INFORMATICA CORP
Form 10-Q
August 05, 2004

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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 June 30, 2004

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 *(State or other jurisdiction of incorporation or organization)*	**77-0333710** *(IRS Employer Identification No.)*
2100 Seaport Blvd. **Redwood City, California** *(Address of principal executive offices)*	**94063** *(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 July 30, 2004, there were 86,519,445 shares of the registrant s Common Stock outstanding.

INFORMATICA CORPORATION

FORM 10-Q

For the Quarter Ended June 30, 2004

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PART I. FINANCIAL INFORMATION

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

INFORMATICA CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands)

	June 30, 2004	December 31, 2003
	(Unaudited)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 86,604	$ 82,903
Short-term investments	149,848	140,890
Accounts receivable, net of allowances of $758 and $1,269, respectively	31,418	34,375
Prepaid expenses and other current assets	7,598	5,124
Total current assets	275,468	263,292
Restricted cash	12,166	12,166
Property and equipment, net	34,535	38,734
Goodwill	82,003	82,186
Intangible assets, net	4,085	5,325
Other assets	1,416	1,105
Total assets	$409,673	$402,808
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 3,105	$ 4,458
Accrued liabilities	23,280	25,136
Accrued compensation and related expenses	11,794	14,251
Income taxes payable	1,515	1,983
Accrued restructuring charges	4,170	4,624
Accrued merger costs	298	543
Deferred revenue	53,766	51,282
Total current liabilities	97,928	102,277
Accrued restructuring charges, less current portion	8,836	10,543
Accrued merger costs, less current portion	218	389
Commitments and contingencies		
Stockholders equity	302,691	289,599
Total liabilities and stockholders equity	$409,673	$402,808

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 June 30,		Six Months Ended June 30,	
	2004	**2003**	**2004**	**2003**
Revenues:				
License	$23,292	$23,588	$ 48,210	$46,454
Service	29,742	27,031	58,997	52,586
Total revenues	53,034	50,619	107,207	99,040
Cost of revenues:				
License	624	637	1,725	1,224
Service	9,663	9,679	19,746	18,916
Amortization of acquired technology	581	115	1,155	375
Total cost of revenues	10,868	10,431	22,626	20,515
Gross profit	42,166	40,188	84,581	78,525
Operating expenses:				
Research and development	13,924	11,358	27,226	22,722
Sales and marketing	22,590	20,782	45,142	41,922
General and administrative	4,709	5,395	9,666	10,791
Amortization of intangible assets	48	25	103	50
Total operating expenses	41,271	37,560	82,137	75,485
Income from operations	895	2,628	2,444	3,040
Interest income and other, net	426	1,257	1,115	2,380
Income before income taxes	1,321	3,885	3,559	5,420
Income tax provision	342	596	689	1,089
Net income	$ 979	$ 3,289	$ 2,870	$ 4,331
Net income per share:				
Basic and diluted	$ 0.01	$ 0.04	$ 0.03	$ 0.05
Weighted shares used in calculation of net income per share:				
Basic	85,557	80,143	85,184	80,335
Diluted	88,394	82,777	89,320	82,959

See notes to condensed consolidated financial statements.

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INFORMATICA CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)
(Unaudited)

	Six Months Ended June 30,	
	2004	**2003**
Operating activities		
Net income	$ 2,870	$ 4,331
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	5,257	5,751
Provision for doubtful accounts and revenue reserve	(254)	177
Stock-based compensation	2,700	43
Amortization of intangible assets and acquired technology	1,258	425
Other	19	62
Changes in operating assets and liabilities:		
Accounts receivable	3,211	3,686
Prepaid expenses and other current assets	(2,301)	3,304
Other assets	(311)	(25)
Accounts payable	(1,353)	452
Accrued liabilities	(1,856)	(522)
Accrued compensation and related expenses	(2,457)	411
Income taxes payable	(468)	39
Accrued restructuring charges	(2,161)	(2,293)
Accrued merger charges	(203)	
Deferred revenue	2,454	(1,169)
Net cash provided by operating activities	6,405	14,672
Investing activities		
Purchase of property and equipment, net	(1,434)	(1,246)
Purchases of investments	(90,281)	(120,462)
Sales and maturities of investments	80,582	69,390
Net cash used in investing activities	(11,133)	(52,318)
Financing activities		
Proceeds from issuances of common stock	8,408	3,052
Repurchases and retirement of common stock		(10,445)
Net cash provided by (used in) financing activities	8,408	(7,393)
Effect of foreign currency translation on cash and cash equivalents	21	165
Increase (decrease) in cash and cash equivalents	3,701	(44,874)
Cash and cash equivalents at beginning of period	82,903	105,590
Cash and cash equivalents at end of period	$ 86,604	$ 60,716

Supplemental disclosures:		
Income taxes paid	$ 1,180	$ 1,035
Supplemental disclosures of noncash investing and financing activities:		
Unrealized gain (loss) on available-for-sale securities	$ 79	$ (212)

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 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) 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, 2004 and 2003 are unaudited. The interim results presented are not necessarily indicative of results for any subsequent interim period, the year ended December 31, 2004 or any future period.

Approximately $53.2 million in municipal securities have been reclassified from cash and cash equivalents to short-term investments at June 30, 2003 to conform to the current year presentation.

For the three and six months ended June 30, 2003, previously reported license revenues decreased by $0.6 million and $1.3 million and service revenues increased by $0.7 million and $1.3 million, respectively, due to an error in the allocation of revenues between license and service components in accordance with Statement of Position 98-9, *Modification of SOP 97-2, Software Revenue Recognition, with Respect to Certain Transactions* (SOP 98-9). The error was corrected in the fourth quarter of 2003. There was an immaterial difference in net income and no difference in net income per share from amounts previously reported. The Company did not amend any of its periodic reports previously filed with the SEC. However, the previously reported 2003 quarterly results have been adjusted in this Form 10-Q to reflect the impact of the error.

Amortization of acquired technology has been reclassified to cost of revenues for the three and six months ended June 30, 2003 from amortization of other intangible assets.

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, 2003 included in the Company s Annual Report on Form 10-K filed with the SEC. The condensed consolidated balance sheet as of December 31, 2003 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 data integration and business intelligence software and are also derived from analytic application suites and data warehouse modules, which the Company ceased selling directly in July 2003. 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 SOP 97-2 (SOP 97-2) *Software Revenue Recognition,* as amended and modified by SOP 98-9. 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, the fees are fixed or determinable, collectibility is probable and vendor-specific objective evidence of fair value (VSOE) exists to allocate a portion of 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

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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 if all other revenue recognition criteria under SOP 97-2 have been satisfied. 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. When a customer is not deemed credit-worthy, revenue is recognized upon cash receipt, after all other revenue recognition criteria have been satisfied. 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 and after all other revenue recognition criteria have been satisfied. The Company ceased selling date warehouse modules in July 2003. For the Company s analytic application suites, which the Company ceased selling directly in July 2003, it recognizes both the license and maintenance revenue ratably over the initial maintenance period, generally one year, since the Company does not have VSOE of maintenance for its analytic application suites.

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 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 $1.0 million and with timely payment history, generally for the last 12 months. When resellers and distributors are not deemed credit-worthy, revenue is recognized upon cash receipt; for both cases, revenue is recognized after all other revenue recognition criteria have been satisfied. The Company s standard agreements do not contain product return rights.

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 $1.0 million and with timely payment history, generally for the last 12 months. 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, after all other revenue recognition criteria have been satisfied.

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. Education 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.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Deferred revenue includes deferred license, maintenance, consulting and education 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 we defer revenue until payment is received.

3. Intangible Assets

Intangible assets consist of the following (in thousands):

	June 30, 2004			December 31, 2003		
	Gross Carrying Amount	Accumulated Amortization	Net Intangible Assets	Gross Carrying Amount	Accumulated Amortization	Net Intangible Assets
Core technology	$6,373	$(3,797)	$2,576	$6,355	$(3,343)	$3,012
Developed technology	1,775	(1,069)	706	1,775	(359)	1,416
Customer relationships	945	(142)	803	945	(48)	897
Patents	297	(297)		297	(297)	