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.

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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

INFORMATICA CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Stock-based Compensation

The Company accounts for stock issued to employees using the intrinsic value method in accordance with Accounting Principles Board Opinion (APB) No. 25, *Accounting for Stock Issued to Employees*, and complies with the disclosure provisions of Statement of Financial Accounting Standard (SFAS) No. 123, *Accounting for Stock-Based Compensation* and SFAS No. 148, *Accounting for Stock-Based Compensation Transition and Disclosure.* Under APB No. 25, compensation expense of fixed stock options is based on the difference, if any, on the date of the grant between the fair value of the Company s stock and the exercise price of the option. The Company amortizes its stock-based compensation under APB 25 using a straight-line basis over the remaining vesting term of the related options. The Company accounts for stock issued to non-employees in accordance with the provisions of SFAS No. 123 and Emerging Issues Task Force (EITF) No. 96-18, *Accounting for Equity Instruments That are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling, Goods or Services.*

Pro forma information regarding net income and net income per share is required by SFAS No. 148 as if the Company had accounted for its employee stock options and shares issued under the Employee Stock Purchase Plan (ESPP) under the fair value method of SFAS No. 123. The fair value of the Company s stock-based awards to employees was estimated using the multiple option approach of the Black-Scholes option-pricing model. The related expense is amortized using an accelerated method over the vesting terms of the option as required by Financial Accounting Standards Board Interpretation (FIN) No. 28, *Accounting for Stock Appreciation Rights and Other Variable Stock Option or Awards Plans (an interpretation of APB Opinions No. 15 and 25).*

The fair value of the Company s stock-based awards was estimated assuming no expected dividends with the following weighted-average assumptions:

	Three Months Ended June 30,		**Six Months Ended June 30,**	
	2005	**2004**	**2005**	**2004**
Option Grants:				
Expected life of options (years)	3.0 year	3.0 year	3.0 year	3.0 year
Risk-free interest rate	3.7%	3.3%	3.8%	3.0%
Volatility	61%	85%	63%	87%
ESPP:				
Expected life of options (years)	1.25 year	1.25 year	1.25 year	1.25 year
Risk-free interest rate	3.1%	1.4%	3.1%	1.4%
Volatility	45%	64%	45%	64%

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. During the first quarter of 2005, the Company modified its approach and updated certain assumptions with respect to determining the estimated fair value of shares granted under its employee stock purchase plan, and made other corrections to its 2004 pro forma charges. The previous amounts for the three and six months ended June 30, 2004 have been revised to reflect these corrections. The pro forma stock-based compensation expense reported under the fair value method was previously reported as $4.1 million and $7.5 million for the three and six months ended June 30, 2004, respectively.

INFORMATICA CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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 Black-Scholes method of SFAS No. 123, the Company s net income (loss) and basic and diluted net income (loss) per share would have been changed to the pro forma amounts indicated below (in thousands, except per share amounts):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2005	**2004**	**2005**	**2004**
Net income, as reported	$ 7,641	$ 979	$ 11,950	$ 2,870
Stock-based employee compensation included in net income as reported, net of related tax effects*	224	1,693	462	2,331
Stock-based employee compensation using the fair value method, net of related tax effects*	(4,254)	(5,817)	(8,956)	(9,593)
Net income (loss), pro forma	$ 3,611	$ (3,145)	$ 3,456	$ (4,392)
Basic net income (loss) per common share:				
As reported	$ 0.09	$ 0.01	$ 0.14	$ 0.03
Pro forma	$ 0.04	$ (0.04)	$ 0.04	$ (0.05)
Diluted net income (loss) per common share:				
As reported	$ 0.09	$ 0.01	$ 0.13	$ 0.03
Pro forma	$ 0.04	$ (0.04)	$ 0.04	$ (0.05)

* The tax effects on stock-based compensation have been fully reserved by way of a valuation allowance.

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

Note 2. Comprehensive Income (Loss)

Other comprehensive income refers to gains and losses that, under the accounting principles generally accepted in the United States of America, are recorded as an element of stockholders equity and are excluded from net income.

Comprehensive income (loss) consisted of the following items (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2005	**2004**	**2005**	**2004**
Net income, as reported	$ 7,641	$ 979	$ 11,950	$ 2,870
Other comprehensive income (loss):				
Unrealized gain (loss) on investments*	244	(786)	(20)	(741)
Foreign currency translation adjustment*	(1,138)	79	(1,766)	(145)
Comprehensive income	$ 6,747	$ 272	$ 10,164	$ 1,984

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INFORMATICA CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Accumulated other comprehensive income (loss) as of June 30, 2005 and December 31, 2004 consisted of the following (in thousands):

	June 30, 2005	December 31, 2004
Unrealized loss on investments	$ (665)	$ (645)
Cumulative foreign currency translation adjustment	654	2,420
	$ (11)	$ 1,775

* The tax effect on unrealized gain (loss) on investment and foreign currency translation adjustment has not been significant.

Note 3. Goodwill and Intangible Assets

The carrying amount of the goodwill and intangible assets as of June 30, 2005 and December 31, 2004 is as follows (in thousands):

	June 30, 2005			December 31, 2004		
	Gross Carrying Amount	Accumulated Amortization	Net Amount	Gross Carrying Amount	Accumulated Amortization	Net Amount
Core technology	$ 6,378	$ (4,726)	$ 1,652	$ 6,429	$ (4,257)	$ 2,172
Purchased technology	2,500		2,500			
Developed technology	1,775	(1,775)		1,775	(1,775)	
Customer relationships	945	(331)	614	945	(237)	708
Patents	297	(297)		297	(297)	
Total intangible assets	$ 11,895	$ (7,129)	$ 4,766	$ 9,446	$ (6,566)	$ 2,880
Goodwill			$ 81,897			$ 82,245

Amortization expense of intangible assets was approximately $0.3 million and $0.6 million for three months ended June 30, 2005 and 2004, respectively, and $0.6 million and $1.3 million for six months ended June 30, 2005 and 2004, respectively. The weighted-average amortization periods of the Company s core technology, developed technology, customer relationships and patents are 3.5 years, 1.25 years, 5 years and 3 years, respectively. In the first quarter of 2005, the Company purchased a source code license with a value of $2.5 million. The amortization expense related to identifiable intangible assets as of June 30, 2005 is expected to be $0.6 million for the remainder of 2005, and $1.1 million, $0.5 million and $0.1 million in 2006, 2007 and 2008, respectively.

Core technology at June 30, 2005 and December 31, 2004 totaling $0.7 million and $1.0 million, net, related to the Company s acquisition of Striva Corporation in September 2003, was recorded in a European local currency; therefore the gross carrying amount and accumulated amortization are subject to periodic currency translation adjustments.

In the first quarter of 2005, the Company recorded a $0.1 million decrease in goodwill related to closing out an escrow account. In the second quarter of 2005, the Company recorded a $0.2 million decrease in goodwill related to a reduction of accrued merger costs.

INFORMATICA CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 4. Facilities Restructuring Charges

2004 Restructuring Plan

In October 2004, the Company announced a restructuring plan (2004 Restructuring Plan) related to the December 2004 relocation of the Company s corporate headquarters within Redwood City, California. In February 2005, the Company subleased approximately 187,000 square feet of its previous corporate headquarters at Pacific Shore Center through July 2013 with a right of termination by the tenant which is exercisable in July 2009. As a result, the Company recorded facilities restructuring charges (restructuring charges) of approximately $103.6 million, consisting of $21.6 million in leasehold improvement and asset write-offs and $82.0 million related to estimated facility lease losses, which is comprised of the present value of lease payment obligations for the remaining nine year lease term of the previous corporate headquarters, net of actual and estimated sublease income. In June 2005, the Company entered into a sublease agreement to sublease approximately 51,000 square feet of its excess space at Pacific Shore Center through August 2008 with an option to renew through July 2013. The Company has actual and estimated sublease income, including the reimbursement of certain property costs such as common area maintenance, insurance and property tax, net of estimated broker commissions of $1.1 million for the remainder of 2005, $4.3 million in 2006, $4.5 million in 2007, $4.4 million in 2008, $2.3 million in 2009, $0.8 million in 2010, $3.1 million in 2011, $3.7 million in 2012 and $3.0 million in 2013. If the Company is unable to sublease the Pacific Shore Center facilities during the remaining optional lease term through 2013, restructuring charges could increase by approximately $10.8 million.

The Company will recognize approximately $22.5 million of accretion as a restructuring charge over the remaining term of the lease, or approximately eight years, as follows: $2.3 million for the remainder of 2005; $4.3 million in 2006; $4.0 million in 2007; $3.6 million in 2008; $3.1 million in 2009; $2.4 million in 2010; $1.7 million in 2011; $0.9 million in 2012; and $0.2 million in 2013. Accretion represents imputed interest and is the difference between the Company s non-discounted future cash obligations and the discounted present value of these cash obligations.

2001 Restructuring Plan

During 2001, the Company announced a restructuring plan (2001 Restructuring Plan) and recorded restructuring charges of approximately $12.1 million, consisting of $1.5 million in leasehold improvement and asset write-offs and $10.6 million related to the consolidation of excess leased facilities in the San Francisco Bay Area and Texas.

During 2002, the Company recorded additional restructuring charges of approximately $17.0 million, consisting of $15.1 million related to estimated facility lease losses and $1.9 million in leasehold improvement and asset write-offs. The timing of the restructuring accrual adjustment was a result of negotiated and executed subleases for the Company s excess facilities in Dallas, Texas and Palo Alto, California during the third quarter of 2002. These subleases included terms that provided a lower level of sublease rates than the initial assumptions. The terms of these new subleases were consistent with the continued deterioration of the commercial real estate market in these areas. In addition, cost containment measures initiated in the same quarter, such as delayed hiring and salary reductions, resulted in an adjustment to management s estimate of occupancy of available vacant facilities. These charges represent adjustments to the original assumptions, including the time period that the buildings will be vacant, expected sublease rates, expected sublease terms and the estimated time to sublease. The Company calculated the estimated costs for the additional restructuring charges based on current market information and trend analysis of the real estate market in the respective area.

In December 2004, the Company recorded additional restructuring charges of $9.0 million related to estimated facility lease losses. The restructuring accrual adjustments recorded in the third and fourth

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quarters of 2004 were the result of the relocation of its corporate headquarters within Redwood City, California in December 2004, an executed sublease for the Company s excess facilities in Palo Alto, California during the third quarter of 2004 and an adjustment to management s estimate of occupancy of available vacant facilities. These charges represent adjustments to the original assumptions in the 2001 Restructuring Plan charges, including the time period that the buildings will be vacant; expected sublease rates; expected sublease terms; and the estimated time to sublease. The Company calculated the estimated costs for the additional restructuring charges based on current market information and trend analysis of the real estate market in the respective area. If the Company is unable to sublease any of the available vacant Pacific Shores facilities included in its 2001 Restructuring Plan during the remaining lease term through 2013, restructuring charges could increase by approximately $3.3 million.

Inherent in the estimation of the costs related to the restructuring efforts are assessments of the Company s ability to generate sublease income. The estimates of sublease income may vary significantly depending, in part, on factors which may be beyond the Company s control, such as the time periods required to locate and contract suitable subleases and the market rates at the time of such subleases.

A summary of the activity of the accrued restructuring charges for the six months ended June 30, 2005 and 2004 are as follows (in thousands):

	Accrued Restructuring Charges at December 31, 2004	Restructuring Charges	Restructuring Adjustments	Net Cash Payment	Non-Cash Reclass	Accrued Restructuring Charges at June 30, 2005
2004 Restructuring Plan						
Excess lease facilities	$ 88,521	$ 2,465	$ (823)	$ (7,082)	$ (21)	$ 83,060
2001 Restructuring Plan						
Excess lease facilities	20,730		(14)	(2,157)		18,559
	$ 109,251	$ 2,465	$ (837)	$ (9,239)	$ (21)	$ 101,619

	Accrued Restructuring Charges at December 31, 2003	Restructuring Charges	Net Cash Payment	Non-Cash Reclass	Accrued Restructuring Charges at June 30, 2004
2001 Restructuring Plan					
Excess lease facilities	$ 15,167		$ (2,161)		$ 13,006

In the three months ended June 30, 2005, the Company recorded $70,000 of restructuring charges. This charge included $1.2 million of accretion charges, and a $0.3 million adjustment related to the 2004 Restructuring Plan due to an increase in lease operating expense assumptions, offset by an adjustment to reflect a $1.4 million increase in the Company s assumed sublease income, as a result of subleasing excess space under the 2004 Restructuring Plan. In the six months ended June 30, 2005, the Company recorded $1.6 million of restructuring charges. This charge included

$2.5 million of accretion charges, and a $0.6 million adjustment related to the 2004 Restructuring Plan due to an increase in lease operating expense assumptions, offset by an adjustment to reflect a $1.4 million increase in the Company s assumed sublease income. As of June 30, 2005, $19.0 million of the $101.6 million accrued restructuring charges was classified as current liabilities and the remaining $82.6 million was classified as noncurrent liabilities.

The accrued merger costs include transaction costs and an accrual for excess leased facilities formerly occupied by Striva. In accordance with EITF No. 95-3, *Recognition of Liabilities in Connection with a Business Combination*, the liability associated with this restructuring is considered a liability assumed in

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the purchase price allocation. The $2.1 million merger accrual was adjusted by $0.2 million in both 2004 and 2003 to $1.7 million. Of the $1.7 million accrued merger costs included in the purchase price, $0.2 million and $1.0 million were paid in 2004 and 2003, respectively, and $18,000 and $36,000 was paid during the three and six months ended June 30, 2005, respectively. During the second quarter of 2005, the Company reduced accrued merger costs by approximately $0.2 million, resulting in a decrease in the goodwill balance due to an adjustment in facility restructuring assumptions. As of June 30, 2005, $67,000 of these costs was classified as current liabilities and $0.1 million was classified as noncurrent liabilities.

Note 5. Commitments and Contingencies

Lease Obligations

In December 2004, the Company relocated its corporate headquarters within Redwood City, California and entered into a new lease agreement. The lease term is from December 15, 2004 to December 31, 2007 (with a three-year renewal option). Minimum contractual lease payments are $1.5 million, $1.9 million and $2.1 million for the years ended December 31, 2005, 2006 and 2007, respectively.

The Company entered into two lease agreements in February 2000 for two office buildings in Redwood City, California, which it occupied in August 2001. The lease expires in July 2013. As part of these agreements, the Company purchased certificates of deposit totaling $12.2 million as a security deposit for lease payments until certain financial milestones are met. The letter of credit may be reduced to an amount not less than three months of the base rent at the then current rate if the Company s annual revenues reach $750 million, and the Company has quarterly operating profits of at least $100 million for no less than four consecutive calendar quarters. These certificates of deposit are classified as long-term restricted cash on the Company s consolidated balance sheet.

The Company leases certain office facilities under various noncancelable operating leases, including those described above, which expire at various dates through 2013 and require the Company to pay operating costs, including property taxes, insurance and maintenance. Operating lease payments in the table below include approximately $133.0 million, net of actual sublease income, for operating lease commitments for facilities that are included in restructuring charges. See Note 4, Restructuring Charges, above for a further discussion.

Future minimum lease payments as of June 30, 2005 under noncancelable operating leases with original terms in excess of one year are summarized as follows (in thousands):

	Operating Leases	Sublease Income	Net
Remaining 2005	$ 10,555	$ (1,058)	$ 9,497
2006	21,308	(3,163)	18,145
2007	20,174	(2,397)	17,777
2008	16,717	(2,392)	14,325
2009	17,169	(1,242)	15,927
Thereafter	61,370		61,370
	$ 147,293	$ (10,252)	$ 137,041

In June 2005, the Company subleased 51,000 square feet of office space at Pacific Shores Center, its previous corporate headquarters, in Redwood City, California through August 2008 with an option to renew through July 2013. In February 2005, the Company subleased 187,000 square feet of office space at Pacific Shores Center for the remainder of the lease term through July 2013 with a right of termination by

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the subtenant which is exercisable in July 2009. In 2004, the Company signed sublease agreements for leased office space in Palo Alto and Scotts Valley, California. In 2003, the Company signed sublease agreements for leased office space in San Francisco, Palo Alto and Redwood City, California. During 2002, the Company signed sublease agreements for leased office space in Palo Alto, California and Carrollton, Texas.

Warranties

The Company generally provides a warranty for its software products and services to its customers for a period of three to six months and accounts for its warranties under the Financial Accounting Standards Board (FASB) SFAS No. 5, *Accounting for Contingencies.* The Company s software products media are generally warranted to be free of defects in materials and workmanship under normal use, and the products are also generally warranted to substantially perform as described in certain Company documentation. The Company s services are generally warranted to be performed in a professional manner and to materially conform to the specifications set forth in a customer s signed contract. In the event there is a failure of such warranties, the Company generally will correct or provide a reasonable work around or replacement product. The Company has provided a warranty accrual of $0.2 million as of June 30, 2005 and December 31, 2004. To date, the Company s product warranty expense has not been significant.

Indemnification

The Company sells software licenses and services to its customers under contracts, which the Company refers to as the License to Use Informatica Software (License Agreement). Each License Agreement contains the relevant terms of the contractual arrangement with the customer, and generally includes certain provisions for indemnifying the customer against losses, expenses, and liabilities from damages that may be awarded against the customer in the event the Company s software is found to infringe upon a patent, copyright, trademark, or other proprietary right of a third party. The License Agreement generally limits the scope of and remedies for such indemnification obligations in a variety of industry-standard respects, including but not limited to certain time and scope limitations and a right to replace an infringing product.

The Company believes its internal development processes and other policies and practices limit its exposure related to the indemnification provisions of the License Agreement. In addition, the Company requires its employees to sign a proprietary information and inventions agreement, which assigns the rights to its employees development work to the Company. To date, the Company has not had to reimburse any of its customers for any losses related to these indemnification provisions, and no material claims against the Company are outstanding as of June 30, 2005. For several reasons, including the lack of prior indemnification claims and the lack of a monetary liability limit for certain infringement cases under the License Agreement, the Company cannot determine the maximum amount of potential future payments, if any, related to such indemnification provisions.

Litigation

On November 8, 2001, a purported securities class action complaint was filed in the United States District Court for the Southern District of New York. The case is entitled In re Informatica Corporation Initial Public Offering Securities Litigation, Civ. No. 01-9922 (SAS) (S.D.N.Y.), related to In re Initial Public Offering Securities Litigation, 21 MC 92 (SAS) (S.D.N.Y.). Plaintiffs amended complaint was brought purportedly on behalf of all persons who purchased the Company s common stock from April 29, 1999 through December 6, 2000. It names as defendants Informatica Corporation, two of the Company s former officers (the Informatica defendants), and several investment banking firms that served as underwriters of the Company s April 29, 1999 initial public offering and September 28, 2000 follow-on

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public offering. The complaint alleges liability as to all defendants under Sections 11 and/or 15 of the Securities Act of 1933 and Sections 10(b) and/or 20(a) of the Securities Exchange Act of 1934, on the grounds that the registration statements for the offerings did not disclose that: (1) the underwriters had agreed to allow certain customers to purchase shares in the offerings in exchange for excess commissions paid to the underwriters; and (2) the underwriters had arranged for certain customers to purchase additional shares in the aftermarket at predetermined prices. The complaint also alleges that false analyst reports were issued. No specific damages are claimed.

Similar allegations were made in other lawsuits challenging over 300 other initial public offerings and follow-on offerings conducted in 1999 and 2000. The cases were consolidated for pretrial purposes. On February 19, 2003, the Court ruled on all defendants motions to dismiss. The Court denied the motions to dismiss the claims under the Securities Act of 1933. The Court denied the motion to dismiss the Section 10(b) claim against Informatica and 184 other issuer defendants. The Court denied the motion to dismiss the Section 10(b) and 20(a) claims against the Informatica defendants and 62 other individual defendants.

The Company accepted a settlement proposal presented to all issuer defendants. In this settlement, plaintiffs will dismiss and release all claims against the Informatica defendants, in exchange for a contingent payment by the insurance companies collectively responsible for insuring the issuers in all of the IPO cases, and for the assignment or surrender of control of certain claims the Company may have against the underwriters. The Informatica defendants will not be required to make any cash payments in the settlement, unless the pro rata amount paid by the insurers in the settlement exceeds the amount of the insurance coverage, a circumstance which the Company does not believe will occur. The settlement will require approval of the Court, which cannot be assured, after class members are given the opportunity to object to the settlement or opt out of the settlement. The Court has set a hearing date of January 9, 2006 to consider final approval of the settlement.

On July 15, 2002, the Company filed a patent infringement action in U.S. District Court in Northern California against Acta Technology, Inc. (Acta), now known as Business Objects Data Integration, Inc. (BODI), asserting that certain Acta products infringe on three of our patents: U.S. Patent No. 6,014,670, entitled Apparatus and Method for Performing Data Transformations in Data Warehousing ; U.S. Patent No. 6,339,775, entitled Apparatus and Method for Performing Data Transformations in Data Warehousing (this patent is a continuation-in-part of and claims the benefit of U.S. Patent No. 6,014,670); and U.S. Patent No. 6,208,990, entitled Method and Architecture for Automated Optimization of ETL Throughput in Data Warehousing Applications. On July 17, 2002, the Company filed an amended complaint alleging that Acta products also infringe on one additional patent: U.S. Patent No. 6,044,374, entitled Object References for Sharing Metadata in Data Marts. In the suit, the Company is seeking an injunction against future sales of the infringing Acta/ BODI products, as well as damages for past sales of the infringing products. The Company has asserted that BODI s infringement of the Informatica patents was willful and deliberate. On September 5, 2002, BODI answered the complaint and filed counterclaims against us seeking a declaration that each patent asserted is not infringed and is invalid and unenforceable. BODI did not make any claims for monetary relief against us. The parties presented their respective claim constructions to the Court on September 24, 2003, and on August 1, 2005, the Court issued its claims construction order. The Company believes that the issued claims construction order is favorable to the Company s position on the infringement action. The matter is currently in the discovery phase.

The Company is also a party to various legal proceedings and claims arising from the normal course of business activities.

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Based on current available information, the Company does not expect that the ultimate outcome of these unresolved matters, individually or in the aggregate, will have a material adverse effect on its results of operations, cash flows or financial position.

Note 6. Income Taxes

The Company recorded an income tax provision of $0.8 million and $2.2 million for the three and six months ended June 30, 2005, respectively, which primarily represents federal alternative minimum taxes, income taxes currently payable on income generated in non-U.S. jurisdictions, and foreign withholding taxes. The Company recorded a provision for income tax of $0.3 million and $0.7 million for the three and six months ended June 30, 2004, which primarily represents federal alternative minimum taxes, and income and withholding taxes attributable to foreign operations. The expected tax provision derived from applying the federal statutory rate to the Company s income before income taxes for the six months period ending June 30, 2005 differed from the recorded income tax provision primarily due to the reversal of a portion of the Company s valuation allowance to reflect the utilization of approximately $3.7 million of tax attributes partially offset by foreign income and withholding taxes of $0.5 million and state taxes of $0.4 million.

Note 7. Stock Repurchases

On July 2, 2004, the Company announced a share repurchase program for up to five million shares of the Company s common stock. Purchases may be made from time to time in the open market and will be funded from available working capital. The number of shares to be purchased and the timing of purchases will be based on the level of the Company s cash balances and general business and market conditions. For the three and six months ended June 30, 2005, the Company purchased 882,500 shares at a cost of $6.9 million and 1,537,500 shares at a cost of $12.2 million, respectively. These shares were retired and reclassified as authorized and unissued shares of common stock.

Note 8. Recent Accounting Pronouncements

In June 2005, the FASB issued SFAS Statement No. 154, *Accounting Changes and Error Corrections*, (SFAS No. 154), which replaces APB No. 20, *Accounting Changes*, and FAS No. 3, *Reporting Accounting Changes in Interim Financial Statements*, and changes the requirements for the accounting for and reporting of a change in accounting principle. APB Opinion No. 20 previously required that most voluntary changes in accounting principle be recognized by including in net income of the period of change a cumulative effect of changing to the new accounting principle whereas where as SFAS No. 154 requires retrospective application to prior periods financial statements of a voluntary change in accounting principle, unless it is impracticable. SFAS No. 154 enhances the consistency of financial information between periods. SFAS No. 154 will be effective beginning with the Company s first quarter of fiscal year 2006. The Company does not expect that the adoption of SFAS No. 154 to have a material impact on its results of operations or financial position.

In December 2004, the FASB issued FASB Statement No. 123 (revised 2004) (SFAS No. 123(R)), *Share-Based Payment,* which is a revision of SFAS No. 123, *Accounting for Stock-Based Compensation.* SFAS No. 123(R) supersedes APB Opinion No. 25, *Accounting for Stock Issued to Employees,* and amends SFAS No. 95, *Statement of Cash Flows.* Generally, the approach in SFAS No. 123(R) is similar to the approach described in SFAS No. 123. However, SFAS No. 123(R) *requires* all share-based payments to employees, including grants of employee stock options, to be recognized in the income statement based on their fair values. Pro forma disclosure is no longer an alternative to financial statement recognition. SFAS No. 123(R) also requires the benefits of tax deductions in excess of recognized compensation expense to be reported as a financing cash flow, rather than as an operating cash flow as prescribed under current accounting rules. This requirement will reduce net operating cash flows and increase net financing cash flows in

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periods after adoption, but will result in no change to total cash flow. As permitted by SFAS No. 123, the Company currently accounts for share-based payments to employees using Opinion 25 s intrinsic value method. As a consequence, the Company generally recognizes no compensation cost for employee stock options and purchases under the Company s ESPP. The Company is required to adopt SFAS No. 123(R) in the first quarter of 2006. Although the Company has not completed its evaluation of the impact of this accounting pronouncement, the adoption of SFAS No. 123(R) s fair value method will have no adverse impact on the Company s total cash flows, but is expected to reduce the Company s net income and diluted earnings per share. The actual effects of adopting SFAS No. 123(R) will depend on numerous factors including the amounts of share-based payments granted in the future, the valuation model the Company uses to value future share-based payments to employees and estimated forfeiture rates. See Note 1. Summary of Significant Accounting Policies *Stock-Based Compensation,* above, for the effect on reported net income (loss) and earnings per share if the Company had accounted for its stock option and stock purchase plans using the fair value recognition provisions of SFAS No. 123.

Note 9. Significant Customer Information and Segment Reporting

The Company has adopted the provisions of SFAS No. 131, *Disclosures about Segments of an Enterprise and Related Information*, which establishes standards for the manner in which public companies report information about operating segments in annual and interim financial statements. It also establishes standards for related disclosures about products and services, geographic areas and major customers. The method for determining the information to report is based on the way management organizes the operating segments within the Company for making operating decisions and assessing financial performance.

The Company s chief operating decision-maker is considered to be the Chief Executive Officer. The Chief Executive Officer reviews financial information presented on a consolidated basis, accompanied by disaggregated information about revenues by geographic region for purposes of making operating decisions and assessing financial performance. On this basis, the Company is organized and operates in a single segment: the design, development and marketing of software solutions.

The following table presents geographic information (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2005	2004	2005	2004
Revenues:				
North America	$ 45,737	$ 38,963	$ 83,905	$ 76,204
Europe	15,913	11,814	34,601	26,341
Other	2,555	2,257	4,090	4,662