INFORMATICA CORP
Form 10-Q
May 05, 2011
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

R Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended March 31, 2011
or
£ 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 and 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 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.
R Yes £ No
Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the Registrant was required to submit and post such files). Yes R No £
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act.
Large accelerated filer R Accelerated filer £ Non-accelerated filer £ Smaller reporting company £
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). £ Yes R No
As of April 29, 2011, there were approximately 105,777,000 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
(In thousands)

	March 31, 2011 (Unaudited)	December 31, 2010
Assets		
Current assets:		
Cash and cash equivalents	$323,912	$208,899
Short-term investments	228,803	262,047
Accounts receivable, net of allowances of $3,618 and $4,289, respectively	91,635	147,534
Deferred tax assets	19,566	22,664
Prepaid expenses and other current assets	37,590	32,321
Total current assets	701,506	673,465
Property and equipment, net	9,259	9,866
Goodwill	396,514	400,726
Other intangible assets, net	71,712	77,927
Long-term deferred tax assets	27,598	18,314
Other assets	6,140	9,343
Total assets	$1,212,729	$1,189,641
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$5,930	$5,948
Accrued liabilities	38,349	50,199
Accrued compensation and related expenses	36,023	56,315
Accrued facilities restructuring charges	18,977	18,498
Deferred revenues	181,846	172,559
Convertible senior notes	—	200,693
Total current liabilities	281,125	504,212
Accrued facilities restructuring charges, less current portion	16,847	20,410
Long-term deferred revenues	6,425	6,987
Long-term deferred tax liabilities	275	311
Long-term income taxes payable	15,070	12,739
Total liabilities	319,742	544,659
Commitments and contingencies (Note 12)		
Stockholders' equity:		
Common stock	106	94
Additional paid-in capital	735,183	514,365
Accumulated other comprehensive loss	(264)	(5,530)
Retained earnings	157,962	136,053
Total stockholders' equity	892,987	644,982
Total liabilities and stockholders' equity	$1,212,729	$1,189,641

See accompanying notes to condensed consolidated financial statements.

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INFORMATICA CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(In thousands, except per share data)
(Unaudited)

	Three Months Ended March 31, 2011	2010
Revenues:		
License	$71,501	$55,047
Service	96,531	80,083
Total revenues	168,032	135,130
Cost of revenues:		
License	1,441	965
Service	27,314	23,057
Amortization of acquired technology	4,293	2,772
Total cost of revenues	33,048	26,794
Gross profit	134,984	108,336
Operating expenses:		
Research and development	30,587	23,578
Sales and marketing	59,582	51,419
General and administrative	12,038	11,408
Amortization of intangible assets	2,081	2,710
Facilities restructuring charges	510	656
Acquisitions and other	(1,702)	3,649
Total operating expenses	103,096	93,420
Income from operations	31,888	14,916
Interest income	1,095	951
Interest expense	(1,780)	(1,580)
Other income (expense), net	(932)	1,980
Income before income taxes	30,271	16,267
Income tax provision	8,362	4,473
Net income	$21,909	$11,794
Basic net income per common share	$0.23	$0.13
Diluted net income per common share	$0.20	$0.12
Shares used in computing basic net income per common share	96,858	90,748
Shares used in computing diluted net income per common share	112,318	107,374

See accompanying 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, 2011	2010
Operating activities:		
Net income	$21,909	$11,794
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,468	1,829
Allowance for (recovery of) doubtful accounts	(517)	63
Gain on sale of investment in equity interest	—	(1,824)
Stock-based compensation	7,512	5,482
Deferred income taxes	(337)	(632)
Tax benefits from stock-based compensation	5,476	4,189
Excess tax benefits from stock-based compensation	(5,397)	(3,325)
Amortization of intangible assets and acquired technology	6,374	5,482
Non-cash facilities restructuring charges	510	656
Other non-cash items	(1,702)	(6)
Changes in operating assets and liabilities:		
Accounts receivable	56,416	42,099
Prepaid expenses and other assets	(6,076)	2,403
Accounts payable and accrued liabilities	(26,892)	(18,924)
Income taxes payable	(2,187)	(5,276)
Accrued facilities restructuring charges	(3,553)	(3,604)
Deferred revenues	8,725	2,776
Net cash provided by operating activities	61,729	43,182
Investing activities:		
Purchases of property and equipment	(605)	(1,300)
Purchases of investments	(58,112)	(42,569)
Purchase of investment in equity interest	—	(1,500)
Sale of investment in equity interest	—	4,824
Maturities of investments	42,390	64,318
Sales of investments	48,503	81,047
Business acquisitions, net of cash acquired	—	(168,777)
Net cash provided by (used in) investing activities	32,176	(63,957)
Financing activities:		
Net proceeds from issuance of common stock	17,060	13,785
Repurchases and retirement of common stock	(3,181)	—
Redemption of convertible senior notes	(4)	—
Withholding taxes related to restricted stock units net share settlement	(2,659)	(1,108)
Excess tax benefits from stock-based compensation	5,397	3,325
Net cash provided by financing activities	16,613	16,002
Effect of foreign exchange rate changes on cash and cash equivalents	4,495	(2,400)
Net increase (decrease) in cash and cash equivalents	115,013	(7,173)
Cash and cash equivalents at beginning of period	208,899	159,197
Cash and cash equivalents at end of period	$323,912	$152,024

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 (“Informatica,” or the “Company”) have been prepared in conformity with generally accepted accounting principles (“GAAP”) in the United States of America. However, certain information and footnote disclosures normally included in financial statements prepared in accordance with GAAP 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 normal and recurring adjustments that are necessary to fairly present the results of the interim periods presented. All of the amounts included in this Quarterly Report on Form 10-Q related to the condensed consolidated financial statements and notes thereto as of and for the three months ended March 31, 2011 and 2010 are unaudited. The interim results presented are not necessarily indicative of results for any subsequent interim period, the year ending December 31, 2011, or any other future period.

The preparation of the Company's condensed consolidated financial statements in conformity with GAAP requires management to make certain estimates, judgments, and assumptions. The Company believes that the estimates, judgments, and assumptions upon which it relies are reasonable based on information available at the time that these estimates, judgments, and assumptions are made. These estimates, judgments, and assumptions can affect the reported amounts of assets and liabilities as of the date of the financial statements as well as the reported amounts of revenues and expenses during the periods presented. To the extent there are material differences between these estimates and actual results, Informatica's financial statements would be affected. In many cases, the accounting treatment of a particular transaction is specifically dictated by GAAP and does not require management's judgment in its application. There are also instances that management's judgment in selecting an available alternative would not produce a materially different result.

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, 2010 included in the Company's Annual Report on Form 10-K filed with the SEC. The condensed consolidated balance sheet as of December 31, 2010 has been derived from the audited consolidated financial statements of the Company.

The Company's significant accounting policies are described in Note 2 to the audited consolidated financial statements included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2010. As discussed below, on January 1, 2011, the Company adopted an accounting pronouncement on multiple-deliverable revenue arrangements that are outside the scope of industry-specific revenue recognition guidance. There have been no other changes in our significant accounting policies since the end of fiscal year 2010.

Revenue Recognition

The Company's revenue recognition policy, except for the adoption of the new pronouncement, is included in Note 2 to the audited consolidated financial statements included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2010.

Multiple Element Arrangements

In October 2009, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2009-13, Revenue Recognition (Topic 605): Multiple-Deliverable Revenue Arrangements, which amended the accounting standards applicable to revenue recognition for multiple-deliverable revenue arrangements that are outside the scope of industry-specific software revenue recognition guidance. The new guidance amends the criteria for allocating consideration in multiple-deliverable revenue arrangements by establishing a selling price hierarchy. The selling price used for each deliverable will be based on vendor-specific objective evidence ("VSOE") if available, third-party evidence ("TPE") if VSOE is not available, or estimated selling price ("ESP") if neither VSOE nor TPE is available. The guidance also eliminates the use of the residual method of allocation and requires that arrangement consideration be allocated at the inception of the arrangement to all deliverables using the relative selling price method.

The Company adopted this guidance on a prospective basis on January 1, 2011, and therefore, is applicable to relevant revenue arrangements entered into or materially modified on or after that date.

The Company's multiple-element arrangements are primarily software or software-related, which are excluded from the new guidance. Multiple-element arrangements that include non-software related elements and software or software-related elements,

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which are included in the new guidance, are not material to date.

For multiple element arrangements that include software and non-software related elements, for example, on-site software licenses sold together with subscriptions for the Company's cloud and hosted address validation services, the Company allocates revenue to each software and non-software element as a group based upon the relative selling price of each. When applying the relative selling price method, the Company determines the selling price for each deliverable using VSOE of selling price, if it exists, or TPE of selling price. If neither VSOE nor TPE of selling price exist for a deliverable, the Company uses the ESP for that deliverable. Revenue allocated to each element is then recognized when the basic revenue recognition criteria is met for each element. The manner in which the Company accounts for multiple element arrangements that contain only software and software-related elements remains unchanged.

In certain limited instances, the Company is not able to establish VSOE for all deliverables in an arrangement with multiple elements. This may be due to the infrequent selling of each element separately, not pricing products or services within a narrow range, or only having a limited sales history. When VSOE cannot be established, the Company attempts to establish the selling price for each element based on TPE. TPE is determined based on competitor prices for similar deliverables when sold separately.

When the Company is unable to establish selling prices using VSOE or TPE, the Company uses ESP in the allocation of arrangement consideration. The Company determines ESP for a price or service by considering both market conditions and entity-specific factors. This includes, but is not limited to, geographies, market conditions, competitive landscape, internal costs, gross margin objectives, and pricing practices.

Given the nature of the Company's transactions, which are primarily software or software-related, the adoption of this new accounting guidance did not have a significant impact on the timing and pattern of revenue recognition when applied to multiple-element arrangements. Total net revenue as reported during the three months ended March 31, 2011 is materially consistent with total net revenue that would have been reported if the transaction entered into or materially modified after December 31, 2010 were subject to previous accounting guidance. The new accounting guidance for revenue recognition, if applied in the same manner to the year ended December 31, 2010, would not have had a material impact on total net revenues for the fiscal year 2010.

Fair Value Measurement of Financial Assets and Liabilities

The following table summarizes financial assets and financial liabilities that the Company measures at fair value on a recurring basis as of March 31, 2011 (in thousands):

	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Money market funds (i)	$12,049	$12,049	$—	$—
Marketable debt securities (ii)	262,300	—	262,300	—
Total money market funds and marketable debt securities	274,349	12,049	262,300	—
Foreign currency derivatives (iii)	216	—	216	—
Total assets	$274,565	$12,049	$262,516	$—
Liabilities:				
Foreign currency derivatives (iv)	$1,763	$—	$1,763	$—
Total liabilities	$1,763	$—	$1,763	$—

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INFORMATICA CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

The following table summarizes financial assets and financial liabilities that the Company measures at fair value on a recurring basis as of December 31, 2010 (in thousands):

	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Money market funds (i)	$2,231	$2,231	$—	$—
Marketable debt securities (ii)	271,546	—	271,546	—
Total money market funds and marketable debt securities	273,777	2,231	271,546	—
Foreign currency derivatives (iii)	152	—	152	—
Total assets	$273,929	$2,231	$271,698	$—
Liabilities:				
Foreign currency derivatives (iv)	$569	$—	$569	$—
Convertible senior notes	452,663	452,663	—	—
Total liabilities	$453,232	$452,663	$569	$—

(i) Included in cash and cash equivalents on the condensed consolidated balance sheets.
(ii) Included in either cash and cash equivalents or short-term investments on the condensed consolidated balance sheets.
(iii) Included in prepaid expenses and other current assets on the condensed consolidated balance sheets.
(iv) Included in accrued liabilities on the condensed consolidated balance sheets.

Money Market Funds, Marketable Debt Securities, and Convertible Senior Notes

The Company uses a market approach for determining the fair value of all its Level 1 and Level 2 money market funds, marketable securities, and Convertible Senior Notes.

To value its money market funds, the Company values the funds at $1 stable net asset value, which is the market pricing convention for identical assets that the Company has the ability to access.

The Company's marketable securities consist of certificates of deposit, commercial paper, corporate notes and bonds, municipal securities, and U.S. government and agency notes and bonds. To value its certificates of deposit and commercial paper, the Company uses mathematical calculations to arrive at fair value for these securities, which generally have short maturities and infrequent secondary market trades. For example, in the absence of any observable transactions, the Company may accrete from purchase price at purchase date to face value at maturity. In the event that a transaction is observed on the same security in the marketplace, and the price on that subsequent transaction clearly reflects the market price on that day, the Company will adjust the price in the system to the observed transaction price and follow a revised accretion schedule to determine the daily price.

To determine the fair value of its corporate notes and bonds, municipal securities, and U.S. government and agency notes and bonds, the Company uses a “consensus price” or a weighted average price for each security. Market prices for these securities are received from a variety of industry standard data providers (e.g., Bloomberg), security master files from large financial institutions, and other third-party sources. These multiple prices are used as inputs into a distribution-curve-based algorithm to determine the daily market value.

On March 18, 2011, the Company completed the redemption of its Convertible Senior Notes. The Company classified its convertible debt as Level 1 since it had quoted prices available in active markets. The estimated fair value of the

Company's Convertible Senior Notes as of December 31, 2010 was based on the Over-the-Counter market closing price of the Notes as of December 23, 2010 (the last trading day of the period), which was $452.7 million or $45.11 per share on an as converted basis.

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INFORMATICA CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Foreign Currency Derivatives and Hedging Instruments

The Company uses the income approach to value the derivatives using observable Level 2 market expectations at the measurement date and standard valuation techniques to convert future amounts to a single present value amount, assuming that participants are motivated but not compelled to transact. Level 2 inputs are limited to quoted prices that are observable for the assets and liabilities, which include interest rates and credit risk. The Company uses mid-market pricing as a practical expedient for fair value measurements. Key inputs for currency derivatives are the spot rates, forward rates, interest rates, and credit derivative markets. The spot rate for each currency is the same spot rate used for all balance sheet translations at the measurement date and is sourced from the Federal Reserve Bulletin. The following values are interpolated from commonly quoted intervals available from Bloomberg: forward points and the London Interbank Offered Rate ("LIBOR") used to discount and determine the fair value of assets and liabilities. One-year credit default swap spreads identified per counterparty at month end in Bloomberg are used to discount derivative assets for counterparty non-performance risk, all of which have terms of ten months or less. The Company discounts derivative liabilities to reflect the Company's own potential non-performance risk to lenders and has used the spread over LIBOR on its most recent corporate borrowing rate.

The counterparties associated with Informatica's foreign currency forward contracts are large credit-worthy financial institutions, and the derivatives transacted with these entities are relatively short in duration; therefore, the Company does not consider counterparty concentration and non-performance to be material risks at this time. Both the Company and the counterparties are expected to perform under the contractual terms of the instruments.

See Note 5. Other Comprehensive Income, Note 6. Derivative Financial Instruments, and Note 12. Commitments and Contingencies of Notes to Condensed Consolidated Financial Statements for a further discussion.

Note 2. Cash, Cash Equivalents, and Short-Term Investments

The Company's marketable securities are classified as available-for-sale as of the balance sheet date and are reported at fair value with unrealized gains and losses reported as a separate component of accumulated other comprehensive income in stockholders' equity, net of tax. Realized gains or losses and other-than-temporary impairments, if any, on available-for-sale securities are reported in other income or expense as incurred. Realized gains recognized for the three months ended March 31, 2011 and 2010 were approximately $308,000 and $71,000, respectively. The cost of securities sold was determined based on the specific identification method.

INFORMATICA CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

The following table summarizes the Company's cash, cash equivalents, and short-term investments as of March 31, 2011 (in thousands):

	March 31, 2011			
	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Cash	$278,366	$—	$—	$278,366
Cash equivalents:				
Money market funds	12,049	—	—	12,049
Commercial paper	8,598	—	—	8,598
Federal agency notes and bonds	7,399	—	—	7,399
U.S. government notes and bonds	17,500	—	—	17,500
Total cash equivalents	45,546	—	—	45,546
Total cash and cash equivalents	323,912	—	—	323,912
Short-term investments:				
Certificates of deposit	2,948	—	—	2,948
Commercial paper	12,739	—	—	12,739
Corporate notes and bonds	83,672	135	(147)	83,660
Federal agency notes and bonds	95,501	18	(212)	95,307
U.S. government notes and bonds	6,151	10	(15)	6,146
Municipal notes and bonds	28,002	27	(26)	28,003
Total short-term investments	229,013	190	(400)	228,803
Total cash, cash equivalents, and short-term investments*	$552,925	$190	$(400)	$552,715

* Total estimated fair value above included $274.3 million comprised of cash equivalents and short-term investments at March 31, 2011.

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INFORMATICA CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

The following table summarizes the Company's cash, cash equivalents, and short-term investments as of December 31, 2010 (in thousands):

	December 31, 2010			
	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Cash	$197,169	$—	$—	$197,169
Cash equivalents:				
Money market funds	2,231	—	—	2,231
Federal agency notes and bonds	9,499	—	—	9,499
Total cash equivalents	11,730	—	—	11,730
Total cash and cash equivalents	208,899	—	—	208,899
Short-term investments:				
Certificates of deposit	14,437	—	—	14,437
Commercial paper	10,977	—	—	10,977
Corporate notes and bonds	97,899	444	(86)	98,257
Federal agency notes and bonds	105,120	40	(140)	105,020
U.S. government notes and bonds	10,156	19	(10)	10,165
Municipal notes and bonds	23,205			