INFORMATICA CORP
Form 10-Q
May 15, 2003

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

(Mark One)

þ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended March 31, 2003

or

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

Commission File Number 0-25871

Informatica Corporation

(Exact name of registrant as specified in its charter)

Delaware	**77-0333710**
(State or other jurisdiction of incorporation or organization)	*(IRS Employer Identification No.)*
2100 Seaport Blvd., Redwood City, California	**94063**
(Address of principal executive offices)	*(Zip Code)*

(650) 385-5000

(Registrant s telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 (the Exchange Act) 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 þ No o

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes þ No o

As of April 30, 2003, there were 80,291,248 shares of the registrant s Common Stock outstanding.

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FORM 10-Q

For the Quarter Ended March 31, 2003

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PART I. FINANCIAL INFORMATION

Item 1. ***Condensed Consolidated Financial Statements***

INFORMATICA CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands)

	March 31, 2003	December 31, 2002
	(unaudited)	
ASSETS		
Current assets:		
Cash and cash equivalents	$122,875	$122,490
Short-term investments	115,572	113,385
Accounts receivable, net of allowances of $1,217 and $1,349, respectively	22,822	29,982
Prepaid expenses and other current assets	7,603	8,680
Total current assets	268,872	274,537
Restricted cash	12,166	12,166
Property and equipment, net	45,255	47,370
Goodwill	30,274	30,274
Intangible assets, net	232	517
Other assets	316	330
Total assets	$357,115	$365,194
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 1,562	$ 2,269
Accrued liabilities	23,772	24,384
Accrued compensation and related expenses	11,423	12,666
Income taxes payable	1,921	2,064
Accrued restructuring charges	4,828	4,812
Deferred revenue	51,287	51,702
Total current liabilities	94,793	97,897
Accrued restructuring charges, less current portion	13,685	14,894
Commitments and contingencies		
Stockholders equity	248,637	252,403
Total liabilities and stockholders equity	$357,115	$365,194

See notes to condensed consolidated financial statements.

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INFORMATICA CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except per share data)
(unaudited)

	Three Months Ended March 31, 2003	Three Months Ended March 31, 2002
Revenues:		
License	$23,581	$26,514
Service	24,967	22,013
Total revenues	48,548	48,527
Cost of revenues:		
License	587	1,386
Service	9,237	9,871
Total cost of revenues	9,824	11,257
Gross profit	38,724	37,270
Operating expenses:		
Research and development	11,340	11,911
Sales and marketing	21,140	21,760
General and administrative	5,396	4,797
Amortization of stock-based compensation	24	73
Amortization of intangible assets	285	285
Total operating expenses	38,185	38,826
Income (loss) from operations	539	(1,556)
Interest income and other, net	1,123	1,302
Income (loss) before income taxes	1,662	(254)
Income tax provision	493	
Net income (loss)	$ 1,169	$ (254)
Net income (loss) per share:		
Basic and diluted	$ 0.01	$ (0.00)
Weighted shares used in calculation of net income (loss) per share:		
Basic	80,530	78,963
Diluted	83,159	78,963

See notes to condensed consolidated financial statements.

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INFORMATICA CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)
(unaudited)

	Three Months Ended March 31, 2003	Three Months Ended March 31, 2002
Operating activities		
Net income (loss)	$ 1,169	$ (254)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	2,927	2,265
Provision for doubtful accounts	96	96
Amortization of stock-based compensation	24	73
Amortization of intangible assets	285	285
Gain on the sale of investments	(18)	(154)
Loss on disposal of property and equipment		13
Changes in operating assets and liabilities:		
Accounts receivable	7,064	1,085
Prepaid expenses and other current assets	1,077	3,283
Other assets	14	203
Accounts payable	(707)	(276)
Accrued liabilities	(612)	951
Accrued compensation and related expenses	(1,243)	(1,555)
Income taxes payable	(143)	(297)
Accrued restructuring charges	(1,193)	(1,370)
Deferred revenue	(415)	2,877
Net cash provided by operating activities	8,325	7,225
Investing activities		
Purchase of property and equipment, net	(812)	(3,249)
Purchases of investments	(44,808)	(71,122)
Proceeds from the sales and maturities of investments	42,590	41,709
Net cash used in investing activities	(3,030)	(32,662)
Financing activities		
Proceeds from issuance of common stock, net of payments for repurchases	2,697	3,290
Repurchase and retirement of common stock	(7,565)	
Net cash provided (used) by financing activities	(4,868)	3,290
Effect of foreign currency translation on cash and cash equivalents	(42)	(26)
Increase (decrease) in cash and cash equivalents	385	(22,173)
Cash and cash equivalents at beginning of period	122,490	131,264
Cash and cash equivalents at end of period	$ 122,875	$ 109,091

Supplemental disclosures:		
Income taxes paid	$ 609	$ 421
Supplemental disclosures of noncash investing and financing activities:		
Unrealized loss on available-for-sale securities	$ (49)	$ (539)

See notes to condensed consolidated financial statements.

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INFORMATICA CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

1. Basis of Presentation

The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States. However, certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed, or omitted, pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). In the opinion of management, the statements include all adjustments necessary (which are of a normal and recurring nature) for the fair presentation of the results of the interim periods presented. All the amounts included in this report related to the financial statements as of March 31, 2003 and the three months ended March 31, 2003 and 2002 are unaudited. The interim results presented are not necessarily indicative of results for any subsequent interim period, the year ended December 31, 2003 or any future period.

These unaudited condensed consolidated financial statements should be read in conjunction with our audited consolidated financial statements and notes thereto for the year ended December 31, 2002 included in the Company s Annual Report on Form 10-K/A filed with the SEC. The condensed consolidated balance sheet as of December 31, 2002 has been derived from the audited consolidated financial statements of the Company.

2. Revenue Recognition

The Company generates revenues from sales of software licenses and services, which consist of maintenance, consulting and training. The Company s license revenues are derived from its business analytics software, which consists of data integration products and, to a lesser extent, data warehouse modules, business intelligence platform and analytic application suites. The Company receives software license revenues from licensing its products directly to end users and indirectly through resellers, distributors and OEMs. The Company receives service revenues from maintenance contracts, consulting services and training that it performs for customers that license its products either directly from the Company or indirectly through resellers, distributors and OEMs.

The Company recognizes revenue in accordance with AICPA Statement of Position (SOP) 97-2 (SOP 97-2), *Software Revenue Recognition,* as amended and modified by SOP 98-9, *Modification of SOP 97-2, Software Revenue Recognition, With Respect to Certain Transactions.* The Company recognizes license revenues when a noncancelable license agreement has been signed, the product has been shipped, the fees are fixed or determinable, collectibility is probable and vendor-specific objective evidence of fair value exists to allocate the fee to the undelivered elements of the arrangement. Vendor-specific objective evidence is based on the price charged when an element is sold separately. In the case of an element not yet sold separately, the price is established by the Company s authorized management. If an acceptance period is required, the Company recognizes revenue upon customer acceptance or the expiration of the acceptance period. Credit-worthiness and collectibility for end users are first assessed on a country level and then, for those customers in countries deemed to have sufficient timely payment history, customers are assessed based on payment history and credit profile. For the data integration products, data warehouse modules and business intelligence platform sold directly to end users, the Company recognizes revenue upon shipment when collectibility is probable. When a customer is not deemed credit-worthy, revenue is recognized upon cash receipt. For the Company s analytic application suites, it recognizes both the license and maintenance revenue ratably over the maintenance period, generally one year. Support for the analytic application suites for the first year is never sold separately and in consideration of the complexities of the implementation the customer is entitled to receive support services that are different than the standard annual support services of the Company s other products. The Company s standard agreements do not contain product return rights.

The Company also enters into reseller and distributor arrangements that typically provide for sublicense or end user license fees based on a percentage of list prices. Revenue arrangements with resellers and

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INFORMATICA CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

distributors require evidence of sell-through, that is, persuasive evidence that the products have been sold to an identified end user. For data integration products, data warehouse modules and business intelligence platform sold indirectly through the Company s resellers and distributors, the Company recognizes revenue upon shipment and receipt of evidence of sell-through if the reseller or distributor has been deemed credit-worthy. Credit-worthiness and collectibility for resellers and distributors are first assessed on a country level and then, for those resellers and distributors in countries deemed to have sufficient timely payment history, resellers and distributors are assessed based on established credit history consisting of sales of at least one million dollars and with timely payment history, generally for the last twelve months. When resellers and distributors are not deemed credit-worthy, revenue is recognized upon cash receipt.

The Company also enters into OEM arrangements that provide for license fees based on inclusion of the Company s products in the OEMs products. These arrangements provide for fixed, irrevocable royalty payments. Credit-worthiness and collectibility for OEMs are first assessed on a country level and then, for those OEMs in countries deemed to have sufficient timely payment history, OEMs are assessed based on established credit history consisting of sales of at least one million dollars and with timely payment history, generally for the last twelve months. For credit-worthy OEMs, royalty payments are recognized when due. When OEMs are not deemed credit-worthy, revenue is recognized upon cash receipt.

The Company recognizes maintenance revenues, which consist of fees for ongoing support and product updates, ratably over the term of the contract, typically one year. Consulting revenues are primarily related to implementation services and product enhancements performed on a time-and-materials basis or, on a very infrequent basis, a fixed fee arrangement under separate service arrangements related to the installation and implementation of our software products. Training revenues are generated from classes offered at the Company s headquarters, sales offices and customer locations. Revenues from consulting and training services are recognized as the services are performed. When a contract includes both license and service elements, the license fee is recognized on delivery of the software or cash collections, provided services do not include significant customization or modification of the base product, and are not otherwise essential to the functionality of the software and the payment terms for licenses are not dependent on additional acceptance criteria.

Deferred revenue includes deferred license, maintenance, consulting and training revenue. Deferred revenue amounts do not include items that are both deferred and unbilled. The Company s practice is to net unpaid deferred items against the related receivables balances from those OEMs, specific resellers, distributors and specific international customers for which we defer revenue until payment is received.

3. Intangible Assets

Intangible assets consist of the following (in thousands):

	March 31, 2003			December 31, 2002		
	Gross Carrying Amount	**Accumulated Amortization**	**Net Tangible Assets**	**Gross Carrying Amount**	**Accumulated Amortization**	**Net Intangible Assets**
Core technology	$3,122	$(2,931)	$191	$3,122	$(2,670)	$452
Patents	297	(256)	41	297	(232)	65
Total intangible assets	$3,419	$(3,187)	$232	$3,419	$(2,902)	$517

Amortization expense of intangible assets was approximately $0.3 million for each of the three months ended March 31, 2003 and 2002. The expected amortization expense related to identifiable intangible assets is $0.5 million for the year ended December 31, 2003.

INFORMATICA CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4. Stock-Based Compensation

In accordance with Accounting Principles Board Opinion No. 25 (APB 25), *Accounting for Stock Issued to Employees,* the Company applies the intrinsic value method in accounting for employee stock options. Accordingly, the Company generally recognizes no compensation expense with respect to stock-based awards to employees. Pro forma information regarding net income (loss) and net income (loss) per share is required by Statement of Financial Accounting Standards (SFAS) No. 123 (SFAS 123), *Accounting for Stock-Based Compensation,* which also requires that the information be determined as if the Company had accounted for its employee stock options under the fair value method of SFAS 123 and SFAS No. 148, *Accounting for Stock-Based Compensation Transition and Disclosure.* The fair value of these stock-based awards to employees was estimated using the Black-Scholes option valuation model.

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable. The Black-Scholes model requires the input of highly subjective assumptions. Because the Company s stock-based awards have characteristics significantly different from those in traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management s opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its stock-based awards.

Had compensation cost for the Company s stock-based compensation plans been determined using the fair value at the grant dates for awards under those plans calculated using the minimum value method of SFAS 123, the Company s net income (loss) and basic and diluted net income (loss) per share would have been increased to the pro forma amounts indicated below (in thousands, except per share data):

	Three Months Ended March 31,	
	2003	**2002**
Net income (loss), as reported	$ 1,169	$ (254)
Add: stock-based compensation expense included in reported net income (loss), net of related tax effects	24	73
Deduct: total stock-based compensation expense determined under fair value method for all awards, net of related tax effects	(6,621)	(14,459)
Net income (loss), pro forma	$ (5,428)	$ (14,640)
Basic and diluted net income (loss) per share, as reported	$ (0.01)	$ (0.00)
Basic and diluted net income (loss) per share, pro forma	$ (0.07)	$ (0.19)

These pro forma amounts may not be representative of the effects on reported net income (loss) for future years as options vest over several years and additional awards are generally made each year.

5. Net Income (Loss) Per Share

Basic and diluted net income (loss) per share is presented in conformity with the SFAS No. 128, *Earnings Per Share,* for all periods presented. Basic net income (loss) per share is computed using the weighted average number of common shares outstanding during the period. Diluted earnings per share reflects the potential dilution of securities by adding the dilutive effect of other common stock equivalents, including outstanding stock options using the treasury stock method, to the weighted average number of common shares outstanding during the period, if dilutive. Potentially dilutive securities have been excluded from the computation of diluted net loss per share for the three months ended March 31, 2002, as their inclusion would be antidilutive.

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INFORMATICA CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The calculation of basic and diluted net income (loss) per share is as follows (in thousands, except per share data):

	Three Months Ended March 31,	
	2003	**2002**
Net income (loss)	$ 1,169	$ (254)
Weighted average shares of common stock outstanding used in calculation of net income (loss) per share:		
Basic	80,530	78,963
Dilutive effect of employee stock plans	2,629	
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