INFORMATICA CORP
Form 10-Q
May 08, 2014
Table of Contents

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 March 31, 2014
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.)

2100 Seaport Boulevard
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 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 ¨
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 þ 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 þ 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 ¨ No þ
As of April 30, 2014, there were approximately 109,792,000 shares of the registrant's Common Stock outstanding.

INFORMATICA CORPORATION
TABLE OF CONTENTS

Table of Contents

PART I: FINANCIAL INFORMATION
ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
INFORMATICA CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands, except par value)

	March 31, 2014 (Unaudited)	December 31, 2013
Assets		
Current assets:		
Cash and cash equivalents	$308,448	$297,818
Short-term investments	421,666	379,616
Accounts receivable, net of allowances of $4,372 and $4,135, respectively	161,014	204,374
Deferred tax assets	46,021	32,898
Prepaid expenses and other current assets	38,640	34,541
Total current assets	975,789	949,247
Property and equipment, net	159,587	157,308
Goodwill	523,114	523,142
Other intangible assets, net	36,103	41,625
Long-term deferred tax assets	31,882	44,865
Other assets	6,831	6,834
Total assets	$1,733,306	$1,723,021
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$8,995	$10,124
Accrued liabilities	50,311	63,055
Accrued compensation and related expenses	50,566	71,314
Income taxes payable	4,003	14,184
Deferred revenues	299,564	285,184
Total current liabilities	413,439	443,861
Long-term deferred revenues	12,533	12,938
Long-term deferred tax liabilities	45	44
Long-term income taxes payable	29,972	29,878
Other liabilities	3,400	550
Total liabilities	459,389	487,271
Commitments and contingencies (Note 11)		
Stockholders' equity:		
Common stock, $0.001 par value; 200,000 shares authorized; 109,550 shares and 108,643 shares issued and outstanding at March 31, 2014 and December 31, 2013, respectively	110	109
Additional paid-in capital	817,182	805,728
Accumulated other comprehensive loss	(1,353)	(3,212)
Retained earnings	457,978	433,125
Total stockholders’ equity	1,273,917	1,235,750
Total liabilities and stockholders' equity	$1,733,306	$1,723,021

See accompanying notes to condensed consolidated financial statements.

Table of Contents

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

	Three Months Ended March 31,	
	2014	2013
Revenues:		
Software	$103,043	$87,906
Service	140,054	126,394
Total revenues	243,097	214,300
Cost of revenues:		
Software	3,119	2,142
Service	40,229	36,030
Amortization of acquired technology	3,985	5,724
Total cost of revenues	47,333	43,896
Gross profit	195,764	170,404
Operating expenses:		
Research and development	45,685	39,523
Sales and marketing	91,584	84,057
General and administrative	20,053	18,487
Amortization of intangible assets	1,536	1,988
Acquisitions and other charges	89	1,650
Total operating expenses	158,947	145,705
Income from operations	36,817	24,699
Interest income	1,153	890
Interest expense	(127)	(120)
Other expense, net	(84)	(68)
Income before income taxes	37,759	25,401
Income tax provision	12,906	7,494
Net income	$24,853	$17,907
Basic net income per common share	$0.23	$0.17
Diluted net income per common share	$0.22	$0.16
Shares used in computing basic net income per common share	109,164	107,669
Shares used in computing diluted net income per common share	111,935	111,263

See accompanying notes to condensed consolidated financial statements.

Table of Contents

INFORMATICA CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(In thousands)
(Unaudited)

	Three Months Ended March 31, 2014	2013
Net income	$24,853	$17,907
Other comprehensive income:		
Change in foreign currency translation adjustment, net of tax benefit (expense) of $(161) and $303	569	(6,968)
Available-for-sale investments:		
Change in net unrealized gain (loss), net of tax benefit (expense) of $(57) and $44	93	(71)
Less: reclassification adjustment for net (gain) loss included in net income, net of tax benefit (expense) of $(1) and $3	(2)	4
Net change, net of tax benefit (expense) of $(56) and $41	91	(67)
Cash flow hedges:		
Change in unrealized gain, net of tax expense of $(550) and $(103)	898	169
Less: reclassification adjustment for net (gain) loss included in net income, net of tax benefit (expense) of $185 and $(2)	301	(3)
Net change, net of tax expense of $(735) and $(101)	1,199	166
Total other comprehensive income (loss), net of tax effect	1,859	(6,869)
Total comprehensive income, net of tax effect	$26,712	$11,038

See accompanying notes to condensed consolidated financial statements.

Table of Contents

INFORMATICA CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)
(Unaudited)

	Three Months Ended March 31,	
	2014	2013
Operating activities:		
Net income	$24,853	$17,907
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	4,300	3,687
Stock-based compensation	14,246	13,530
Deferred income taxes	(2,063)	(2,318)
Tax benefits from stock-based compensation	284	2,692
Excess tax benefits from stock-based compensation	(1,660)	(2,845)
Amortization of intangible assets and acquired technology	5,521	7,712
Changes in operating assets and liabilities:		
Accounts receivable	43,360	45,584
Prepaid expenses and other assets	(3,127)	362
Accounts payable and accrued liabilities	(27,845)	(26,231)
Income taxes payable	(9,101)	338
Deferred revenues	13,975	15,162
Net cash provided by operating activities	62,743	75,580
Investing activities:		
Purchases of property and equipment	(6,200)	(3,236)
Purchases of investments	(104,490)	(110,663)
Maturities of investments	46,180	58,119
Sales of investments	16,752	23,273
Business acquisitions, net of cash acquired	—	(7,464)
Net cash used in investing activities	(47,758)	(39,971)
Financing activities:		
Net proceeds from issuance of common stock	23,303	22,011
Repurchases and retirement of common stock	(23,323)	(21,994)
Withholding taxes related to restricted stock units net share settlement	(3,056)	(2,849)
Payment of contingent consideration	(3,061)	(520)
Excess tax benefits from stock-based compensation	1,660	2,845
Purchase of acquiree stock	—	(2,667)
Net cash used in financing activities	(4,477)	(3,174)
Effect of foreign exchange rate changes on cash and cash equivalents	122	(3,939)
Net increase in cash and cash equivalents	10,630	28,496
Cash and cash equivalents at beginning of period	297,818	190,127
Cash and cash equivalents at end of period	$308,448	$218,623

See accompanying notes to condensed consolidated financial statements.

Table of Contents

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, 2014 and 2013 are unaudited. The interim results presented are not necessarily indicative of results for any subsequent interim period, the year ending December 31, 2014, 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. Any material differences between these estimates and actual results will impact the Company's condensed consolidated financial statements. 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 areas in which management's judgment in selecting any available alternative would not produce a materially different result.
The condensed consolidated financial statements include the accounts of the Company and its wholly-owned and majority-owned subsidiaries. All intercompany accounts and transactions have been eliminated.
In November 2012, the Company acquired a majority interest in the shares of Heiler Software AG ("Heiler Software") at the end of the initial acceptance period of the takeover offer. The squeeze-out of the remaining shareholders was effective in the second quarter of 2013, increasing the Company's ownership in Heiler Software to 100 percent. The Company consolidated the financial results of Heiler Software with its financial results beginning in November 2012. The noncontrolling interest in the Company's net income was not significant to consolidated results for the first quarter of 2013 and therefore has been included as a component of other income (expense), net in the condensed consolidated statements of income.
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, 2013 included in the Company's Annual Report on Form 10-K filed with the SEC. The consolidated balance sheet as of December 31, 2013 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 year ended December 31, 2013.
Recent Accounting Pronouncements
In March 2013, the Financial Accounting Standards Board ("FASB") issued ASU 2013-05, Foreign Currency Matters (Topic 830): Parent's Accounting for the Cumulative Translation Adjustment upon Derecognition of Certain Subsidiaries or Groups of Assets within a Foreign Entity or of an Investment in a Foreign Entity. ASU 2013-05 clarifies that the cumulative translation adjustment ("CTA") should be released into net income upon the occurrence of certain qualifying events. The Company adopted ASU 2013-05 prospectively as required on January 1, 2014. Adoption of ASU 2013-05 did not impact the Company's condensed consolidated financial statements and disclosures.
In July 2013, the FASB issued ASU 2013-11, Income Taxes (Topic 740): Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists, which

clarifies that an unrecognized tax benefit should be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward if such settlement is required or expected in the event the uncertain tax position is disallowed. In situations where a net operating loss carryforward, a similar tax loss, or a tax credit carryforward is not available or the tax law of the jurisdiction does not require, and the entity does not intend to use the deferred tax asset for such purpose, the unrecognized tax benefit should be presented in the financial statements as a liability and should not be combined with deferred

Table of Contents

tax assets. The Company adopted ASU 2013-11 prospectively as required on January 1, 2014. Adoption of ASU 2013-11 did not impact the Company's condensed consolidated financial statements and disclosures.

There have been no other changes to the Company's significant accounting policies since the end of 2013.

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, 2014 (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)	$13,825	$13,825	$—	$—
Time deposits (ii)	23,306	23,306	—	—
Marketable debt securities (ii)	402,360	—	402,360	—
Total money market funds, time deposits, and marketable debt securities	439,491	37,131	402,360	—
Foreign currency derivatives (iii)	1,456	—	1,456	—
Total assets	$440,947	$37,131	$403,816	$—
Liabilities:				
Foreign currency derivatives (iv)	$218	$—	$218	$—
Total liabilities	$218	$—	$218	$—

The following table summarizes financial assets and financial liabilities that the Company measures at fair value on a recurring basis as of December 31, 2013 (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)	$21,893	$21,893	$—	$—
Time deposits (ii)	21,585	21,585	—	—
Marketable debt securities (ii)	370,384	—	370,384	—
Total money market funds, time deposits, and marketable debt securities	413,862	43,478	370,384	—
Foreign currency derivatives (iii)	284	—	284	—
Total assets	$414,146	$43,478	$370,668	$—
Liabilities:				
Foreign currency derivatives (iv)	$1,024	$—	$1,024	$—
Acquisition-related contingent consideration (iv)	3,071	—	—	3,071
Total liabilities	$4,095	$—	$1,024	$3,071

(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.

Table of Contents

INFORMATICA CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Money Market Funds, Time Deposits, and Marketable Debt Securities

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

To value its money market funds and time deposits, 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 third party pricing source for each security. If the market price is not available from the third party source, pricing from the Company's investment custodian is used.

Foreign Currency Derivatives and Hedging Instruments

The Company uses the income approach to value the derivatives using observable Level 2 market inputs 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 derivative assets and liabilities. The Company uses mid-market pricing as a practical expedient for fair value measurements. Key inputs for foreign currency derivatives are the spot rates, forward rates, interest rates, and credit derivative market rates. The spot rate for each foreign 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. Credit default swap spread curves 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 twelve 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 the Company’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.

There were no transfers between Level 1 and Level 2 categories during the three months ended March 31, 2014 and 2013.

See Note 5. Accumulated Other Comprehensive Income (Loss), Note 6. Derivative Financial Instruments, and Note 11. Commitments and Contingencies of Notes to Condensed Consolidated Financial Statements for a further discussion.

Acquisition-related Contingent Consideration

The Company estimated the fair value of the acquisition-related contingent consideration using a probability-weighted discounted cash flow model. This fair value measure was based on significant inputs not observed in the market and thus represented a Level 3 instrument. Level 3 instruments are valued based on unobservable inputs that are supported by little or no market activity and reflect our own assumptions in measuring fair value. There were no transfers into or out of the Level 3 category during the three months ended March 31, 2014 and 2013. The change in fair value of acquisition-related contingent consideration is included in acquisitions and other charges in the condensed consolidated statements of income.

The changes in the acquisition-related contingent consideration liability for the three months ended March 31, 2014 consisted of the following (in thousands):

	March 31, 2014
Beginning balance as of December 31, 2013	$3,071
Change in fair value of contingent consideration	(10)
Payment of contingent consideration	(3,061)
Ending balance as of March 31, 2014	$—

See Note 13. Acquisitions of Notes to Condensed Consolidated Financial Statements for a further discussion.

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

The Company's short-term investments 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, 2014 and 2013 were negligible. The cost of securities sold was determined based on the specific identification method.

The following table summarizes the Company's cash, cash equivalents, and short-term investments as of March 31, 2014 (in thousands):

	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Cash	$290,623	$—	$—	$290,623
Cash equivalents:				
Money market funds	13,825	—	—	13,825
Federal agency notes and bonds	4,000	—	—	4,000
Total cash equivalents	17,825	—	—	17,825
Total cash and cash equivalents	308,448	—	—	308,448
Short-term investments:				
Certificates of deposit	1,200	—	—	1,200
Commercial paper	6,995	—	—	6,995
Corporate notes and bonds	207,969	293	(201)	208,061
Federal agency notes and bonds	69,945	19	(72)	69,892
Time deposits	23,306	—	—	23,306
Municipal notes and bonds	112,003	222	(13)	112,212
Total short-term investments	421,418	534	(286)	421,666
Total cash, cash equivalents, and short-term investments	$729,866	$534	$(286)	$730,114

The following table summarizes the Company's cash, cash equivalents, and short-term investments as of December 31, 2013 (in thousands):

	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Cash	$263,572	$—	$—	$263,572
Cash equivalents:				
Money market funds	21,893	—	—	21,893
U.S. government notes and bonds	12,353	—	—	12,353
Total cash equivalents	34,246	—	—	34,246
Total cash and cash equivalents	297,818	—	—	297,818
Short-term investments:				
Certificates of deposit	960	—	—	960
Commercial paper	12,738			