, overhead costs relating to occupancy and equipment depreciation. Research and development expenses in 2000 were comparable to 1999. Research and development expenses decreased in 1999 by 4% over 1998 as a result of reductions in personnel. During all of 1999 and the last half of 1998, the Company invested the majority of its development expense in its Jeode technology to accelerate the release of this product. In accordance with Statement of Financial Accounting Standards No. 86, software development costs are expensed as incurred until technological feasibility is established, after which any additional costs are capitalized. In 2000, 1999 and 1998, no development expenditures were capitalized. Development costs are expected to increase in 2001 as the Company further enhances its Jeode technology.

General and administrative expenses consist primarily of personnel and related overhead costs for finance, information systems, human resources and general management. General and administrative expenses increased by 17% in 2000 over 1999 as a result of increased legal fees and a large reversal of bad debt reserves in 1999 not repeated in 2000. Excluding the impact of the bad debt reserve adjustment, general and administrative expenses increased by 3%. General and administrative expenses decreased by 25% in 1999 over 1998 as a result of reduced headcount and reduced legal fees and the bad debt reserve reversal. General and administrative costs are not expected to change significantly in 2001 compared to 2000 but will increase.

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INTEREST INCOME (EXPENSE), NET

| | YEARS ENDED DECEMBER 31, | | |
|-------------------------------------|------------------------------------|--------|--------|
| | 2000 | 1999 | 1998 |
| | (In thousands, except percentages) | | |
| Interest income (expense), net..... | \$ (129) | \$ 473 | \$ 984 |
| Percentage of total revenues..... | (1%) | 7% | 7% |
| | ===== | ===== | ===== |

Interest income (expense), net decreased in 2000 over 1999 from income of \$473,000 to expense of \$129,000. This decrease was primarily due to decreased interest income earned on the Company's cash and cash equivalents which declined over the year until November 2000, when the Company completed

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an \$18.0 million private placement, interest expense on debt, and a one time commitment fee expense of \$300,000 incurred under a Line of Credit. The Company's cash, cash equivalents and amounts held in escrow increased from \$11.1 million at December 31, 1999 to \$17.3 million at December 31, 2000. Interest income, net, decreased in 1999 over 1998 due primarily to reduced interest income earned on the Company's cash, cash equivalents and amounts held in escrow, which decreased from \$16.3 million at December 31, 1998 to \$11.1 million at December 31, 1999. Interest income is expected to increase in 2001.

OTHER INCOME (EXPENSE), NET

| | YEARS ENDED DECEMBER 31, | | |
|-----------------------------------|------------------------------------|---------|----------|
| | 2000 | 1999 | 1998 |
| | (In thousands, except percentages) | | |
| Other income (expense), net..... | \$ 124 | \$ (93) | \$14,887 |
| Percentage of total revenues..... | 1% | (1%) | 106% |
| | ===== | ===== | ===== |

Other income (expense), net decreased from an expense of \$93,000 in 1999 to income of \$124,000 in 2000 and primarily comprised foreign exchange gains (losses) in both periods. Other income (expense), net decreased from income of \$14.9 million in 1998 to an expense of \$93,000 in 1999. The 1998 income was a result of the gain on disposal of the NTRIGUE product line of \$14.7 million. This gain comprised gross disposal proceeds of \$17.7 million, less \$3.0 million of transaction expenses, employment terminations and costs and losses related to the property and equipment sold or written down in value. Other expense is a result of foreign exchange losses.

Over 98% of the Company's total revenues and approximately 36% of its operating expenses are denominated in United States dollars. Most of the remaining revenues and expenses of the Company are British pound sterling denominated and consequently the Company is exposed to fluctuations in British

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pound sterling exchange rates. To hedge against this currency exposure, the Company has, in prior years, entered into foreign currency options and forward exchange contracts for periods and amounts consistent with the amounts and timing of its anticipated British pound sterling denominated operating cash flow requirements. Unrealized gains and losses on foreign currency option contracts are deferred and were not material at December 31, 2000, 1999 and 1998. There can be no assurance that such fluctuations will not have a material effect on the Company's results of operations in the future.

The Company has, at times, an investment portfolio of fixed income securities that are classified as "available-for-sale-securities". These securities, like all fixed income instruments, are subject to interest rate risk and will fall in value if market interest rates increase. The Company attempts to limit this exposure by investing primarily in short-term securities.

PROVISION (BENEFIT) FOR INCOME TAXES

| | YEARS ENDED DECEMBER 31, | | |
|---|------------------------------------|------------|----------|
| | 2000 | 1999 | 1998 |
| | (In thousands, except percentages) | | |
| Provision (benefit) for income taxes..... | \$ (785) | \$ (1,316) | \$ 1,783 |
| Effective income tax rate..... | (10%) | (12%) | 81% |
| | ===== | ===== | ===== |

The Company's benefit for income taxes for 2000 primarily represents a tax refund from the United Kingdom government on taxes paid in the years 1995 - 1997. The Company's benefit for income taxes for 1999 primarily represents certain non-U.S. taxes arising from sales to customers in Japan and the benefit of offsetting net operating losses against provisions arising from the disposal of the

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Company's NTRIGUE product line in 1998. The Company recorded a tax provision in 1998 reflecting certain non-U.S. taxes arising upon the disposal of the Company's NTRIGUE product line, net of offsetting operating losses.

A more complete analysis of the differences between the federal statutory rate and the Company's effective income tax rates is presented in Note 4 to the Consolidated Financial Statements. At December 31, 2000, the Company has recorded a full valuation allowance against all deferred tax assets, primarily comprising net operating losses, on the basis that significant uncertainty exists with respect to their realization.

LIQUIDITY AND CAPITAL RESOURCES

| | YEARS ENDED DECEMBER 31, | | |
|--|--------------------------|-----------|-----------|
| | 2000 | 1999 | 1998 |
| | (in thousands) | | |
| Cash, cash equivalents, investments and restricted cash..... | \$ 17,351 | \$ 11,107 | \$ 16,334 |

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| | | | |
|--|------------|------------|------------|
| Working capital..... | \$ 11,377 | \$ (221) | \$ 9,712 |
| Net cash used in operating activities..... | \$(11,738) | \$(10,617) | \$(13,687) |

The Company has transitioned its product focus from compatibility products to its Jeode product line based on the Company's EVM technology. This change in product focus has resulted in a redirection of available resources from the Company's historical revenue base towards the development and marketing efforts associated with the Jeode platform, which was released for general availability in March 1999. Cash used in operating activities totaled \$11.4 million during 2000.

The Company's cash, cash equivalents and short-term investments, including restricted cash of \$5.1 million held in escrow, were \$17.3 million at December 31, 2000, an increase of \$6.2 million from \$11.1 million at December 31, 1999. Working capital increased to \$11.7 million at December 31, 2000, from (\$0.2) million at December 31, 1999. The principal source of cash funding came from a private placement funding, a line of credit from a director, receivable collections and NTRIGUE product line sales proceeds released from escrow. Capital additions totaled \$0.3 million, \$0.2 million and \$0.9 million during the years ended December 31, 2000, 1999 and 1998, respectively.

In February 1998, \$8.9 million was received from the disposal of the NTRIGUE product line. Additionally, \$2.5 million, \$0.9 million, \$1.0 million and \$0.3 million were released to the Company in February 1999, August 1999, February 2000 and September 2000, respectively, and the remaining \$5.1 million is being held in escrow pending resolution of the Citrix indemnity claim.

On October 20, 1999, the Company signed a convertible promissory note in favor of Quantum Corporation ("Quantum") for \$1.0 million. The note is convertible at Quantum's option to the Company's shares any time during the lifetime of the note. All unpaid principal and unpaid interest, accrued at 8% per annum, compounded quarterly, was converted to Ordinary Shares on December 31, 2000.

On March 20, 2000, the Company entered into a binding agreement with a director whereby he would provide the Company a \$5.0 million line of credit. The interest rate on amounts drawn down is at prime plus 2% until June 30, 2000 and thereafter at prime plus 4% per annum simple interest, payable in cash at the repayment date. The Company drew down a total of \$3.0 million of the line of credit during 2000. On November 27, 2000 the Company repaid this sum, along with all accrued interest and the termination fee due.

The Company believes the existing cash balances will be sufficient to meet the Company's expected liquidity and capital needs for the coming year.

PRIVATE PLACEMENTS AND WARRANTS

In a private placement that closed on November 24, 2000, certain investors purchased from the Company a total of 3,600,000 units at a price of \$5.00 per unit. Each unit comprises one ADS and one half of one warrant to purchase one ADS. As described below, the Company may cancel the warrants upon sixty days prior written notice if the closing sale price of the Company's ADSs exceeds \$9.00 for 30 consecutive trading days following the effectiveness of a registration statement filed with the Securities and Exchange Commission ("SEC") for the ADSs issued and the ADSs underlying the warrants. This registration statement became effective on December 24, 2000. As compensation for services in

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connection with the private placement, the Company (i) issued five-year warrants to purchase 225,000 of the Company's ADSs at an exercise price of \$5.00 per share, and (ii) paid a cash compensation equal to six percent (6%) of the gross proceeds received by the Company in the private placement to the placement agent.

The investors that participated in this private placement received warrants to purchase one ADS for every two ADSs they purchased. The exercise price of the warrants was set at an exercise price per ADS equal to the lower of \$6.00 and the average quoted closing sale price of the Company's ADSs for the ten trading days ending on the day preceeding the day the Company is informed of the investor's intent to exercise, less a 10% discount. These warrants expire on November 24, 2003.

These investors also have rights under their subscription agreements to be issued additional ADSs by the Company if the registration statement is suspended for more than 60 days in any 12 month period by the Company. If the registration statement is suspended beyond the 60 day limit, the Company must issue, for payment of the nominal value of L0.20 per share, to these investors 0.07 ADS for each ADS purchased in the private placement. In addition, the Company must issue, for payment of the nominal value of L0.20 per share, 0.02 ADS for each ADS purchased in the private placement for each month thereafter until the suspension or stop order is lifted. If the Company issues additional ADSs under these obligations, the ownership interest of existing shareholders will be substantially diluted.

In a private placement that closed on February 12, 2001, certain investors purchased from the Company a total of 940,000 units at a price of \$5.00 per unit. Each unit comprises one ADS and one half of one warrant to purchase one ADS. As described below, the Company may cancel the warrants upon sixty days prior written notice if the closing sale price of the Company's ADSs exceeds \$9.00 for 30 consecutive trading days following the effectiveness of a registration statement filed with the SEC for the ADSs issued and the ADSs underlying the warrants. As compensation for services in connection with the private placement, the Company (i) issued five-year warrants to purchase 25,000 of the Company's ADSs at an exercise price of \$5.00 per share, and (ii) paid a cash compensation equal to six percent (6%) of the first \$2 million and 3% on the remainder of the gross proceeds received by the Company in the private placement to the placement agent.

The investors that participated in this private placement received warrants to purchase one ADS for every two ADSs they purchased. The exercise price of the warrants was set at an exercise price per ADS equal to the lower of \$6.00 and the average quoted closing sale price of the Company's ADSs for the ten trading days ending on the day preceeding the day the Company is informed of the investor's intent to exercise, less a 10% discount. These warrants expire on February 12, 2004.

These investors also have rights under their subscription agreements to be issued additional ADSs by the Company if (a) the Company does not register with the SEC their ADSs and the ADSs underlying the Company's warrants and the SEC does not declare the registration statement effective by May 14, 2001 or (b) the registration statement is suspended for more than 60 days in any 12 month period by the Company. If the registration statement the Company files with the SEC is not declared effective by the deadline, or if the registration statement is suspended beyond the 60 day limit, the Company must issue, for payment of the nominal value of L0.20 per share, to these investors 0.07 ADS

for each ADS purchased in the private placement. In addition, the Company must issue, for payment of the nominal value of L0.20 per share, 0.02 ADS for each

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ADS purchased in the private placement for each month thereafter until the registration statement is declared effective by the SEC. If the Company issues additional ADSs under these obligations, the ownership interest of existing shareholders will be substantially diluted.

DILUTION ADJUSTMENTS

In December 1999, the Company issued 1,063,515 Ordinary Shares in ADS form at a price of \$4.23 per share through a private placement. The Company received \$4.5 million less offering expenses totaling \$0.4 million. Along with ADSs, the Company also issued to the investors warrants that entitle them to purchase a total of 319,054 ADSs at an exercise price of \$5.29 per ADS. As described below, the exercise price and the number of ADSs issuable under the warrants were subject to potential adjustment.

Under the December 1999 private placement, the investors received warrants to purchase three ADSs for every 10 ADSs they purchased. The exercise price of the warrants was set at 125% of the original per ADS purchase price, or \$5.29. However, the warrants contain anti-dilution provisions which decrease this exercise price and increase the number of ADSs purchasable if the Company sells or is deemed to sell any shares at below market price during the term of the warrants, which ends on December 9, 2004. The private placement that closed on November 24, 2000 was a sale which triggered the anti-dilution provisions in the warrants, and, as a consequence, the exercise price of the warrants has been decreased from \$5.29 to \$4.77 per ADS, and the number of ADSs purchasable has increased to 353,834. The private placement on February 12, 2001 also triggered the anti-dilution provisions of the issuance of December 9, 1999. However, the effect of such dilution was less than 1% of the exercise price and consequently such adjustment is deferred until such time as the accumulation of this adjustment and future adjustments exceed at least 1% of the exercise price.

As part of their warrant agreements, the investors may be entitled to cash payments upon the occurrence of certain Major Transactions, as defined in the warrant agreements, including change of control provisions. Cash payments are determined in a methodology described in the agreement. Such methodology is impacted by market price.

Under the December 1999 private placement, the investors were entitled to additional warrants to purchase ADS's at L0.20 nominal value per share if the average of the closing bid price of the ADS's over the ten days before an adjustment date was less than \$4.23. The adjustment dates commenced on March 10, 2000 and occurred on the 10th of each month through March 10, 2001, inclusive. The rights for an adjustment date to occur would terminate upon release of at least \$4.75 million of the funds held in escrow by Citrix on December 9, 1999. However, not enough of the funds held were released to trigger this termination. The calculated average bid price of the Company's ADS's on all the adjustment dates exceeded \$4.23 per share and consequently no adjustment occurred. The adjustment rights have now expired.

The Company obtained a third-party valuation to allocate fair value to amounts received from the private placement between the ADSs and the warrants. In 1999 the amount allocated to mandatorily redeemable warrants totaled \$1.440 million, of which \$0.590 million was allocated to the warrants, and \$0.850 million was allocated to the additional warrants. Of the remaining net proceeds received, \$2.619 million was allocated to mandatorily redeemable capital. The \$2.619 million of mandatorily redeemable capital was reclassified when the registration statement for the ADSs and the ADSs underlying the warrants issued in the December 1999 private placement became effective on March 28, 2000, of which \$0.340 million was classified as Ordinary Shares and \$2.279 million was classified as additional paid-in capital.

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Limitations in the transaction agreements preclude these investors in question from achieving certain levels of beneficial ownership. The securities purchase agreement, the warrants and the additional warrants contain the restriction that the Company may not issue and a selling investor may not purchase, and the warrants and additional warrants may not be exercised for any ADSs if doing so would cause such investor to beneficially own more than 9.9% of the total ordinary shares in issue as determined in accordance with section 13(d) of the Securities Exchange Act of 1934. Under the additional warrants, if such investors are prohibited from exercising the additional warrant as a result of the 9.9% restriction, the selling investor may, at its option and in addition to its other rights under the securities purchase agreement and the warrant, retain the warrant or demand payment, in cash, from the Company in an amount calculated by the Black-Scholes formula multiplied by the number of ADSs for which the additional warrant was exercisable, without regard to any limits on exercise. The restrictions on the levels of beneficial ownership in these documents do not, however, restrict those investors from exercising the warrants or additional warrants up to those limitations, selling ADSs to decrease their level of beneficial ownership, and exercising the warrants to receive additional ADSs. This could result in additional dilution to the holders of the Company's ADSs and a potential decrease in the price of the ADSs.

Any significant downward pressure on the price of the Company's ADSs as a result of the exercise of the warrants or additional warrants and the sale of material amounts of the Company's ADSs could encourage short sales of the Company's ADSs. Short sales could place further downward pressure on the price of the Company's ADSs.

YEAR 2000 COMPLIANCE

The Company believes that all of the Company's most current product releases will not cease to perform nor generate incorrect or ambiguous data or results solely due to a change in date to or after January 1, 2000, and will calculate any information dependent on these dates in the same manner, and with the same functionality, data integrity and performance, as these products did on or before December 31, 1999. However, all of the Company's customers may not implement the Year 2000 compliant release of the Company's products in a timely manner, which could lead to failure of customer systems and product liability claims against the Company. Even if the Company's products are Year 2000 compliant, the Company may, in the future, be subject to claims based on Year 2000 issues in the products of other companies or issues arising from the integration of multiple products within a system. The costs of defending and resolving Year 2000-related disputes, and any liability for Year 2000-related damages, including consequential damages, could be significant. In addition, Year 2000 failures could have a negative effect on the Company's competitive position. If any of the Company's critical suppliers do not successfully and timely achieve Year 2000 compliance, and the Company is unable to replace them with new or alternate suppliers, our business would be disrupted.

NEW ACCOUNTING PRONOUNCEMENTS

In September 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standard No. 133 "Accounting for Derivative Instruments and Hedging Activities" ("SFAS 133"). SFAS 133 establishes accounting and reporting standards for derivative instruments and for hedging activities. This statement becomes effective for all fiscal quarters of fiscal years beginning after June 15, 1999. In June 1999, the FASB issued Statement of Financial Accounting Standard No. 137 "Accounting for Derivative Instruments--Deferral of the Effect Date of SFAS Statement No. 133" ("SFAS 137"). SFAS 137 defers the effective date of SFAS 133 until June 15, 2000. The Company will adopt SFAS 133 in 2001. The Company expects the adoption of SFAS 133 will not affect results of

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operations.

In December 1999, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 101 ("SAB 101"), "Revenue Recognition in Financial Statements". SAB 101 provides guidance for

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revenue recognition under certain circumstances. The Company does not believe SAB 101 will have a material impact on the financial statements.

In March 2000, the Financial Accounting Standards Board ("FASB") issued FASB Interpretation No. 44 "Accounting for Certain Transactions Involving Stock Compensation--an interpretation of APB Opinion No. 25". This interpretation has provisions that are effective on staggered dates, some of which began after December 15, 1998 and others that become effective after June 30, 2000. The adoption of this interpretation did not have a material impact on the financial statements.

POTENTIAL FLUCTUATIONS IN OPERATING RESULTS

The Company's revenues, margins and operating results are subject to quarterly and annual fluctuations due to a variety of factors, including demand for the Company's products, acceptance and demand for Java technology in the Internet appliance and embedded device markets, the volume and timing of orders received during the quarter, the mix of and changes in customers to whom the Company's products are sold, the mix of product and service revenue received during the quarter, the mix of development license fees and commercial use royalties received, the timing and acceptance of new products and product enhancements by the Company or by the Company's competitors, changes in pricing, buyouts of commercial use licenses, product life cycles, the level of the Company's sales of third party products, variances in costs associated with fixed price contracts, purchasing patterns of customers, competitive conditions in the industry, foreign currency exchange rate fluctuations, business cycles and economic conditions that affect the markets for the Company's products; and extraordinary events, such as litigation, including related charges. Although the Company's primary functional currency is the United States dollar, a significant portion of the Company's operating expenses are incurred by its United Kingdom operations and paid in British pound sterling. The Company enters into short-term currency option and forward exchange contracts to hedge the short-term impact of exchange rate fluctuations on British pound sterling net operating cash flows, but there can be no assurance that such fluctuations will not have a material adverse effect on the Company's business, financial condition or results of operations in the future. A relatively high percentage of the Company's expenses is fixed over the short term and, as a result, if anticipated revenues in any quarter do not occur or are delayed, expenditure levels could be disproportionately high as a percentage of total revenues and the Company's operating results for that quarter would be adversely affected. It is difficult for the Company to predict when, or if, a particular prospect might sign a license agreement. Development license fees may be delayed or reduced as a result of this process. The Company's success depends upon the use of the Company's technology by our licensees in their embedded systems, which makes it difficult for the Company to predict when the Company will recognize royalty or revenues from commercial use licenses. An increasing amount of the Company's sales orders involve products and services that yield revenue over multiple quarters or upon completion of performance. If license agreements entered into during a quarter do not meet the Company's revenue recognition criteria, even if it meets or exceeds the Company's forecast of aggregate licensing and other contracting activity, it is possible that the Company's revenues would not meet expectations. If sales forecasted from a specific customer for a particular quarter are not realized in that quarter, the Company is unlikely to be able to generate revenue from alternate sources in time to compensate for the shortfall.

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As a result, and due to the relatively large size of some orders, a lost or delayed sale could have a material adverse effect on the Company's quarterly operating results. Moreover, to the extent that significant sales occur earlier than expected, operating results for subsequent quarters may be adversely affected. There can be no assurance that the Company will be able to achieve profitability on a quarterly or annual basis. The Company intends to make a significant investment in its marketing, sales, customer support and research and development infrastructure to support its Jeode product line. The timing of this expansion and the rate at which the Jeode platform generates revenue could cause material fluctuations in the Company's results of operations. As a result, the Company believes that period-to-period comparisons of its results of operations are not necessarily meaningful and should not be relied upon as indications

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of future performance. Although historically the Company's business has not been subject to seasonal variations, sales of the Company's products in certain international markets, such as Europe, are typically slower in the summer months. Due to all of the foregoing factors, it is possible that in some future quarters the Company's operating results will be below the expectations of stock market analysts and investors. In such event, the price of the Company's ADSs would likely be materially adversely affected.

The prices for the Company's ADSs have fluctuated widely in the past. During the 12 months ended February 22, 2001, the closing price of a share of the Company's common stock ranged from a high of \$27.50 to a low of \$4.25. Under the rules of The Nasdaq Stock Market, the Company's stock price must remain above \$1.00 per share for continued quotation of the Company's shares on the Nasdaq National Market. Stock price volatility has had a substantial effect on the market prices of securities issued by the Company and other high technology companies, often for reasons unrelated to the operating performance of the specific companies. In the past, following periods of volatility in the market price of a company's securities, securities class action litigation has been instituted against the Company. The Company may in the future be the target of similar litigation. Regardless of the outcome, securities litigation may result in substantial costs and divert Management's attention and resources.

FUTURE OPERATING RESULTS

Except for the historical information contained in this 10-K, the matters discussed herein are forward-looking statements. These forward-looking statements concern matters which include, but are not limited to, the revenue model and market for the Jeode product line, the features, benefits and advantages of the Jeode platform, international sales, gross margins, the availability of licenses to third-party proprietary rights, business and sales strategies, matters relating to proprietary rights, competition, Year 2000 compliance, exchange rate fluctuations and the Company's liquidity and capital needs and other statements regarding matters that are not historical are forward-looking statements. These matters involve risks and uncertainties that could cause actual results to differ materially from those in the forward looking statements. In addition to the factors discussed above, among other factors that could cause actual results to differ materially are the following: the demand for the Jeode platform; the performance and functionality of Jeode technology; the Company's ability to deliver on time, and market acceptance of new products or upgrades of existing products; the timing of, or delay in, large customer orders; continued availability of technology and intellectual property license rights; product life cycles; quality control of products sold; competitive conditions in the industry; economic conditions generally or in various geographic areas; and the risks listed from time to time in the reports that the Company files with the SEC. There can be no assurance that the Company will experience growth in revenues and net income in any particular period when

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compared to prior periods. Any quarterly or annual shortfall in net revenues and/or net income from the levels expected by securities analysts and shareholders would result in a substantial decline in the trading price of the Company's shares.

The Company continues to face significant risks associated with the successful execution of its new product strategy. These risks include, but are not limited to continued technology and product development, introduction and market acceptance of new products, changes in the marketplace, liquidity, competition from existing and new competitors which may enter the marketplace and retention of key personnel. Due to the generally longer sales cycles expected to be associated with the Jeode platform, the Company does not currently have accurate visibility of future order rates and demand for its products generally. There can be no assurance that Jeode platform products will achieve market acceptance.

The Company has experienced operating losses in each quarter since the second quarter of 1996. To achieve profitability, the Company will have to increase its revenue significantly. The Company's ability to increase revenues depends upon the success of our Jeode product line. The Jeode platform is

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a relatively new product and it may not achieve market acceptance. If the Company is unable to generate revenues from Jeode technology in the form of development license fees, maintenance and support fees, commercial use royalties and customer-funded engineering services, the Company's current revenue will be insufficient to sustain its business.

ITEM 8--CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The financial statements required by this Item are set forth at the pages indicated in Item 14 of Part IV of this Report on Form 10-K.

The following table provides selected quarterly consolidated financial data (in thousands, except per share data):

| | QUARTER ENDED | | | |
|---------------------------------|---------------|----------|--------------|-------------|
| | MARCH 31 | JUNE 30 | SEPTEMBER 30 | DECEMBER 31 |
| 2000: | | | | |
| Revenues..... | \$ 1,511 | \$ 3,051 | \$ 2,890 | \$ 3,311 |
| Gross profit..... | 750 | 2,318 | 1,562 | 2,841 |
| Net loss..... | (3,158) | (602) | (2,310) | (741) |
| Basic net loss per share..... | (0.22) | (0.04) | (0.16) | (0.04) |
| Diluted net loss per share..... | (0.22) | (0.04) | (0.16) | (0.04) |
| 1999: | | | | |
| Revenues..... | \$ 2,308 | \$ 1,507 | \$ 1,754 | \$ 1,261 |
| Gross profit..... | 1,037 | 555 | 980 | 461 |
| Net loss..... | (3,116) | (2,711) | (2,030) | (2,101) |
| Basic net loss per share..... | (0.25) | (0.21) | (0.16) | (0.16) |
| Diluted net loss per share..... | (0.25) | (0.21) | (0.16) | (0.16) |
| 1998: | | | | |
| Revenues..... | \$ 4,982 | \$ 2,334 | \$ 3,620 | \$ 3,161 |
| Gross profit..... | 2,063 | 410 | 1,296 | 951 |
| Net income (loss)..... | 7,632 | (3,677) | (667) | (2,861) |

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| | | | | |
|--|------|--------|--------|-------|
| Basic net income (loss) per share..... | 0.63 | (0.30) | (0.05) | (0.2) |
| Diluted net income (loss) per share..... | 0.62 | (0.30) | (0.05) | (0.2) |

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

Not applicable.

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PART IV

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

(a) 1. Financial Statements

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

| DOCUMENT ----- | PAGE ----- |
|---|---------------|
| Consolidated Balance Sheet as of December 31, 2000 and 1999..... | 48 |
| Consolidated Statement of Operations for each of the three years in the period ended December 31, 2000..... | 49 |
| Consolidated Statement of Shareholders' Equity for each of the three years in the period ended December 31, 2000..... | 50 |
| Consolidated Statement of Cash Flows for each of the three years in the period ended December 31, 2000..... | 51 |
| Notes to Consolidated Financial Statements..... | 52 |
| Report of Independent Accountants..... | 73 |

2. Financial Statement Schedule

The following financial statement schedule is filed as a part of this Annual Report on Form 10-K and should be read in conjunction with the Financial Statements:

| DOCUMENT ----- | PAGE ----- |
|---|---------------|
| Schedule II--Valuation and Qualifying Accounts..... | 72 |

All other schedules are omitted because they are not applicable, or because the required information is included in the financial statements or notes thereto.

(b) Reports on Form 8-K

The Company filed during the quarter ended December 31, 2000 a Report on Form 8-K reporting under Item 5 a private placement under a Securities Purchase Agreement dated November 24, 2000.

(c) Exhibits

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The following exhibits are filed as part of this Report:

| EXHIBIT NUMBER | EXHIBIT TITLE |
|-------------------|--|
| 2.01 | --Asset Purchase Agreement dated as of January 10, 1998, by and among Citrix Systems, Inc., Citrix Systems UK Limited and Registrant. (4)** |
| 2.02 | --Amendment No. 1 to Asset Purchase Agreement dated as of February 5, 1998, by and among Citrix Systems, Inc., Citrix Systems UK Limited and Registrant. (4)** |
| 3.02 | --Registrant's Articles of Association. (1) |
| 3.04 | --Registrant's Memorandum of Association. (1) |
| 4.01 | --Form of Specimen Certificate for Registrant's Ordinary Shares. (1) |
| 4.02 | --Deposit Agreement between Registrant and The Bank of New York. (2) |
| 4.03 | --Form of American Depositary Receipt (included in Exhibit 4.02). (2) |
| 10.01 | --Registrant's 1986 Executive Share Option Scheme, as amended, and related documents. (1)* |
| 10.02 | --Registrant's 1988 U.S. Stock Option Plan, as amended, and related documents. (1)* |

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| EXHIBIT NUMBER | EXHIBIT TITLE |
|-------------------|---|
| 10.03 | --Registrant's 1995 Incentive Stock Option Plan for U.S. Employees and related documents, as amended (incorporated by reference to Exhibit 4.04 to Registrant's Registration Statement on Form S-8 filed on December 13, 2000 (File No. 333-51760)).* |
| 10.05 | --Insignia Solutions Inc. 401(k) Plan. (1)* |
| 10.06 | --Registrant's Small Self-Administered Pension Plan Definitive Deed and Rules. (1)* |
| 10.10 | --Executive's Employment Agreement dated January 1, 1993 between Registrant and George Buchan. (1)* |
| 10.14 | --Form of Indemnification Agreement entered into by Registrant with each of its directors and executive officers. (1)* |
| 10.16 | --Lease between Registrant and The Standard Life Assurance Company dated November 3, 1992 and related documents. (1) |
| 10.28 | --Registrant's U.K. Employee Share Option Scheme 1996, as amended (incorporated by reference to Exhibit 4.05 to Registrant's Registration Statement on Form S-8 filed on December 13, 2000 (File No. 333-51760)).* |
| 10.33 | --Employment Agreement effective March 25, 1997 between Registrant and Richard M. Noling. (3)* |
| 10.34 | --Consulting Agreement effective April 1, 1997 between Registrant and Nicholas, Viscount Bearsted. (3)* |
| 10.36 | --Source Code License and Binary Distribution Agreement |

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- dated as of September 29, 1997 between Registrant and Silicon Graphics, Inc. (3)
- 10.38 --Lease Agreement between Insignia Solutions, Inc. and Lincoln-Whitehall Pacific, LLC, dated December 22, 1997 (incorporated by reference to the exhibit of the same number from Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 1998).
- 10.42 --Registrant's 1995 Employee Share Purchase Plan, as amended (incorporated by reference to Exhibit 4.06 to Registrant's Registration Statement on Form S-8 filed on April 12, 2000 (File No. 333-34632)).*
- 10.44 --Lease agreement between Registrant and Comland Industrial and Commercial Properties Limited dated August 12th, 1998 for the Apollo House premises and the Saturn House premises (incorporated by reference to the exhibit of the same number from Registrant's Annual Report on Form 10-K for the year ended December 31, 1998).
- 10.46 --Technology License and Distribution Agreement between Sun Microsystems, Inc. and Registrant, dated March 3, 1999 (incorporated by reference to the exhibit of the same number from Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 1999).
- 10.50 --License, Distribution, and Asset Purchase Agreement between Registrant and FWB Software, LLC dated October 6, 1999 (incorporated by reference to the exhibit of the same number from Registrant's Annual Report on Form 10-K for the year ended December 31, 1999).
- 10.51 --Registration Rights Agreement dated as of October 20, 1999, by and between Registrant and Quantum Corporation (incorporated by reference to Exhibit 4.14 to Registrant's Registration Statement on Form S-3 filed on February 13, 2001 (File No. 333-55498)).
- 10.52 --Securities Purchase Agreement dated as of December 9, 1999, between Registrant and Castle Creek Technology Partners LLC (incorporated by reference to Exhibit 10.50 to Registrant's Current Report on Form 8-K filed on December 15, 1999).

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| EXHIBIT NUMBER | EXHIBIT TITLE |
|-------------------|--|
| 10.53 | --Securities Purchase Agreement dated as of December 9, 1999, between Registrant and the Purchasers named therein (incorporated by reference to Exhibit 10.51 to Registrant's Current Report on Form 8-K filed on December 15, 1999). |
| 10.54 | --Registration Rights Agreement dated as of December 9, 1999, between Registrant and Castle Creek Technology Partners LLC (incorporated by reference to Exhibit 4.05 to Registrant's Current Report on Form 8-K filed on December 15, 1999). |
| 10.55 | --Registration Rights Agreement dated as of December 9, 1999, between Registrant and the Purchasers named therein (incorporated by reference to Exhibit 4.08 to Registrant's Current Report on Form 8-K filed on December 15, 1999). |

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- 10.56 --ADSs Purchase Warrant issued to Castle Creek Technology Partners LLC dated December 9, 1999 (incorporated by reference to Exhibit 4.06 to Registrant's Current Report on Form 8-K filed on December 15, 1999).
- 10.57 --ADSs Purchase Reset Warrant issued to Castle Creek Technology Partners LLC dated December 9, 1999 (incorporated by reference to Exhibit 4.07 to Registrant's Current Report on Form 8-K filed on December 15, 1999).
- 10.58 --Form of ADSs Purchase Warrant issued December 9, 1999 (incorporated by reference to Exhibit 4.09 to Registrant's Current Report on Form 8-K filed on December 15, 1999).
- 10.59 --Form of ADSs Purchase Reset Warrant issued December 9, 1999 (incorporated by reference to Exhibit 4.10 to Registrant's Current Report on Form 8-K filed on December 15, 1999).
- 10.60 --Line of Credit Loan Agreement and Promissory Note dated as of March 20, 2000 by and between Registrant and Vincent S. Pino, Rosemary G. Pino, Michael V. Pino and Tiffany R. Pino (incorporated by reference to Exhibit 4.15 to Registrant's Registration Statement on Form S-3 filed on February 13, 2001 (File No. 333-55498)).
- 10.61 --Form of Subscription Agreement for the Purchase of units dated November 24, 2000 (incorporated by reference to Exhibit 10.52 to Registrant's Current Report on Form 8-K filed on November 29, 2000).
- 10.62 --Warrant Agreement, dated as of November 24, 2000, between Registrant and Jefferies & Company, Inc. (incorporated by reference to Exhibit 10.53 to Registrant's Current Report on Form 8-K filed on November 29, 2000).
- 10.63 --Form of ADSs Purchase Warrant issued November 24, 2000 (incorporated by reference to Exhibit 4.11 to Registrant's Current Report on Form 8-K filed on November 29, 2000).
- 10.64 --ADSs Purchase Warrant issued to Jefferies & Company, Inc., dated November 24, 2000 (incorporated by reference to Exhibit 4.12 to Registrant's Current Report on Form 8-K filed on November 29, 2000).
- 10.65 --OEM Agreement between Wind River Systems, Inc. and Insignia Solutions, Inc., dated December 22, 2000, as amended.***
- 10.66 --Form of Subscription Agreement for the Purchase of units dated February 12, 2001 (incorporated by reference to Exhibit 10.54 to Registrant's Current Report on Form 8-K filed on February 15, 2001).
- 10.67 --Warrant Agreement, dated as of February 12, 2001, between Registrant and Jefferies & Company, Inc. (incorporated by reference to Exhibit 10.55 to Registrant's Current Report on Form 8-K filed on February 15, 2001).
- 10.68 --Form of ADSs Purchase Warrant issued February 12, 2001 (incorporated by reference to Exhibit 4.13 to Registrant's Current Report on Form 8-K filed on February 15, 2001).

| EXHIBIT NUMBER | EXHIBIT TITLE |
|-------------------|--|
| 10.69 | --ADSs Purchase Warrant issued to Jefferies & Company, Inc., |

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dated February 12, 2001 (incorporated by reference to Exhibit 4.14 to Registrant's Current Report on Form 8-K filed on February 15, 2001).

21.01 --List of Registrant's subsidiaries. (2)

23.01 --Consent of PricewaterhouseCoopers LLP, Independent Accountants.+

24.01 --Power of Attorney.+

-
- * Management contract or compensatory plan.
 - ** Confidential treatment has been granted with respect to certain portions of this agreement. Such portions were omitted from this filing and filed separately with the Securities and Exchange Commission.
 - *** Confidential treatment has been requested w/respect to certain portions of this agreement. Such portions were omitted from this filing and filed separately w/the Securities and Exchange Commission.
 - + Previously filed by the Registrant with the Commission.
- (1) Incorporated by reference to the exhibit of the same number from Registrant's Registration Statement on Form F-1 (File No. 33-98230) declared effective by the Commission on November 13, 1995.
 - (2) Incorporated by reference to the exhibit of the same number from Registrant's Annual Report on Form 10-K for the year ended December 31, 1995.
 - (3) Incorporated by reference to the exhibit of the same number from Registrant's Annual Report on Form 10-K for the year ended December 31, 1997.
 - (4) Incorporated by reference to the exhibit of the same number from Registrant's Current Report on Form 8-K dated February 5, 1998.

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INSIGNIA SOLUTIONS PLC

CONSOLIDATED BALANCE SHEET

(amounts in thousands, except share data)

| | DECEMBER 31, | |
|---|--------------|----------|
| | 2000 | 1999 |
| | ----- | ----- |
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents..... | \$11,931 | \$ 4,677 |
| Restricted cash..... | 120 | 120 |
| Cash and cash equivalents held in escrow..... | -- | 1,000 |
| Accounts receivable, net..... | 3,385 | 189 |
| Prepaid and other current assets..... | 1,088 | 1,038 |
| | ----- | ----- |

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| | | |
|---|----------|----------|
| Total current assets..... | 16,524 | 7,024 |
| | ----- | ----- |
| Property and equipment, net..... | 512 | 625 |
| Cash and cash equivalents held in escrow..... | 5,050 | 5,060 |
| Restricted cash..... | 250 | 250 |
| Other noncurrent assets..... | -- | 325 |
| | ----- | ----- |
| | \$22,336 | \$13,284 |
| | ===== | ===== |

LIABILITIES, MANDATORY REDEEMABLE AND SHAREHOLDERS' EQUITY

| | | |
|--|----------|----------|
| Current liabilities: | | |
| Accounts payable..... | \$ 1,096 | \$ 707 |
| Accrued liabilities..... | 1,833 | 1,674 |
| Accrued royalties..... | 770 | 2,327 |
| Income taxes payable..... | 550 | 188 |
| Deferred revenue..... | 898 | 1,349 |
| Convertible debt..... | -- | 1,000 |
| | ----- | ----- |
| Total current liabilities..... | 5,147 | 7,245 |
| | ----- | ----- |
| Mandatorily redeemable capital..... | -- | 2,619 |
| Mandatorily redeemable warrants..... | 1,440 | 1,440 |
| Total mandatorily redeemable (Note 9)..... | 1,440 | 4,059 |
| Commitments and contingencies (Note 7) | | |
| Shareholders' equity: | | |
| Preferred shares, L0.20 par value: 3,000,000 shares authorized; no shares issued..... | -- | -- |
| Ordinary shares, L0.20 par value: 30,000,000 shares authorized; 18,145,190 shares and 14,039,602 shares issued and outstanding in 2000 and 1999, respectively... | 5,876 | 4,304 |
| Additional paid-in capital..... | 54,117 | 35,106 |
| Accumulated deficit..... | (43,783) | (36,969) |
| Accumulated other comprehensive loss..... | (461) | (461) |
| | ----- | ----- |
| Total shareholders' equity..... | 15,749 | 1,980 |
| | ----- | ----- |
| | \$22,336 | \$13,284 |
| | ===== | ===== |

The accompanying notes are an integral part of these consolidated financial statements.

INSIGNIA SOLUTIONS PLC

CONSOLIDATED STATEMENT OF OPERATIONS

(amounts in thousands, except per share data)

| | YEAR ENDED DECEMBER 31, | | |
|---------------|-------------------------|----------|----------|
| | 2000 | 1999 | 1998 |
| | ----- | ----- | ----- |
| Net revenues: | | | |
| License..... | \$ 8,987 | \$ 6,471 | \$12,998 |

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| | | | |
|--|------------|------------|----------|
| Service..... | 1,779 | 366 | 1,098 |
| | ----- | ----- | ----- |
| Total net revenues..... | 10,766 | 6,837 | 14,096 |
| | ----- | ----- | ----- |
| Costs of net revenues: | | | |
| License..... | 2,826 | 3,296 | 8,329 |
| Service..... | 465 | 504 | 1,046 |
| | ----- | ----- | ----- |
| Total cost of net revenues..... | 3,291 | 3,800 | 9,375 |
| | ----- | ----- | ----- |
| Gross margin..... | 7,475 | 3,037 | 4,721 |
| | ----- | ----- | ----- |
| Operating expenses: | | | |
| Sales and marketing..... | 5,376 | 5,542 | 7,946 |
| Research and development..... | 5,960 | 5,972 | 6,228 |
| General and administrative..... | 3,733 | 3,178 | 4,213 |
| | ----- | ----- | ----- |
| Total operating expenses..... | 15,069 | 14,692 | 18,387 |
| | ----- | ----- | ----- |
| Operating loss..... | (7,594) | (11,655) | (13,666) |
| Interest income (expense), net..... | (129) | 473 | 984 |
| Other income (expense), net..... | 124 | (93) | 14,887 |
| | ----- | ----- | ----- |
| Income (loss) before income taxes..... | (7,599) | (11,275) | 2,205 |
| Provision (benefit) for income taxes..... | (785) | (1,316) | 1,783 |
| | ----- | ----- | ----- |
| Net income (loss)..... | \$ (6,814) | \$ (9,959) | \$ 422 |
| | ===== | ===== | ===== |
| Net income (loss) per share: | | | |
| Basic..... | \$ (0.47) | \$ (0.77) | \$ 0.03 |
| | ===== | ===== | ===== |
| Diluted..... | \$ (0.47) | \$ (0.77) | \$ 0.03 |
| | ===== | ===== | ===== |
| Weighted average shares and share equivalents: | | | |
| Basic..... | 14,571 | 12,883 | 12,159 |
| | ===== | ===== | ===== |
| Diluted..... | 14,571 | 12,883 | 12,378 |
| | ===== | ===== | ===== |

The accompanying notes are an integral part of these consolidated financial statements

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INSIGNIA SOLUTIONS PLC
CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY
(amounts in thousands, except share data)

| | ORDINARY SHARES | | ADDITIONAL | ACCUMULATED | ACCUMULATED |
|----------------------------------|-----------------|---------|------------|-------------|---------------|
| | SHARES | AMOUNT | PAID-IN | DEFICIT | OTHER |
| | ----- | ----- | CAPITAL | ----- | COMPREHENSIVE |
| | | | | | LOSS |
| | ----- | ----- | ----- | ----- | ----- |
| Balances, December 31, 1997..... | 11,971,213 | \$3,954 | \$34,462 | \$ (27,432) | \$ (461) |
| Shares issued under employee | | | | | |

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| | | | | | |
|--|------------|---------|----------|-------------|----------|
| stock plans..... | 619,103 | 210 | 263 | -- | -- |
| Net income..... | -- | -- | -- | 422 | -- |
| | ----- | ----- | ----- | ----- | ----- |
| Balances, December 31, 1998..... | 12,590,316 | 4,164 | 34,725 | (27,010) | (461) |
| Shares issued under employee stock plans..... | 385,771 | 140 | 381 | -- | -- |
| Shares issued under private Placement..... | 1,063,515 | -- | -- | -- | -- |
| Net loss..... | -- | -- | -- | (9,959) | -- |
| | ----- | ----- | ----- | ----- | ----- |
| Balances, December 31, 1999..... | 14,039,602 | 4,304 | 35,106 | (36,969) | (461) |
| Shares issued under private Placement..... | -- | 340 | 2,279 | -- | -- |
| Shares issued under employee stock plans..... | 234,261 | 73 | 626 | -- | -- |
| Shares issued under line of credit..... | 19,994 | 6 | 242 | -- | -- |
| Shares issued for conversion of debt..... | 251,333 | 72 | 968 | -- | -- |
| Shares issued under private Placement..... | 3,600,000 | 1081 | 14,896 | -- | -- |
| Net loss..... | -- | -- | -- | (6,814) | -- |
| | ----- | ----- | ----- | ----- | ----- |
| Balances, December 31, 2000..... | 18,145,190 | \$5,876 | \$54,117 | \$ (43,783) | \$ (461) |
| | ===== | ===== | ===== | ===== | ===== |

The accompanying notes are an integral part of these consolidated financial statements.

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INSIGNIA SOLUTIONS PLC
CONSOLIDATED STATEMENT OF CASH FLOWS

(amounts in thousands)

| | YEAR ENDED DECEMBER 31, | | |
|---|-------------------------|------------|----------|
| | 2000 | 1999 | 1998 |
| | ----- | ----- | ----- |
| Cash flows from operating activities: | | | |
| Net income (loss)..... | \$ (6,814) | \$ (9,959) | \$ 422 |
| Adjustments to reconcile net income (loss) to net cash used in operating activities: | | | |
| Depreciation..... | 420 | 580 | 767 |
| Other..... | 40 | (58) | (14,731) |
| Net changes in assets and liabilities: | | | |
| Restricted cash..... | -- | 66 | (186) |
| Accounts receivable, net..... | (3,196) | 1,517 | 5,048 |
| Prepaid and other current assets..... | (50) | 477 | 142 |
| Other noncurrent assets..... | -- | 57 | 28 |
| Accounts payable..... | 389 | (948) | (92) |
| Accrued liabilities..... | 159 | (648) | (420) |
| Accrued royalties..... | (1,557) | (1,982) | (4,565) |
| Income taxes..... | 362 | (806) | 994 |
| Deferred revenue..... | (451) | 1,087 | (581) |

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| | | | |
|---|----------|----------|----------|
| Customer deposits..... | -- | -- | (513) |
| | ----- | ----- | ----- |
| Net cash used in operating activities..... | (10,698) | (10,617) | (13,687) |
| | ----- | ----- | ----- |
| Cash flows from investing activities: | | | |
| Proceeds from the sale of property and equipment..... | 3 | 140 | 140 |
| Purchases of property and equipment..... | (310) | (213) | (937) |
| Sales of short-term investments, net..... | -- | -- | 3,820 |
| Proceeds from sale of product line..... | -- | -- | 15,862 |
| Product line sale proceeds held in escrow..... | (290) | (320) | (9,100) |
| Product line sale proceeds released from escrow..... | 1,300 | 3,360 | -- |
| Proceeds from sale of minority share stock..... | 325 | -- | -- |
| | ----- | ----- | ----- |
| Net cash provided by investing activities..... | 1,028 | 2,967 | 9,785 |
| | ----- | ----- | ----- |
| Cash flows from financing activities: | | | |
| Payments made under capital leases..... | -- | (51) | (164) |
| Proceeds from convertible debt..... | -- | 1,000 | -- |
| Proceeds from share issuance for line of credit..... | 248 | -- | -- |
| Proceeds from issuance of shares, net..... | 15,977 | 4,059 | -- |
| Proceeds from exercise of stock options..... | 699 | 521 | 473 |
| | ----- | ----- | ----- |
| Net cash provided by financing activities..... | 16,924 | 5,529 | 309 |
| | ----- | ----- | ----- |
| Net increase(decrease) in cash and cash equivalents..... | 7,254 | (2,121) | (3,593) |
| Cash and cash equivalents at beginning of the year..... | 4,677 | 6,798 | 10,391 |
| | ----- | ----- | ----- |
| Cash and cash equivalents at the end of the year..... | \$11,931 | \$ 4,677 | \$ 6,798 |
| | ===== | ===== | ===== |
| Supplemental disclosure of cash flow information: | | | |
| Interest paid..... | \$ 209 | \$ 25 | \$ 22 |
| Supplemental non-cash investing and financing activities: | | | |
| Conversion from convertible debt..... | \$ 1,040 | \$ -- | \$ -- |

The accompanying notes are an integral part of these consolidated financial statements.

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INSIGNIA SOLUTIONS PLC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

ORGANIZATION AND BUSINESS

Insignia Solutions plc (the "Company"), which commenced operations in 1986, develops, markets and supports software technologies that speed the adoption of Java-based individualized computing in Internet appliances and embedded devices.

In January 1998, the Company announced its intention to launch a new product line called the Jeode-TM- platform, based on the Company's Embedded Virtual Machine ("EVM"-TM-) technology. This followed a strategic review in late 1997 of the Company's business. The Company also explored new markets that would leverage the Company's 12 years of emulation software development experience. The Jeode platform is the Company's implementation of Sun Microsystems, Inc.'s ("Sun") Java-Registered Trademark- technology tailored for Internet appliances and embedded devices. It leverages patent-pending intellectual property to provide these resource-constrained devices with high performance, fully-compatible Java applet and application support. The product became available for

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sale in March 1999. The Jeode platform is now the principal product line of the Company and will be for the foreseeable future. The Jeode product line revenue model is based on original equipment manufacturer's ("OEMs") and channel partner's customer transactions.

The Company's principal product line in recent years was SoftWindows-TM-. This product enabled Microsoft Windows ("Windows"-Registered Trademark-) applications to be run on most Apple Computer Inc. ("Apple"-Registered Trademark-) Macintosh computers and many UNIX workstations. Revenues from this product line grew until 1995, but declined significantly after that date, along with margins. This was due to a declining demand for Apple Macintosh products and increased competition. In early 1999 Company management took steps to discontinue the product line, and on October 18, 1999, the Company signed an exclusive licensing arrangement with FWB Software, LLC ("FWB"). Under the arrangement FWB will pay the Company a royalty based on an earn-out of FWB's future revenues from the product lines and the Company will be paid as those revenues are achieved. Upon achieving a certain revenue threshold, the SoftWindows and RealPC product lines will be transferred to FWB at no additional consideration.

The Company sold its NTRIGUE product line to Citrix Systems Inc. ("Citrix") in February 1998. NTRIGUE was a Windows compatibility client/server product that supported multiple X-terminals, workstation clients, Macintosh computers, PCs, network computers and NetPCs from a Windows NT-based server.

The principal markets for the Company's products are North America, Europe and Asia. The Company distributes its products through multiple distribution channels, including direct sales, distributors, resellers and original equipment manufacturers.

BASIS OF PRESENTATION

The Company follows accounting policies that are in accordance with principles generally accepted in the United States of America. The Company conducts most of its business in U.S. dollars. All amounts included in the financial statements and in the notes herein are in U.S. dollars unless designated "L", in which case they are in pounds sterling. The exchange rates between the U.S. dollar and the pound sterling were \$1.50, \$1.60 and \$1.67 (expressed in U.S. dollars per pound sterling) at December 31, 2000, 1999 and 1998, respectively.

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INSIGNIA SOLUTIONS PLC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 1--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED) USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent 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.

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All significant intercompany accounts and transactions are eliminated in consolidation.

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CASH, CASH EQUIVALENTS, AND RESTRICTED CASH

The Company considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. Cash, cash equivalents, and restricted cash at December 31, 2000 and 1999 are comprised of cash, restricted cash and certificates of deposit. Restricted cash, including \$5.1 million of cash and cash equivalents held in escrow at December 31, 2000, aggregated \$5.4 million and \$6.4 million at December 31, 2000 and 1999, respectively. Of these amounts \$0.4 million at December 31, 1999 and 1998 was restricted due to obligations under service contracts. The release of the balance is pending resolution of the indemnity claim from Citrix.

Certificates of deposit aggregated \$9.25 million and \$1.0 million at December 31, 2000 and 1999, respectively.

The Company has classified all its securities as "available-for-sale." The fair value of these securities, comprised primarily of certificates of deposit with commercial banks, approximates cost. These securities mature within one year.

REVENUE RECOGNITION

During fiscal 2000, the Company primarily entered into license arrangements for the sale of the Jeode product to OEM's and distributors. Prior to fiscal 2000, the Company's primary source of revenue was derived from packaged product licensing fees for the sale of the Company's SoftWindows-TM- products. Service revenues are derived from customer funded engineering activities, training and annual maintenance contracts.

Revenue from licenses are recognized when persuasive evidence of an agreement exists, delivery of the product has occurred, the fee is fixed and determinable, and collectibility is probable. For contracts with multiple elements, and for which vendor-specific objective evidence of fair value for the undelivered elements exists, the Company recognizes revenue for the delivered elements using the residual method as prescribed by Statement of Position No. 98-9, "Modification of SOP No. 97-2 with Respect to Certain Transactions". If vendor-specific objective evidence does not exist for all undelivered elements, all revenue is deferred until evidence exists, or all elements have been delivered. Generally the Company has vendor-specific objective evidence of fair value for the maintenance element of software arrangements based on the renewal rates for maintenance in future years as specified in the contracts. In such cases, the Company defers the maintenance revenue at the outset of the arrangement and recognizes it ratably over the period, during which the maintenance is to be provided, which

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INSIGNIA SOLUTIONS PLC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 1--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

generally commences on the date the software is delivered. Vendor-specific objective evidence of fair value for the service element is determined based on the price charged when those services are sold separately. The Company occasionally enters into license agreements with extended payment terms. Provided all other revenue criteria are met, revenue from these contracts is recognized at the earlier of when the cash is received from the customer or the payments become due and payable.

The Company also enters into license agreements with OEMs which provide for

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minimum guaranteed royalty payments throughout the term of the agreement. Provided all other revenue criteria are met, minimum guaranteed royalty revenue is recognized when the payments become due and payable. Royalty revenue that exceed the minimum guarantees is recognized as reported.

Revenue from OEMs for customer-funded engineering are recognized on a percentage of completion basis, which is computed using the input measure of labor cost. Revenues from training are recognized when the training is performed.

The Company does not grant return rights or price protection under license agreements for its Jeode product. The Company did grant return rights and price protection to certain resellers and distributors related to the sale of the SoftWindows product line during 1998 and 1999. The Company provided sales return allowances for distributor and resellers inventories of its SoftWindows products and certain rights of return and price protection on unsold merchandise held by those distributors and resellers. The Company provided sales returns allowances based on the Company's historical rates of return and estimates of expected sell through by distributors and resellers of its product.

License revenue and services revenue on contracts involving significant implementation, customization or services which are essential to the functionality of the software is recognized over the period of each engagement, using the percentage of completion method. Labor hours incurred is generally used as the measure of progress towards completion.

Payments from the sale of development licenses, royalties, customer funded engineering activities, training and maintenance contracts received in advance of revenue recognition are recorded as deferred revenue.

INVENTORIES

Inventories, principally finished software products, manuals and related supplies, are stated at the lower of cost or market value. Cost is determined using the first-in, first-out method. Provisions are made in each period for excess and obsolete inventories.

EQUIPMENT AND DEPRECIATION

Property and equipment is recorded at cost. Depreciation is provided using the straight-line method over the estimated useful lives which range from three to four years or the lease term if shorter.

FOREIGN CURRENCY TRANSLATION

The Company's primary functional currency for its non-U.S. operations is the U.S. dollar. Certain monetary assets and liabilities of the non-U.S. operating companies are denominated in local currencies (i.e. not the U.S. dollar). Upon a change in the exchange rate between the non-U.S. currency and the

INSIGNIA SOLUTIONS PLC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 1--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

U.S. dollar, the Company must remeasure the local non-U.S. denominated assets and liabilities to avoid carrying unrealized gains or losses on its balance sheet. Non-U.S. dollar denominated monetary assets and liabilities are remeasured using the exchange rate in effect at the balance sheet date, while nonmonetary items are remeasured at historical rates. Revenues and expenses are

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translated at the average exchange rates in effect during each period, except for those expenses related to balance sheet amounts which are translated at historical exchange rates. Remeasurement adjustments and transaction gains or losses are recognized in the income statement during the period of occurrence. During its early years of existence, the Company used the pound sterling as the functional currency for its non-U.S. operations. Accordingly, translation gains and losses recognized during such periods have been included in the cumulative currency translation adjustments account.

FOREIGN CURRENCY FINANCIAL INSTRUMENTS

The Company enters into currency option contracts to hedge against exchange risks associated with the pound sterling denominated operating expenses of its U.K. operations. The gains and losses on these contracts are generally included in the statement of operations when the related operating expenses are recognized. At December 31, 2000 and 1999, there were no outstanding currency options. From time to time, the Company also enters into short-term forward exchange contracts. The Company generally does not use hedge accounting for the forward exchange contracts. Such contracts are marked to market at period ends. No forward exchange contracts were outstanding at December 31, 2000 and 1999.

SOFTWARE DEVELOPMENT COSTS

The Company capitalizes internal software development costs incurred after technological feasibility has been demonstrated. The Company defines establishment of technological feasibility as the completion of a working model. Such capitalized amounts are amortized commencing with the introduction of that product at the greater of the straight-line basis utilizing its estimated economic life, generally six months to one year, or the ratio of actual revenues achieved to the total anticipated revenues over the life of the product. At December 31, 2000 and 1999, capitalized software development costs were fully amortized.

STOCK-BASED COMPENSATION

The Company accounts for its employee stock option plans and employee stock purchase plan in accordance with provisions of the Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25"), and complies with the disclosure provision of Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" ("FAS 123") in these notes to consolidated financial statements. Under APB No. 25, compensation costs is determined based on the difference, if any, on the grant date between the fair value of the Company's stock and the amount an employee must pay to acquire the stock.

Stocks, stock options, and warrants for stock issued to non-employees have been accounted for in accordance with the provisions of SFAS 123 and Emerging Issue Task Force Issue No. 96-18, ("EITF 96-18") "Accounting for Equity Instruments That are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling, Goods and Services".

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INSIGNIA SOLUTIONS PLC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 1--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED) INCOME TAXES

The Company accounts for income taxes under an asset and liability approach that requires the recognition of deferred tax assets and liabilities for the

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expected future tax consequences of events that have been recognized in the Company's financial statements or tax returns. In estimating future tax consequences, the Company generally considers all expected future events other than enactments of changes in the tax law or rates.

CONCENTRATIONS OF RISK

Financial instruments that potentially subject the Company to significant concentrations of credit risk consist principally of cash, cash equivalents, restricted cash, short-term investments and trade accounts receivable. The Company places its cash, cash equivalents, restricted cash and short-term investments primarily in bank accounts and certificates of deposit with high credit quality financial institutions.

The Jeode platform is the Company's principal product line for the foreseeable future and generated 98% of the Company's total revenues for 2000.

The Company sells its products primarily to original equipment manufacturers and distributors. The Company performs ongoing credit evaluations of its customers' financial condition and generally requires no collateral from its customers. The Company maintains an allowance for uncollectible accounts receivable based upon the expected collectibility of all accounts receivable. At December 31, 2000, two customers accounted for 43% and 25%, respectively, of gross trade receivables. At December 31, 1999, three customers accounted for 36%, 18% and 12%, respectively, of gross trade receivables.

In the first quarter of 1999, the Company signed a five-year agreement with Sun Microsystems, Inc. ("Sun"), under which Sun established the Company as a Sun Authorized Virtual Machine provider. Under the agreement, the Company will pay Sun a per unit royalty on each Jeode-enabled OEM product shipped by the Company's customers, plus a royalty on all development licenses between the Company and its customers. If the agreement with Sun terminates or expires without renewal, the Company would not be able to market the Company's Jeode product line.

ADVERTISING COSTS

The Company expenses advertising costs as incurred. Advertising expense totaled \$0.2 million, \$0.6 million, and \$1.4 million for the years ended December 31, 2000, 1999 and 1998, respectively.

COMPREHENSIVE INCOME

Statement of Financial Accounting Standards No. 130, "Reporting Comprehensive Income" ("FAS 130"), requires that all items recognized under accounting standards as components of comprehensive earnings be reported in an annual statement that is displayed with the same prominence as other annual financial statements. FAS 130 also requires that an entity classify items of other comprehensive earnings by their nature in an annual financial statement. Comprehensive income, as defined, includes all changes in equity during a period from non-owner sources.

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INSIGNIA SOLUTIONS PLC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 1--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)
NET INCOME (LOSS) PER SHARE

Basic net income (loss) per share is computed using the weighted average

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number of ordinary shares outstanding during the period. Diluted net income (loss) per share is computed using the weighted average number of ordinary shares and ordinary share equivalents outstanding during the period. Ordinary equivalent shares consist of warrants and stock options (using the treasury stock method). Ordinary equivalent shares are excluded from the computation if their effect is antidilutive

RECLASSIFICATIONS

Certain previously reported amounts have been reclassified to conform with the current period presentation.

NEW ACCOUNTING PRONOUNCEMENTS

In September 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standard No. 133 "Accounting for Derivative Instruments and Hedging Activities" ("SFAS 133"). SFAS 133 establishes accounting and reporting standards for derivative instruments and for hedging activities. This statement becomes effective for all fiscal quarters of fiscal years beginning after June 15, 1999. In June 1999, the FASB issued Statement of Financial Accounting Standard No. 137 "Accounting for Derivative Instruments--Deferral of the Effect Date of SFAS Statement No. 133" ("SFAS 137"). SFAS 137 defers the effective date of SFAS 133 until June 15, 2000. In June 2000, the Financial Accounting Standards Board issued SFAS 138, "Accounting for Derivative Instruments and Hedging Activities--An Amendment of FASB Statement 133". SFAS 138 amends the accounting and reporting standards for certain derivatives and hedging activities such as net settlement contracts, foreign currency transactions and intercompany derivatives. The Company will adopt SFAS 133 in 2001. The Company has not engaged in derivatives or hedging activities since early 1998 and does not expect the adoption of SFAS 133 and SFAS 138 to have a material impact on the financial position or results of operations.

In December 1999, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 101 ("SAB 101"), "Revenue Recognition in Financial Statements". SAB 101 provides guidance for revenue recognition under certain circumstances. The adoption of SAB 101 did not have a material impact on the financial statements.

In March 2000, the Financial Accounting Standards Board ("FASB") issued FASB Interpretation No. 44 "Accounting for Certain Transactions Involving Stock Compensation--an interpretation of APB Opinion No. 25". This interpretation has provisions that are effective on staggered dates, some of which began after December 15, 1998 and others that become effective after June 30, 2000. The adoption of this interpretation did not have a material impact on the financial statements.

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INSIGNIA SOLUTIONS PLC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 2--BALANCE SHEET DETAIL:

The following table provides details of the major components of the indicated balance sheet accounts (in thousands):

| DECEMBER 31, | |
|--------------|------|
| ----- | |
| 2000 | 1999 |

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| | | |
|--|----------|----------|
| Accounts receivables, net: | | |
| Trade accounts receivable, gross..... | \$ 3,427 | \$ 280 |
| Less allowance for doubtful accounts..... | (42) | (58) |
| Less allowance for sales returns..... | -- | (33) |
| | ----- | ----- |
| | \$ 3,385 | \$ 189 |
| | ===== | ===== |
| Property and equipment, net: | | |
| Computers and other equipment..... | \$ 2,148 | \$ 2,277 |
| Leasehold improvements..... | 488 | 450 |
| Furniture and fixtures..... | 132 | 121 |
| | ----- | ----- |
| | 2,768 | 2,848 |
| Less accumulated depreciation..... | (2,256) | (2,223) |
| | ----- | ----- |
| | \$ 512 | \$ 625 |
| | ===== | ===== |
| Accrued liabilities: | | |
| Accrued legal and professional services..... | \$ 775 | \$ 653 |
| Accrued compensation and payroll taxes..... | 750 | 494 |
| Other..... | 308 | 527 |
| | ----- | ----- |
| | \$ 1,833 | \$ 1,674 |
| | ===== | ===== |

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INSIGNIA SOLUTIONS PLC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 3--STOCK PLANS:

The Company has four stock option plans, which provide for the issuance of stock options to employees of the Company to purchase Ordinary shares. At December 31, 2000 and 1999, respectively, approximately 641,931 and 909,853 Ordinary shares were available for future grants of stock options. Stock options are generally granted at prices of not less than 100% of the fair market value of the Ordinary shares on the date of grant, as determined by the Board of Directors.

The following table summarizes activity on stock options:

| | 1986 AND 1996 U.K. SHARE OPTION SCHEMES | 1988 AND 1995 U.S. STOCK OPTION PLANS | TOTAL | WEIG AVER EXERCIS |
|---------------------------------------|--|--|-------------|-------------------------|
| | ----- | ----- | ----- | ----- |
| Outstanding at December 31, 1997..... | 1,026,519 | 1,944,335 | 2,970,854 | \$2 |
| Granted..... | 143,250 | 888,750 | 1,032,000 | \$1 |
| Exercised..... | (396,000) | (95,000) | (491,000) | \$0 |
| Lapsed..... | (205,977) | (1,033,744) | (1,239,721) | \$2 |
| | ----- | ----- | ----- | ----- |
| Outstanding at December 31, 1998..... | 567,792 | 1,704,341 | 2,272,133 | \$1 |

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| | | | | |
|---------------------------------------|----------|-----------|-----------|-----|
| Granted..... | 171,000 | 425,000 | 596,000 | \$4 |
| Exercised..... | (69,859) | (144,459) | (214,318) | \$1 |
| Lapsed..... | (47,470) | (255,372) | (302,842) | \$1 |
| | ----- | ----- | ----- | --- |
| Outstanding at December 31, 1999..... | 621,463 | 1,729,510 | 2,350,973 | \$2 |
| | ----- | ----- | ----- | --- |
| Granted..... | 88,000 | 797,400 | 885,400 | \$6 |
| Exercised..... | (41,190) | (149,888) | (191,078) | \$2 |
| Lapsed..... | (63,995) | (153,483) | (217,478) | \$3 |
| | ----- | ----- | ----- | --- |
| Outstanding at December 31, 2000..... | 604,278 | 2,223,539 | 2,827,817 | \$3 |
| | ===== | ===== | ===== | == |

Options granted under the Company's option plans generally vest over a four year period. Options are exercisable until the tenth anniversary of the date of grant unless they lapse before that date. Options to purchase 1,406,850 and 1,000,517 shares were exercisable at December 31, 2000 and 1999, respectively.

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INSIGNIA SOLUTIONS PLC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 3--STOCK PLANS: (CONTINUED)

The following table summarizes information about the Company's stock options outstanding and exercisable at December 31, 2000:

Options outstanding at December 31, 2000:

| RANGE OF EXERCISE PRICES | NUMBER OUTSTANDING | WEIGHTED AVERAGE REMAINING CONTRACTUAL LIFE | WEIGHTED AVERAGE EXERCISE PRICE |
|--------------------------|-----------------------|--|---------------------------------------|
| ----- | ----- | ----- | ----- |
| \$0.01 - \$2.00..... | 1,050,819 | 6.0 years | \$ 1.49 |
| \$2.01 - \$4.00..... | 499,334 | 6.5 years | \$ 2.38 |
| \$4.01 - \$6.00..... | 786,914 | 8.7 years | \$ 5.00 |
| \$6.01 - \$8.00..... | 287,250 | 9.3 years | \$ 6.00 |
| \$8.01 - \$10.00..... | 85,000 | 9.6 years | \$ 8.00 |
| \$10.01 - \$12.00..... | 118,500 | 9.5 years | \$11.00 |
| | ----- | ----- | ----- |
| | 2,827,817 | 7.4 years | \$ 3.00 |
| | ===== | ===== | ===== |

Options exercisable at December 31, 2000:

| RANGE OF EXERCISE PRICES | NUMBER EXERCISABLE | WEIGHTED AVERAGE EXERCISE PRICE |
|--------------------------|-----------------------|---------------------------------------|
| ----- | ----- | ----- |
| \$0.01 - \$2.00..... | 636,147 | \$ 1.49 |
| \$2.01 - \$4.00..... | 435,258 | \$ 2.38 |

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| | | |
|------------------------|-----------|---------|
| \$4.01 - \$6.00..... | 263,737 | \$ 5.31 |
| \$6.01 - \$8.00..... | 38,375 | \$ 6.51 |
| \$8.01 - \$10.00..... | -- | -- |
| \$10.01 - \$12.00..... | 33,333 | \$11.13 |
| | ----- | ----- |
| | 1,406,850 | \$ 2.85 |
| | ===== | ===== |

In March 1995, the Company's shareholders adopted the 1995 Employee Share Purchase Plan (the "Purchase Plan") with 275,000 Ordinary shares reserved for issuance thereunder. On July 21, 1998 the number of shares reserved for issuance was increased to 525,000. On May 27, 1999 the number was further increased to 900,000. On The Purchase Plan enables employees to purchase Ordinary shares at approximately 85% of the fair market value of the Ordinary shares at the beginning or end of each six month offering period. The Purchase Plan qualifies as an "employee stock purchase plan" under section 423 of the U.S. Internal Revenue Code. During 2000, 1999 and 1998 the Company issued 43,183, 171,453 and 128,103 shares under the Purchase Plan, respectively. At December 31, 2000 and 1999 approximately 346,979 and 390,162 ordinary shares were reserved for future Purchase Plan issuances, respectively.

FAIR VALUE DISCLOSURES

Had the compensation cost for the Company's stock option plans and the Purchase Plan been determined based on the fair value at the grant dates, as prescribed in FAS 123, the net income (loss)

INSIGNIA SOLUTIONS PLC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 3--STOCK PLANS: (CONTINUED)

and net income (loss) per share would have been adjusted to the pro-forma amounts indicated below (in thousands, except per share data):

| | YEAR ENDED DECEMBER 31, | | |
|--------------------------------------|-------------------------|------------|---------|
| | 2000 | 1999 | 1998 |
| | ----- | ----- | ----- |
| Net income (loss): | | | |
| As reported..... | \$ (6,814) | \$ (9,959) | \$ 422 |
| Pro forma..... | (9,134) | (11,456) | (756) |
| Basic net income (loss) per share: | | | |
| As reported..... | \$ (0.47) | \$ (0.77) | \$ 0.03 |
| Pro forma..... | (0.63) | (0.89) | (0.06) |
| Diluted net income (loss) per share: | | | |
| As reported..... | \$ (0.47) | \$ (0.77) | \$ 0.03 |
| Pro forma..... | (0.63) | (0.89) | (0.06) |

In accordance with the disclosure provisions of FAS 123, the fair value of employee stock options granted during fiscal 2000, 1999 and 1998 was estimated at the date of grant using the Black-Scholes model and the following weighted average assumptions:

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| | YEAR ENDED DECEMBER 31, | | |
|------------------------------------|-------------------------|------------|-----------|
| | 2000 | 1999 | 1998 |
| Volatility range..... | 118% | 113% | 171 |
| Risk-free interest rate range..... | 4.6 - 6.7% | 4.6 - 6.2% | 4.2 - 5.6 |
| Dividend yield..... | 0% | 0% | 0 |
| Expected option term..... | 4 yrs | 4 yrs | 4 yrs |

NOTE 4--INCOME TAXES:

The components of income (loss) before income taxes are as follows (in thousands):

| | YEAR ENDED DECEMBER 31, | | |
|---|-------------------------|-------------|------------|
| | 2000 | 1999 | 1998 |
| United States..... | \$ (3,146) | \$ (3,705) | \$ (4,241) |
| United Kingdom and other countries..... | (4,453) | (7,570) | 6,446 |
| | \$ (7,599) | \$ (11,275) | \$ 2,205 |

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INSIGNIA SOLUTIONS PLC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 4--INCOME TAXES: (CONTINUED)

The components of the provision (benefit) for income taxes are as follows (in thousands):

| | YEAR ENDED DECEMBER 31, | | |
|---|-------------------------|------------|----------|
| | 2000 | 1999 | 1998 |
| Current: | | | |
| U.S. federal..... | \$ -- | \$ -- | \$ (76) |
| U.S. state and local..... | 2 | 18 | 100 |
| United Kingdom and other countries..... | (787) | (1,334) | 1,759 |
| Total current..... | (785) | (1,316) | 1,783 |
| Total provision (benefit)..... | \$ (785) | \$ (1,316) | \$ 1,783 |

The Company's actual provision differs from the provision (benefit) computed by applying the statutory federal income tax rate to income (loss) before income

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taxes as follows:

| | YEAR ENDED DECEMBER 31, | |
|---|-------------------------|---------|
| | 2000 | 1999 |
| U.S. federal statutory rate..... | (34.0)% | (34.0)% |
| State and local taxes, net of U.S. federal benefit..... | -- | 0.2 |
| Foreign income taxes at other than U.S. rate..... | (10.4) | (11.9) |
| Utilization of operating loss carryforwards..... | -- | -- |
| Reserve for net deferred tax assets..... | 34.0 | 34.0 |
| Effective tax rate..... | (10.4)% | (11.7)% |

The components of net deferred income tax assets are as follows (in thousands):

| | YEAR ENDED DECEMBER 31, | | |
|--|-------------------------|----------|---------|
| | 2000 | 1999 | 1998 |
| Net operating loss carryforwards..... | \$13,959 | \$ 9,456 | \$6,947 |
| Tax credit carryforwards..... | 1,120 | 1,120 | 1,082 |
| Sales return allowance..... | -- | 13 | 384 |
| Accrued expenses, allowance and other temporary differences..... | 258 | 261 | 657 |
| Net deferred tax assets before valuation allowance..... | 15,337 | 10,850 | 9,070 |
| Deferred tax asset valuation allowance..... | (15,337) | (10,850) | (9,070) |
| Net deferred taxes..... | \$ -- | \$ -- | \$ -- |

At December 31, 2000, the Company had available net operating loss carryforwards of approximately \$29 million, \$14 million and \$10 million for U.S. Federal, State and United Kingdom tax purposes, respectively. If unutilized, these net operating loss carryforwards will completely expire in 2011, 2020 and unlimited, respectively. For U.S. federal and state tax purposes, a portion of the Company's net operating loss carryforwards may be subject to certain limitations on annual utilization in case of a change in ownership, as defined by federal and state tax law.

At December 31, 2000, the Company's deferred tax assets relate primarily to its United States and United Kingdom operations. Management believes that, based on such factors as recent and potential

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fluctuations in operating results, it is more likely than not that the United States and the United Kingdom operations will not generate sufficient future taxable income, and thus a full valuation allowance has been recorded at December 31, 2000. If the Company generates taxable income in future years, the valuation allowance may be reduced, which correspondingly may reduce the Company's tax provision.

NOTE 5--EMPLOYEE PENSION PLANS:

The Company has a 401(k) plan covering all of its U.S. employees and a defined contribution pension plan covering all its United Kingdom employees. Under both of these plans, employees may contribute a percentage of their compensation and the Company makes certain matching contributions. Both the employees' and the Company's contributions are fully vested and nonforfeitable at all times. The assets of both these plans are held separately from those of the Company in independently managed and administered funds. The Company's contributions to these plans aggregated \$215,000 in 2000, \$202,000 in 1999 and \$182,000 in 1998.

NOTE 6--NET INCOME (LOSS) PER SHARE:

| | YEAR ENDED DECEMBER 31, | | |
|--|---------------------------------------|------------|---------|
| | 2000 | 1999 | 1998 |
| | (in thousands, except per share data) | | |
| Net income (loss)..... | \$ (6,814) | \$ (9,959) | \$ 422 |
| | ===== | ===== | ===== |
| CALCULATION OF BASIC NET INCOME (LOSS) PER SHARE: | | | |
| Weighted average number of shares outstanding used in computation..... | 14,571 | 12,883 | 12,159 |
| | ===== | ===== | ===== |
| Basic net income (loss) per share..... | \$ (0.47) | \$ (0.77) | \$ 0.03 |
| | ===== | ===== | ===== |
| CALCULATION OF DILUTED NET INCOME (LOSS) PER SHARE: | | | |
| Weighted average number of shares outstanding used in computation..... | 14,571 | 12,883 | 12,159 |
| Net effect of dilutive stock options, warrants and convertible securities outstanding..... | -- | -- | 219 |
| | ----- | ----- | ----- |
| Weighted average number of shares and share equivalents..... | 14,571 | 12,883 | 12,378 |
| | ===== | ===== | ===== |
| Diluted net income (loss) per share..... | \$ (0.47) | \$ (0.77) | \$ 0.03 |
| | ===== | ===== | ===== |

NOTE 7--COMMITMENTS AND CONTINGENCIES:

LEASE COMMITMENTS

The Company is party to a number of noncancelable operating and capital lease agreements.

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NOTE 7--COMMITMENTS AND CONTINGENCIES: (CONTINUED)

Computer and other equipment under capital leases were as follows (in thousands):

| | YEAR ENDED DECEMBER 31, | | |
|--|----------------------------|-------|--------|
| | 2000 | 1999 | 1998 |
| Computer and other equipment, at cost..... | \$ -- | \$ -- | \$ 593 |
| Less accumulated amortization..... | -- | -- | (546) |
| Computer and other equipment, net..... | \$ -- | \$ -- | \$ 47 |

Amortization of leased computers and other equipment under capital leases was \$0, \$47,000 and \$50,000 in 2000, 1999 and 1998, respectively.

The following are future minimum payments under operating leases as of December 31, 2000 (in thousands):

| | OPERATING LEASES |
|-----------------------------------|---------------------|
| Year ending December 31, | |
| 2001..... | \$ 665 |
| 2002..... | 937 |
| 2003..... | 392 |
| 2004..... | 339 |
| 2005..... | 339 |
| Thereafter..... | 2,585 |
| Total minimum lease payments..... | \$5,257 |

Operating lease commitments above are net of sublease income of \$715,000, \$169,000 and \$0 in 2001, 2002 and 2003, respectively. The rental expense under all operating leases was \$709,000, \$763,000, and \$791,000 in 2000, 1999 and 1998, respectively. Rental expense was net of sublease rental income of \$755,000 in 2000, \$800,000 in 1999 and \$559,000 in 1998.

ROYALTY AGREEMENT

In the first quarter of 1999, the Company signed a five-year agreement with Sun Microsystems, Inc. ("Sun"), under which Sun established the Company as a Sun Authorized Virtual Machine provider. The agreement also grants the Company immediate access to the Java compatibility test suite and the Java technology source code. The agreement includes technology sharing and compatibility verification. Under the agreement, the Company will pay Sun a per unit royalty on each Jeode-enabled OEM product shipped by the Company's customers, plus a royalty on all development licenses between the Company and its customers. If the agreement with Sun terminates or expires without renewal, the Company would not be able to market the Company's Jeode product line.

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The Company had a non-exclusive, worldwide license from Microsoft ("Microsoft Distribution Agreement") to reproduce, adapt and distribute the currently available versions of Windows and MS-DOS that were included as a component of the Company's SoftWindows products. The Company paid Microsoft a per unit royalty for copies of the Company's products sold that included a version of

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INSIGNIA SOLUTIONS PLC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 7--COMMITMENTS AND CONTINGENCIES: (CONTINUED)

Windows and MS-DOS. The Microsoft Distribution Agreement expired on October 31, 1999. The Company did not renew the agreement.

EMPLOYMENT AGREEMENTS

The Company has entered into three employment agreements with key executives which would require the Company to continue to pay salary for up to one year if any of these employees is terminated under certain circumstances as specified in the agreements.

NOTE 8--SEGMENT REPORTING:

Statement of Financial Accounting Standards 131, "Disclosures about Segments of an Enterprise and Related Information" ("SFAS 131"), provides for segment reporting based upon the "management" approach. The management approach designates the internal organization that is used by management for making operating decisions and assessing performance as the source of the Company's reportable segments. SFAS 131 also requires disclosures about products and services, geographic areas, and major customers

The Company operates in a single industry segment providing virtual machine technology which enables software applications to be run on various computer platforms. In 2000, Wind River Systems, Inc., Gemstar International Group, Ltd., Quantum Corporation and Victor Data Systems Company Ltd. accounted for 22%, 18%, 15%, and 14%, respectively, of total revenues. In 1999, Quantum Corporation accounted for 23% of total revenues. In 1998, Ingram Micro U.S. and Sun Microsystems Inc. each accounted for 27% of total revenues. No other customer accounted for 10% or more of the Company's total revenues during 2000, 1999 or 1998.

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INSIGNIA SOLUTIONS PLC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 8--SEGMENT REPORTING: (CONTINUED)

GEOGRAPHIC INFORMATION

Financial information by geographical region is summarized below (in thousands):

YEAR ENDED DECEMBER 31,

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| | 2000 | 1999 | 1998 |
|--|------------|-------------|-------------|
| | ----- | ----- | ----- |
| Revenues from unaffiliated customers: | | | |
| United States..... | \$ 10,577 | \$ 6,203 | \$ 11,960 |
| International..... | 189 | 634 | 2,136 |
| | ----- | ----- | ----- |
| Consolidated..... | \$ 10,766 | \$ 6,837 | \$ 14,096 |
| | ===== | ===== | ===== |
| Intercompany revenues: | | | |
| United States..... | \$ 127 | \$ 406 | \$ 1,637 |
| International..... | 4,931 | 880 | 1,280 |
| | ----- | ----- | ----- |
| Consolidated..... | \$ 5,058 | \$ 1,286 | \$ 2,917 |
| | ===== | ===== | ===== |
| Operating loss: | | | |
| United States..... | \$ (2,692) | \$ (3,389) | \$ (4,168) |
| International..... | (4,902) | (8,266) | (9,498) |
| | ----- | ----- | ----- |
| Consolidated..... | \$ (7,594) | \$ (11,655) | \$ (13,666) |
| | ===== | ===== | ===== |
| Identifiable assets: | | | |
| United States..... | \$ 6,108 | \$ 3,321 | \$ 4,366 |
| International..... | 38,271 | 24,207 | 26,077 |
| Intercompany items and eliminations..... | (22,043) | (14,244) | (9,432) |
| | ----- | ----- | ----- |
| Consolidated..... | \$ 22,336 | \$ 13,284 | \$ 21,011 |
| | ===== | ===== | ===== |
| Long-lived assets: | | | |
| United States..... | \$ 135 | \$ 470 | \$ 794 |
| International..... | 22,670 | 14,974 | 10,344 |
| Intercompany items and eliminations..... | (22,043) | (14,244) | (9,432) |
| | ----- | ----- | ----- |
| Consolidated..... | \$ 762 | \$ 1,200 | \$ 1,706 |
| | ===== | ===== | ===== |

All of the international revenues and substantially all of the international identifiable assets relate to the Company's operations in the United Kingdom. Intercompany sales are accounted for at prices intended to approximate those that would be charged to unaffiliated customers.

Financial information by line of product is summarized below (in thousands):

| | YEARS ENDED DECEMBER 31, | | |
|------------------|--------------------------|---------|----------|
| | 2000 | 1999 | 1998 |
| | ----- | ----- | ----- |
| Jeode..... | \$10,590 | \$1,590 | \$ -- |
| SoftWindows..... | 176 | 5,247 | 14,096 |
| | ----- | ----- | ----- |
| Total..... | \$10,766 | \$6,837 | \$14,096 |
| | ===== | ===== | ===== |

Revenues from United States operations included export sales of \$1,726,000, \$402,000 and \$1,290,000 in 2000, 1999 and 1998, respectively, which were primarily to customers in Asia and Europe.

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INSIGNIA SOLUTIONS PLC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 8--SEGMENT REPORTING: (CONTINUED)

Revenue by geographic area for the year ended December 31, 2000 is as follows (in thousands):

| | U.S. | U.S. EXPORTS | EUROPE | T |
|----------------------------------|---------|--------------|--------|-----|
| OEM..... | \$4,931 | \$ 496 | \$148 | \$ |
| Distributor..... | 3,785 | 1,170 | -- | |
| End user..... | 135 | 60 | 41 | |
| Total..... | \$8,851 | \$1,726 | \$189 | \$1 |
| Percentage of total revenue..... | 82% | 16% | 2% | |

Revenue by geographic area for the year ended December 31, 1999 is as follows (in thousands):

| | U.S. | U.S. EXPORTS | EUROPE |
|----------------------------------|---------|--------------|--------|
| OEM..... | \$2,050 | \$ -- | \$ -- |
| Distributor..... | 3,505 | 388 | 506 |
| End user..... | 210 | 14 | 124 |
| Other..... | 36 | -- | 4 |
| Total..... | \$5,801 | \$402 | \$634 |
| Percentage of total revenue..... | 85% | 6% | 9% |

Revenue by geographic area for the year ended December 31, 1998 is as follows (in thousands):

| | U.S. | U.S. EXPORTS | EUROPE | TO |
|----------------------------------|----------|--------------|---------|------|
| Distributor..... | \$ 9,525 | \$1,306 | \$2,119 | \$12 |
| End user..... | 1,033 | -- | 9 | 1 |
| Other..... | 96 | -- | 8 | |
| Total..... | \$10,654 | \$1,306 | \$2,136 | \$14 |
| Percentage of total revenue..... | 76% | 9% | 15% | |

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There were no European countries that accounted for more than 10% of total revenue.

NOTE 9--PRIVATE PLACEMENT AND WARRANTS:

RECENT SALES OF UNREGISTERED SECURITIES

On December 9, 1999, the Company entered into agreements whereby the Company issued 1,063,515 Ordinary Shares in ADS form at a price of \$4.23 per share to Castle Creek Technology Partners LLC and four other investors of whom one is a member of the Company's board of directors. The Company also issued warrants to the purchasers to purchase a total of 319,054 ADSs at the price of \$5.29 per share. The warrants expire on December 9, 2004. The Company received \$4.5 million less offering expenses totaling \$0.4 million. The securities were issued by the Company in reliance upon the exemption from registration provided under Rule 506 of Regulation D promulgated under the Securities Act to five accredited investors in a transaction not involving any public offering. An issuance of shares and warrants on November 24, 2000 has had a dilutive effect on the warrants issued in the December 9, 1999 placement, resulting in an increase in the number of ADSs issuable to 353,834, and

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INSIGNIA SOLUTIONS PLC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 9--PRIVATE PLACEMENT AND WARRANTS: (CONTINUED)

a decrease of the exercise price to \$4.77. An issuance of shares and warrants on February 12, 2001 also triggered the anti-dilution provisions of the placement of December 9, 1999. However, the effect of such dilution was less than 1% of the exercise price, and consequently such adjustment is deferred until such time as the accumulation of this adjustment and future adjustments exceed at least 1% of the exercise price.

During 2000, the Company issued a total of 19,994 Ordinary Shares in ADS form at various prices, ranging from \$6.281 to \$16.50 to a director of the Company, as payment for drawdown fees under a Line of Credit arrangement entered into in March 2000. The securities were issued in reliance upon the exemption from registration provided under Section 4 (2) of the Securities Act.

On November 24, 2000 the Company entered into agreements whereby the Company issued 3,600,000 Ordinary Shares in ADS form at a price of \$5.00 to a total of 23 investors, including Sun Microsystems, BSquare, and a member of the Company's board of directors. The Company also issued warrants to purchase 1,800,000 ADSs to the investors at an exercise price of the lower of the average quoted closing sale price of the Company's ADS's for the ten trading days ending on the day preceding the date of the warrant holder's intent to exercise less a 10% discount, and \$6.00. The warrants expire on November 24, 2003, however, subject to certain conditions, if the quoted sale price of the ADSs exceed \$9.00 per share for any thirty consecutive trading days, the Company may cancel the warrants upon sixty days prior written notice. The Company received \$18.0 million less offering expenses totaling \$2.0 million. The Company also issued warrants to purchase 225,000 ADSs to the placement agent exercisable at a price of \$5.00. These warrants expire on November 24, 2005. The securities were issued by the Company in reliance upon the exemption from registration provided under Rule 506 of Regulation D promulgated under the Securities Act to 23 accredited investors in a transaction not involving any public offering.

On December 31, 2000 the Company issued a total of 251,333 Ordinary Shares in ADS form to Quantum Peripherals (Europe) SA, at a per share price of \$4.23 per share under the terms of a convertible promissory note entered into on

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October 20, 1999. The securities were issued in reliance upon the exemption from registration provided under Section 4 (2) of the Securities Act based on the fact that the shares were sold by the issuer in a sale not involving a public offering.

DILUTION ADJUSTMENTS

In December 1999, the Company issued 1,063,515 Ordinary Shares in ADS form at a price of \$4.23 per share through a private placement. The Company received \$4.5 million less offering expenses totaling \$0.4 million. Along with ADSs, the Company also issued to the investors warrants that entitle them to purchase a total of 319,054 ADSs at an exercise price of \$5.29 per ADS. As described below, the exercise price and the number of ADSs issuable under the warrants are subject to various adjustments. In addition, the Company may issue additional warrants that entitle the investors to purchase ADSs at the nominal value on designated adjustment dates in the future.

Under the December 1999 private placement, the investors received warrants to purchase three ADSs for every 10 ADSs they purchased. The exercise price of the warrants was set at 125% of the original per ADS purchase price, or \$5.29. However, the warrants contain anti-dilution provisions which decrease this exercise price and increase the number of ADSs purchasable if the Company sells or is deemed to sell any shares at below market price during the term of the warrants, which ends on December 9, 2004. The private placement that closed on November 24, 2000 was a sale which triggered the anti-dilution provisions in the warrants, and, as a consequence, the exercise price of the warrants

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INSIGNIA SOLUTIONS PLC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 9--PRIVATE PLACEMENT AND WARRANTS: (CONTINUED)

has been decreased from \$5.29 to \$4.77 per ADS, and the number of ADSs purchasable has increased to 353,834. The private placement on February 12, 2001 also triggered the anti-dilution provisions of the issuance of December 9, 1999. However, the effect of such dilution was less than 1% of the exercise price and consequently such adjustment is deferred until such time as the accumulation of this adjustment and future adjustments exceed at least 1% of the exercise price.

As part of their warrant agreements, the investors may be entitled to cash payments upon the occurrence of certain Major Transactions, as defined in the warrant agreements, including change of control provisions. Cash payments are determined in a methodology described in the agreement. Such methodology is impacted by market price. A Major Transaction is defined as a merger, reorganization, or sale of all or substantially all of the assets of the Company in which the stockholders of the Company immediately prior to the transaction possess less than 50% of the voting power of the surviving entity (or its parent) immediately after the transaction.

Under the December 1999 private placement, the investors were entitled to additional warrants to purchase ADS's at L0.20 nominal value per share if the average of the closing bid price of the ADS's over the ten days before an adjustment date was less than \$4.23. The adjustment dates commenced on March 10, 2000 and occurred on the 10th of each month through March 10, 2001, inclusive. The rights for an adjustment date to occur would terminate upon release of at least \$4.75 million of the funds held in escrow by Citrix on December 9, 1999. However, not enough of the funds held were released to trigger this termination. As calculated the average bid price of the Company's ADS's on all the adjustment dates exceeded \$4.23 per share and consequently no adjustment occurred. The adjustment rights have now expired.

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The Company obtained a third-party valuation to allocate fair value to amounts received from the private placement between the ADSs and the warrants. In 1999 the amount allocated to mandatorily redeemable warrants totaled \$1.440 million, of which \$0.590 million was allocated to the warrant, and \$0.850 million was allocated to the additional warrant. Of the remaining net proceeds received, \$2.619 million was allocated to mandatorily redeemable capital. The \$2.619 million of mandatorily redeemable capital was reclassified, when the registration statement for the ADSs and the ADSs underlying the warrants issued in the December 1999 private placement became effective on March 28, 2000, of which \$0.340 million was classified as Ordinary Shares and \$2.279 million was classified as additional paid-in capital.

Amounts classified as warrants will remain outside of shareholders' equity for the life of the warrant or until they are exercised, whichever occurs first. This classification reflects certain potential cash payments that may occur, should the Company complete a major transaction, such as a takeover, during the life of the warrants.

Limitations in the transaction agreements preclude these investors in question from achieving certain levels of beneficial ownership. The securities purchase agreement, the warrants and the additional warrants contain the restriction that the Company may not issue and a selling investor may not purchase, and the warrants and additional warrants may not be exercised for any ADSs if doing so would cause such investor to beneficially own more than 9.9% of the total ordinary shares in issue as determined in accordance with Section 13(d) of the Securities Exchange Act of 1934. Under the additional warrants, if such investors are prohibited from exercising the additional warrant as a result of the 9.9% restriction, the selling investor may, at its option and in addition to its other rights under the securities purchase agreement and the warrant, retain the warrant or demand payment, in cash, from the Company in an amount calculated by the Black-Scholes formula multiplied by the number of ADSs

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INSIGNIA SOLUTIONS PLC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 9--PRIVATE PLACEMENT AND WARRANTS: (CONTINUED)

for which the additional warrant was exercisable, without regard to any limits on exercise. The restrictions on the levels of beneficial ownership in these documents do not, however, restrict those investors from exercising the warrants or additional warrants up to those limitations, selling ADSs to decrease their level of beneficial ownership, and exercising the warrants to receive additional ADSs. This could result in additional dilution to the holders of the Company's ADSs and a potential decrease in the price of the ADSs.

NOTE 10--CONVERTIBLE PROMISSORY NOTE:

On October 20, 1999, the Company signed a convertible promissory note in favor of Quantum Corporation ("Quantum") for \$1.0 million. The note is convertible at Quantum's option to the Company's shares any time during the lifetime of the note. The initial conversion price is \$4.28 per share with adjustment clauses for stock splits, reverse stock splits and certain offerings. As a result of the private placement in December 1999 (see note 9) this conversion price was adjusted to \$4.23 per share on December 9, 1999. All unpaid principal and unpaid interest, accrued at 8% per annum, compounded quarterly, was converted to Ordinary Shares on December 31, 2000.

NOTE 11--NTRIGUE:

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On February 5, 1998 the Company completed the disposal of its NTRIGUE technology to Citrix Systems Inc. ("Citrix") for \$17.7 million. As part of the disposal, the Company transferred 45 employees to Citrix, of which 43 were development engineers. The net gain on the disposal was \$14.8 million after deducting \$2.9 million of costs associated with the disposal. These costs included mainly \$1.1 million of fixed assets write down, \$0.7 million of legal and transactions costs, \$0.3 million of relocation costs, \$0.3 million of bonus payout to leaving employees and \$0.5 million of other accrued legal costs.

Under the terms of the disposal agreement \$9.0 million was paid to the Company in cash on February 5, 1998, and the remainder is being held in escrow for the sole purpose of satisfying any obligations to Citrix arising from or in connection with an event against which the Company would be required to indemnify Citrix. Of this amount, \$2.5 million, \$0.9 million, \$1.0 million and \$0.3 million were released to the Company in February 1999, August 1999, February 2000 and September 2000, respectively. The Company has recorded earned interest of \$159,000, \$173,000, and \$218,000 for the years ended December 31, 1998, 1999, and 2000, respectively, and such amounts were included in the accounts held in escrow.

On January 29, 1999, the Company received an indemnity claim from Citrix Systems, Inc. ("Citrix") for an amount estimated by Citrix to not exceed \$6.25 million. The claim was made in relation to the Asset Purchase Agreement between the Company and Citrix under which Citrix purchased the Company's NTRIGUE product line in February 1998.

Citrix's indemnity claim is based on assertions made by GraphOn Corporation ("GraphOn") in January of 1998 and declaratory relief action that Citrix filed against GraphOn in November 1998 in the United States District Court, Southern District of Florida. Citrix's action against GraphOn seeks a declaratory judgment that Citrix does not infringe any GraphOn proprietary rights and that Citrix has not misappropriated any trade secrets or breached an agreement to which GraphOn is a party. Citrix filed the action in response to and to resolve assertions first made by GraphOn, and disclosed to Citrix in January 1998, that the Company may have used GraphOn's confidential information to develop certain of the Company's products, possibly including products the Company sold to Citrix in

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INSIGNIA SOLUTIONS PLC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 11--NTRIGUE: (CONTINUED)

February 1998. The Court dismissed the complaint, but Citrix has subsequently filed an appeal. The Company believes that any misappropriation or similar assertions by GraphOn are without merit or basis. Accordingly, the Company contests Citrix's indemnity claim.

On October 4, 1999, the Company filed a suit against Citrix and GraphOn in the Superior Court of the State of California, County of Santa Clara, relating to the misappropriation assertions of GraphOn's and Citrix's refusal to release funds still remaining in escrow and breach of a Cooperation Agreement between the parties. Subsequent to the filing of the lawsuit, Citrix agreed to release \$1.0 million from the escrow, leaving a balance of \$5.1 million. GraphOn answered the complaint, and claimed it had not made any claims of misappropriation against the Company or Citrix. The case is pending.

On March 15, 2000, GraphOn announced it had filed a suit against Citrix and the Company in the Superior Court of the State of California, County of Santa

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Clara, alleging trade secret misappropriation and breach of contract arising out of the same facts and circumstances set forth in the Company's action against GraphOn. The Company believes GraphOn's claims are without merit. The case is pending.

The Company is included with certain other litigation matters in the ordinary course of business. In the opinion of management, the claims are without merit and no provision has been made.

NOTE 12--LINE OF CREDIT:

On March 20, 2000, the Company entered into a binding agreement with a director whereby he would provide the Company a \$5.0 million line of credit with a commitment fee of four points based upon the total amount of the line and drawdown/termination fee of two points for the first drawdown or termination. The interest rate on amounts drawn down was at prime plus 2% until June 30, 2000 and thereafter at prime plus 4% per annum simple interest, payable in cash at the repayment date. The Company drew down a total of \$3.0 million of the line of credit during 2000. A total of 19,994 Ordinary Shares in ADS form were issued to the director as payment for drawdown fees under the line of credit arrangement. On November 27, 2000 the Company repaid this sum, along with all accrued interest and the termination fee due.

NOTE 13--SUBSEQUENT EVENTS (UNAUDITED):

On February 12, 2001 the Company entered into agreements whereby the Company issued 940,000 Ordinary Shares in ADS form at a price of \$5.00 to a total of 4 investors, including Wind River Systems, Inc., and a member of the Company's board of directors. The Company also issued warrants to purchase 470,000 ADSs to the investors, at an exercise price of the lower of the average quoted closing sale price of the Company's ADS's for the ten trading days ending on the day preceding the date of the warrant holder's intent to exercise less a 10% discount, and \$6.00. The warrants expire on February 12, 2004, however, subject to certain conditions, if the quoted sale price of the ADSs exceed \$9.00 per share for any thirty consecutive trading days, the Company may cancel the warrants upon sixty days prior written notice. The Company received \$4.7 million less offering expenses totaling \$0.5 million. The Company also issued warrants to purchase 25,000 ADSs to the placement agent exercisable at a price of \$5.00. These warrants expire on February 12, 2006. The securities were issued in reliance upon the exemption from registration provided under Regulation D promulgated under the Securities Act.

INSIGNIA SOLUTIONS PLC
SCHEDULE II
VALUATION AND QUALIFYING ACCOUNTS

| | BALANCE AT BEGINNING OF PERIOD | ADDITIONS | DEDUCTIONS (WRITE-OFFS) | BALA END O |
|-------------------------------------|--------------------------------------|-----------|----------------------------|---------------|
| | ----- | ----- | ----- | ----- |
| | (in thousands) | | | |
| Allowance for doubtful accounts: | | | | |
| Year ended December 31, 2000..... | \$ 58 | \$ -- | \$ (16) | \$ |
| Year ended December 31, 1999..... | \$ 459 | \$ 63 | \$ (464) | \$ |
| Year ended December 31, 1998..... | \$ 344 | \$ 209 | \$ (94) | \$ |
| Allowance for sales return reserve: | | | | |

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| | | | | |
|-----------------------------------|---------|-------|------------|----|
| Year ended December 31, 2000..... | \$ 33 | \$ -- | \$ (33) | \$ |
| Year ended December 31, 1999..... | \$ 991 | \$ -- | \$ (958) | \$ |
| Year ended December 31, 1998..... | \$2,474 | \$ -- | \$ (1,483) | \$ |

REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors
and Shareholders of Insignia Solutions plc:

In our opinion, the consolidated financial statements listed in the index appearing under Item 14 (a) (1) and (2) of this Annual Report on Form 10-K present fairly, in all material respects, the financial position of Insignia Solutions plc and its subsidiaries (the "Company") at December 31, 2000 and 1999 and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2000, in conformity with generally accepted accounting principles in the United States of America. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

/s/ PRICEWATERHOUSECOOPERS LLP

San Jose, California
January 20, 2001

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this amendment to this report to be signed on its behalf by the undersigned, thereunto duly authorized on May 24, 2001.

INSIGNIA SOLUTIONS PLC

By: /s/ RICHARD M. NOLING

PRESIDENT AND CHIEF EXECUTIVE OFFIC

Pursuant to the requirements of the Securities Exchange Act of 1934, this amendment to this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated:

SIGNATURE

CAPACITY

DATE

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| | | |
|--|--|--------------|
| /s/ RICHARD M. NOLING ----- Richard M. Noling | President, Chief Executive Officer, and a Director (Principal Executive Officer and Director) | May 24, 2001 |
| /s/ ALBERT J. WOOD ----- Albert J. Wood | Senior Vice President, Chief Financial Officer and Secretary (Principal Financial Officer and Principal Accounting Officer) | May 24, 2001 |
| ADDITIONAL DIRECTORS: | | |
| /s/ VINCENT S. PINO* ----- Vincent S. Pino | Director | May 24, 2001 |
| /s/ NICHOLAS, VISCOUNT* BEARSTED ----- Nicholas, Viscount Bearsted | Director | May 24, 2001 |
| /s/ DAVID G. FRODSHAM* ----- David G. Frodsham | Director | May 24, 2001 |
| /s/ JOHN C. FOGELIN* ----- John C. Fogelin | Director | May 24, 2001 |

*Power of Attorney
/s/ RICHARD M. NOLING

Richard M. Noling
ATTORNEY-IN-FACT

INDEX TO EXHIBITS

The following exhibits are filed as part of this Report:

| EXHIBIT NUMBER | EXHIBIT TITLE |
|-------------------|--|
| ----- | |
| 2.01 | --Asset Purchase Agreement dated as of January 10, 1998, by and among Citrix Systems, Inc., Citrix Systems UK Limited and Registrant. (4)** |
| 2.02 | --Amendment No. 1 to Asset Purchase Agreement dated as of February 5, 1998, by and among Citrix Systems, Inc., Citrix Systems UK Limited and Registrant. (4)** |
| 3.02 | --Registrant's Articles of Association. (1) |
| 3.04 | --Registrant's Memorandum of Association. (1) |
| 4.01 | --Form of Specimen Certificate for Registrant's Ordinary Shares. (1) |
| 4.02 | --Deposit Agreement between Registrant and The Bank of New |

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- York. (2)
- 4.03 --Form of American Depositary Receipt (included in Exhibit 4.02). (2)
- 10.01 --Registrant's 1986 Executive Share Option Scheme, as amended, and related documents. (1)*
- 10.02 --Registrant's 1988 U.S. Stock Option Plan, as amended, and related documents. (1)*
- 10.03 --Registrant's 1995 Incentive Stock Option Plan for U.S. Employees and related documents, as amended (incorporated by reference to Exhibit 4.04 to Registrant's Registration Statement on Form S-8 filed on December 13, 2000 (File No. 333-51760)).*
- 10.05 --Insignia Solutions Inc. 401(k) Plan. (1)*
- 10.06 --Registrant's Small Self-Administered Pension Plan Definitive Deed and Rules. (1)*
- 10.10 --Executive's Employment Agreement dated January 1, 1993 between Registrant and George Buchan. (1)*
- 10.14 --Form of Indemnification Agreement entered into by Registrant with each of its directors and executive officers. (1)*
- 10.16 --Lease between Registrant and The Standard Life Assurance Company dated November 3, 1992 and related documents. (1)
- 10.28 --Registrant's U.K. Employee Share Option Scheme 1996, as amended (incorporated by reference to Exhibit 4.05 to Registrant's Registration Statement on Form S-8 filed on December 13, 2000 (File No. 333-51760)).*
- 10.33 --Employment Agreement effective March 25, 1997 between Registrant and Richard M. Noling. (3)*
- 10.34 --Consulting Agreement effective April 1, 1997 between Registrant and Nicholas, Viscount Bearsted. (3)*
- 10.36 --Source Code License and Binary Distribution Agreement dated as of September 29, 1997 between Registrant and Silicon Graphics, Inc. (3)
- 10.38 --Lease Agreement between Insignia Solutions, Inc. and Lincoln-Whitehall Pacific, LLC, dated December 22, 1997 (incorporated by reference to the exhibit of the same number from Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 1998).
- 10.42 --Registrant's 1995 Employee Share Purchase Plan, as amended (incorporated by reference to Exhibit 4.06 to Registrant's Registration Statement on Form S-8 filed on April 12, 2000 (File No. 333-34632)).*
- 10.44 --Lease agreement between Registrant and Comland Industrial and Commercial Properties Limited dated August 12th, 1998 for the Apollo House premises and the Saturn House premises (incorporated by reference to the exhibit of the same number from Registrant's Annual Report on Form 10-K for the year ended December 31, 1998).

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| EXHIBIT NUMBER | EXHIBIT TITLE |
|----------------|--|
| 10.46 | --Technology License and Distribution Agreement between Sun Microsystems, Inc. and Registrant, dated March 3, 1999 (incorporated by reference to the exhibit of the same |

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- number from Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 1999).
- 10.50 --License, Distribution, and Asset Purchase Agreement between Registrant and FWB Software, LLC dated October 6, 1999 (incorporated by reference to the exhibit of the same number from Registrant's Annual Report on Form 10-K for the year ended December 31, 1999).
- 10.51 --Registration Rights Agreement dated as of October 20, 1999, by and between Registrant and Quantum Corporation (incorporated by reference to Exhibit 4.14 to Registrant's Registration Statement on Form S-3 filed on February 13, 2001 (File No. 333-55498)).
- 10.52 --Securities Purchase Agreement dated as of December 9, 1999, between Registrant and Castle Creek Technology Partners LLC (incorporated by reference to Exhibit 10.50 to Registrant's Current Report on Form 8-K filed on December 15, 1999).
- 10.53 --Securities Purchase Agreement dated as of December 9, 1999, between Registrant and the Purchasers named therein (incorporated by reference to Exhibit 10.51 to Registrant's Current Report on Form 8-K filed on December 15, 1999).
- 10.54 --Registration Rights Agreement dated as of December 9, 1999, between Registrant and Castle Creek Technology Partners LLC (incorporated by reference to Exhibit 4.05 to Registrant's Current Report on Form 8-K filed on December 15, 1999).
- 10.55 --Registration Rights Agreement dated as of December 9, 1999, between Registrant and the Purchasers named therein (incorporated by reference to Exhibit 4.08 to Registrant's Current Report on Form 8-K filed on December 15, 1999).
- 10.56 --ADSs Purchase Warrant issued to Castle Creek Technology Partners LLC dated December 9, 1999 (incorporated by reference to Exhibit 4.06 to Registrant's Current Report on Form 8-K filed on December 15, 1999).
- 10.57 --ADSs Purchase Reset Warrant issued to Castle Creek Technology Partners LLC dated December 9, 1999 (incorporated by reference to Exhibit 4.07 to Registrant's Current Report on Form 8-K filed on December 15, 1999).
- 10.58 --Form of ADSs Purchase Warrant issued December 9, 1999 (incorporated by reference to Exhibit 4.09 to Registrant's Current Report on Form 8-K filed on December 15, 1999).
- 10.59 --Form of ADSs Purchase Reset Warrant issued December 9, 1999 (incorporated by reference to Exhibit 4.10 to Registrant's Current Report on Form 8-K filed on December 15, 1999).
- 10.60 --Line of Credit Loan Agreement and Promissory Note dated as of March 20, 2000 by and between Registrant and Vincent S. Pino, Rosemary G. Pino, Michael V. Pino and Tiffany R. Pino (incorporated by reference to Exhibit 4.15 to Registrant's Registration Statement on Form S-3 filed on February 13, 2001 (File No. 333-55498)).
- 10.61 --Form of Subscription Agreement for the Purchase of units dated November 24, 2000 (incorporated by reference to Exhibit 10.52 to Registrant's Current Report on Form 8-K filed on November 29, 2000).
- 10.62 --Warrant Agreement, dated as of November 24, 2000, between Registrant and Jefferies & Company, Inc. (incorporated by reference to Exhibit 10.53 to Registrant's Current Report on Form 8-K filed on November 29, 2000).
- 10.63 --Form of ADSs Purchase Warrant issued November 24, 2000 (incorporated by reference to Exhibit 4.11 to Registrant's

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Current Report on Form 8-K filed on November 29, 2000).

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| EXHIBIT NUMBER | EXHIBIT TITLE |
|-------------------|--|
| 10.64 | --ADSs Purchase Warrant issued to Jefferies & Company, Inc., dated November 24, 2000 (incorporated by reference to Exhibit 4.12 to Registrant's Current Report on Form 8-K filed on November 29, 2000). |
| 10.65 | --OEM Agreement between Wind River Systems, Inc. and Insignia Solutions, Inc., dated December 22, 2000, as amended. |
| 10.66 | --Form of Subscription Agreement for the Purchase of units dated February 12, 2001 (incorporated by reference to Exhibit 10.54 to Registrant's Current Report on Form 8-K filed on February 15, 2001). |
| 10.67 | --Warrant Agreement, dated as of February 12, 2001, between Registrant and Jefferies & Company, Inc. (incorporated by reference to Exhibit 10.55 to Registrant's Current Report on Form 8-K filed on February 15, 2001). |
| 10.68 | --Form of ADSs Purchase Warrant issued February 12, 2001 (incorporated by reference to Exhibit 4.13 to Registrant's Current Report on Form 8-K filed on February 15, 2001). |
| 10.69 | --ADSs Purchase Warrant issued to Jefferies & Company, Inc., dated February 12, 2001 (incorporated by reference to Exhibit 4.14 to Registrant's Current Report on Form 8-K filed on February 15, 2001). |
| 21.01 | --List of Registrant's subsidiaries. (2) |
| 23.01 | --Consent of PricewaterhouseCoopers LLP, Independent Accountants. |
| 24.01 | --Power of Attorney.+ |

* Management contract or compensatory plan.

** Confidential treatment has been granted with respect to certain portions of this agreement. Such portions were omitted from this filing and filed separately with the Securities and Exchange Commission.

+ Previously filed by the Registrant with the Commission.

(1) Incorporated by reference to the exhibit of the same number from Registrant's Registration Statement on Form F-1 (File No. 33-98230) declared effective by the Commission on November 13, 1995.

(2) Incorporated by reference to the exhibit of the same number from Registrant's Annual Report on Form 10-K for the year ended December 31, 1995.

(3) Incorporated by reference to the exhibit of the same number from Registrant's Annual Report on Form 10-K for the year ended December 31, 1997.

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- (4) Incorporated by reference to the exhibit of the same number from Registrant's Current Report on Form 8-K dated February 5, 1998.