INFORMATICA CORP
Form 10-Q
August 05, 2005

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

Form 10-Q

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

For the quarterly period ended June 30, 2005

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)	*(I.R.S. Employer Identification No.)*

100 Cardinal Way
Redwood City, California 94063
(Address of principal executive offices)
(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 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 August 1, 2005, there were approximately 87,833,000 shares of the registrant s common stock outstanding.

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PART I: FINANCIAL INFORMATION

ITEM 1. *CONDENSED CONSOLIDATED FINANCIAL STATEMENTS*

INFORMATICA CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS

	June 30, 2005	December 31, 2004
	(Unaudited)	
	(In thousands)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 74,167	$ 88,941
Short-term investments	176,347	152,160
Accounts receivable, net	30,670	42,535
Prepaid expenses and other current assets	10,109	7,837
Total current assets	291,293	291,473
Restricted cash	12,166	12,166
Property and equipment, net	22,258	20,063
Goodwill	81,897	82,245
Intangible assets, net	4,766	2,880
Other assets	846	941
Total assets	$ 413,226	$ 409,768
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 3,872	$ 7,476
Accrued liabilities	13,956	15,581
Accrued compensation and related expenses	14,682	15,681
Income taxes payable	4,954	3,142
Accrued facilities restructuring charges	18,984	20,080
Accrued merger costs	67	209
Deferred revenues	68,260	62,443
Total current liabilities	124,775	124,612
Accrued facilities restructuring charges, less current portion	82,635	89,171
Accrued merger costs, less current portion	131	263
Total liabilities	207,541	214,046
Commitments and contingencies		
Stockholders equity:		
Common stock	389,338	390,035
Deferred stock-based compensation	(504)	(1,000)
Accumulated deficit	(183,138)	(195,088)

Accumulated other comprehensive income (loss)		(11)		1,775
Total stockholders equity		205,685		195,722
Total liabilities and stockholders equity	$	413,226	$	409,768

See accompanying notes to condensed consolidated financial statements.

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INFORMATICA CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

	Three Months Ended June 30,		Six Months Ended June 30,	
	2005	2004	2005	2004
	(Unaudited) (In thousands, except per share data)			
Revenues:				
License	$ 28,103	$ 23,292	$ 53,059	$ 48,210
Service	36,102	29,742	69,537	58,997
Total revenues	64,205	53,034	122,596	107,207
Cost of revenues:				
License	1,135	624	1,845	1,725
Service	11,387	9,663	21,868	19,746
Amortization of acquired technology	233	581	469	1,155
Total cost of revenues	12,755	10,868	24,182	22,626
Gross profit	51,450	42,166	98,414	84,581
Operating expenses:				
Research and development	10,460	13,924	20,707	27,226
Sales and marketing	29,028	22,590	54,386	45,142
General and administrative	4,994	4,709	10,100	9,666
Amortization of intangible assets	47	48	94	103
Facilities restructuring charges	70		1,628	
Total operating expenses	44,599	41,271	86,915	82,137
Income from operations	6,851	895	11,499	2,444
Interest income and other, net	1,571	426	2,604	1,115
Income before provision for income taxes	8,422	1,321	14,103	3,559
Provision for income taxes	781	342	2,153	689
Net income	$ 7,641	$ 979	$ 11,950	$ 2,870
Basic net income per common share	$ 0.09	$ 0.01	$ 0.14	$ 0.03
Diluted net income per common share	$ 0.09	$ 0.01	$ 0.13	$ 0.03
Shares used in computing basic net income per common share	86,876	85,557	86,881	85,184
	89,760	88,394	89,502	89,320

Shares used in computing diluted net income per common share

See accompanying notes to condensed consolidated financial statements.

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INFORMATICA CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Six Months Ended June 30,	
	2005	2004
	(Unaudited) (In thousands)	
Operating activities		
Net income	$ 11,950	$ 2,870
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	4,464	5,257
Provision for doubtful accounts and sales and returns allowances	(203)	(254)
Amortization and compensation expense related to stock options	462	2,700
Amortization of intangible assets and acquired technology	563	1,258
Non-cash facilities restructuring charges	1,628	
Loss on sale of property and equipment	3	19
Changes in operating assets and liabilities:		
Accounts receivable	12,068	3,211
Prepaid expenses and other assets	(4,677)	(2,612)
Accounts payable and accrued liabilities	(5,229)	(3,209)
Accrued compensation and related expenses	(999)	(2,457)
Income taxes payable	1,715	(468)
Accrued facilities restructuring charges	(9,239)	(2,161)
Accrued merger charges	(37)	(203)
Deferred revenues	5,817	2,454
Net cash provided by operating activities	18,286	6,405
Investing activities		
Purchases of property and equipment	(6,892)	(1,434)
Purchases of investments	(117,842)	(90,281)
Maturities and sales of investments	93,635	80,582
Net cash used in investing activities	(31,099)	(11,133)
Financing activities		
Net proceeds from issuance of common stock	11,762	8,408
Repurchases and retirements of common stock	(12,217)	
Net cash provided by (used in) financing activities	(455)	8,408
Effect of foreign exchange rate changes on cash and cash equivalents	(1,506)	21
Net increase (decrease) in cash and cash equivalents	(14,774)	3,701
Cash and cash equivalents at beginning of period	88,941	82,903

Cash and cash equivalents at end of period	$	74,167	$	86,604
Supplemental disclosures:				
Income taxes paid	$	649	$	1,180
Supplemental disclosures of non-cash investing and financing activities:				
Unrealized gain (loss) on short-term investments	$	(20)	$	79

See accompanying notes to condensed consolidated financial statements.

INFORMATICA CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying condensed consolidated financial statements of Informatica Corporation (the Company) 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 financial statements include all adjustments necessary (which are of a normal and recurring nature, except see Note 4. Restructuring Charges for a description of other than normal recurring adjustments) for the fair presentation of the results of the interim periods presented. All of the amounts included in this report related to the condensed consolidated financial statements and notes thereto as of and for the three and six months ended June 30, 2005 and 2004 are unaudited. The interim results presented are not necessarily indicative of results for any subsequent interim period, the year ended December 31, 2005 or any future period.

These unaudited condensed consolidated financial statements should be read in conjunction with the Company s audited consolidated financial statements and notes thereto for the year ended December 31, 2004 included in the Company s Annual Report on Form 10-K filed with the SEC. The condensed consolidated balance sheet as of December 31, 2004 has been derived from the audited consolidated financial statements of the Company.

Revenue Recognition

The Company follows detailed revenue recognition guidelines, which are discussed below. The Company recognizes revenue in accordance with accounting principles generally accepted in the United States of America that have been prescribed for the software industry. The accounting rules related to revenue recognition are complex and are affected by interpretations of the rules and an understanding of industry practices, both of which are subject to change. Consequently, the revenue recognition accounting rules require management to make significant judgments, such as determining if collectibility is probable and if a customer is credit-worthy.

The Company recognizes revenue in accordance with American Institute of Certified Public Accountants (AICPA) Statement of Position (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 or the Company has provided the customer with the access codes that allow for immediate possession of the software (collectively delivered), the fees are fixed or determinable, collectibility is probable and vendor-specific objective evidence (VSOE) of fair value exists to allocate the fee to the undelivered elements of the arrangement. VSOE is based on the price charged when an element is sold separately. In the case of an element not yet sold separately, the price, which does not change before the element is made generally available, is established by authorized management. If an acceptance period is required, the Company recognizes revenue upon customer acceptance or the expiration of the acceptance period after all other revenue recognition criteria under SOP 97-2 have been met. The Company s standard agreements do not contain product return rights.

Credit-worthiness and collectibility are first assessed on a country level basis. Then, for those customers, including direct end users and the Company s indirect channel partners (resellers, distributors and original equipment manufacturers (OEMs)) in countries deemed to have sufficient timely payment history, customers are assessed based on their payment history and credit profile.

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INFORMATICA CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The country level assessment of credit-worthiness and collectibility has generally been performed annually with any changes in assessment effective on January 1st of the next fiscal year. The Company recently performed a country level assessment of credit-worthiness and determined 10 additional countries to be credit-worthy based on geopolitical and economic stability. These countries include France, where the Company has a direct sales channel, and Japan, where the Company has both direct and indirect sales channels, as well as Spain, Italy, Norway, Sweden, Denmark, Finland, Australia and New Zealand, where the sales channel consists of distributors. In each of the nine countries excluding France, the Company assessed the credit-worthiness and collectibility of its existing distributors and will continue to recognize revenue through these distributors upon cash receipt. However, effective January 1, 2005, in France, where the country level criteria have been met and individual customers are deemed credit-worthy, the Company has begun recognizing revenue upon shipment, rather than on cash receipt, after all other revenue recognition criteria under SOP 97-2 have been met, including, for resellers and distributors, evidence of sell-through to an identified end user. In the other nine countries where the individual distributors have not met the credit-worthiness and collectibility requirements, the Company will continue to reassess their status quarterly.

The Company s reseller and distributor arrangements typically provide for sublicense or end user license fees based on a percentage of list prices. Revenue arrangements with resellers and distributors require evidence of sell-through, that is, persuasive evidence that the products have been sold to an identified end user. For products 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.

The Company also enters into OEM arrangements that provide for license fees based on inclusion of the Company s products in the OEM s products. These arrangements provide for fixed, irrevocable royalty payments. For credit-worthy OEMs, royalty payments are recognized based on the activity in the royalty report the Company receives from the OEM, or in the case of OEMs with fixed royalty payments, revenue is recognized when the related payment is due. When OEMs are not deemed credit-worthy, revenue is recognized upon cash receipt. In both cases, revenue is recognized after all other revenue recognition criteria under SOP 97-2 have been met.

The assessment of credit-worthiness for resellers, distributors and OEMs within countries that have been deemed to be credit-worthy generally takes place quarterly, with any changes effective at the beginning of the next fiscal quarter. Credit-worthiness for these partners is assessed based on established credit history consisting of sales of at least one million dollars and with timely payment history, generally for the last 12 months. In the third quarter of 2004, the Company s assessment of three resellers and OEMs determined that these customers were credit-worthy and effective October 2004, the Company began recognizing revenue from these customers upon shipment, after all other revenue recognition criteria under SOP 97-2 have been met.

For transactions to all customers, including direct end users, resellers, distributors and OEMs, where the customer is deemed credit-worthy, but where the stated payment terms of the transaction are greater than 45 days from the invoice date, the Company recognizes revenue when the payments become due. In assessing this policy in light of the Company s continuing international expansion where stated payment terms can be slightly longer, the Company determined, effective January 1, 2005, that extending the threshold to 60 days on a world-wide basis is more reflective of the Company s standard payment terms with its customers. Therefore, effective January 1, 2005, the Company began to recognize revenue upon shipment for transactions with credit-worthy customers in credit-worthy countries with stated payment terms up to and including 60 days, after all other revenue recognition criteria under SOP 97-2 have been met. The Company has analyzed the impact of this change as though it had been implemented during 2004 and determined that this change would not have been material to its quarterly or annual revenue or

INFORMATICA CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

results of operations in 2004. Those transactions with stated terms of more than 60 days will continue to be recognized when payments become due.

When a customer, including direct end users, resellers, distributors and OEMs, is not deemed credit-worthy, revenue is recognized when cash is received, after all other revenue recognition criteria under SOP 97-2 have been met.

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 its software products. Education services revenues are generated from classes offered at the Company s headquarters, sales offices and customer locations. Revenues from consulting and education 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 revenues include deferred license, maintenance, consulting and education services revenue. 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 the Company defers revenue until payment is received.

Net Income Per Common Share

Under the provisions of SFAS No. 128, *Earnings per Share,* basic net income per share is computed using the weighted-average number of common shares outstanding during the period. Diluted net income per share reflects the potential dilution of securities by adding other common stock equivalents, primarily stock options, 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 income per share if their inclusion is antidilutive.

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

	Three Months Ended June 30,		**Six Months Ended June 30,**	
	2005	**2004**	**2005**	**2004**
Net income	$ 7,641	$ 979	$ 11,950	$ 2,870
Weighted average shares outstanding	86,900	85,823	86,913	85,485
Weighted average unvested shares of common stock subject to repurchase	(24)	(266)	(32)	(301)
Shares used in computing basic net income per common share	86,876	85,557	86,881	85,184
Effect of dilutive securities	2,884	2,837	2,621	4,136
Shares used in computing dilutive net income per common share	89,760	88,394	89,502	89,320

Basic net income per common share	$	0.09	$	0.01	$	0.14	$	0.03
Diluted net income per common share	$	0.09	$	0.01	$	0.13	$	0.03

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INFORMATICA CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Stock-based Compensation

The Company accounts for stock