INFORMATICA CORP
Form 10-K/A
May 14, 2003

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-K/A

Amendment No. 1
to

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

For the fiscal year ended December 31, 2002

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.)*
2100 Seaport Boulevard Redwood City, California	**94063**
(Address of principal executive offices)	*(Zip Code)*

(650) 385-5000

(Registrant s Telephone Number, Including Area Code)

Securities Registered Pursuant to Section 12(b) of the Act: None

Securities Registered Pursuant to Section 12(g) of the Act:

Common Stock, par value $0.001 per share

Preferred Share Purchase Rights, par value $0.001 per share

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 Act) during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. þ

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). Yes þ No o

As of June 30, 2002, there were approximately 79,392,800 shares of the registrant s Common Stock outstanding. The aggregate market value of the Common Stock held by non-affiliates of the registrant (based on the closing price for the Common Stock on the Nasdaq National Market on June 28, 2002) was approximately $304,184,213. Shares of the registrant s Common Stock held by each executive officer and director and by each entity that owns 5% or more of the registrant s Common Stock have been excluded in that such persons may be deemed to be affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

As of February 28, 2003, there were approximately 80,158,097 shares of the registrant s Common Stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant s Proxy Statement for the registrant s 2003 Annual Meeting of Stockholders are incorporated by reference into Part III of this Form 10-K to the extent stated herein.

EXPLANATORY NOTE

The purpose of this Amendment No. 1 is to revise certain pro forma information required by Statement of Financial Accounting Standards (SFAS) No. 123, *Accounting for Stock-Based Compensation* (SFAS 123) and SFAS No. 148, *Accounting for Stock-Based Compensation Transition and Disclosure* (SFAS 148) in Note 9 to the Consolidated Financial Statements of the registrant filed as part of Item 8 of the registrant s Annual Report on Form 10-K for the fiscal year ended December 31, 2002. Specifically, this amendment corrects the pro forma numbers previously reported pursuant to SFAS 123 and SFAS 148 for the total stock-based compensation expense and the weighted-average fair value of options and shares granted for the years ended December 31, 2002 and 2001 and revises the presentation of the weighted-average expected life of the options.

THIS AMENDMENT DOES NOT CHANGE THE PREVIOUSLY REPORTED CONSOLIDATED FINANCIAL STATEMENTS.

Item 8 Financial Statements and Supplementary Data of Part II is hereby amended and restated in its entirety to read as follows:

Item 8. ***Financial Statements and Supplementary Data***

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REPORT OF ERNST & YOUNG LLP, INDEPENDENT AUDITORS

The Board of Directors and Stockholders

Informatica Corporation

We have audited the accompanying consolidated balance sheets of Informatica Corporation as of December 31, 2002 and 2001, and the related consolidated statements of operations, stockholders equity and cash flows for each of the three years in the period ended December 31, 2002. Our audits also included the financial statement schedule listed in the Index at Item 15(a). These consolidated financial statements and schedule are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Informatica Corporation at December 31, 2002 and 2001, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2002, in conformity with accounting principles generally accepted in the United States. Also in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

/s/ ERNST & YOUNG LLP

Palo Alto, California
January 20, 2003

INFORMATICA CORPORATION

CONSOLIDATED BALANCE SHEETS

(in thousands, except share data)

	December 31,	
	2002	**2001**
ASSETS		
Current assets:		
Cash and cash equivalents	$122,490	$131,264
Short-term investments	113,385	77,955
Accounts receivable, net of allowances of $1,349 and $2,295 in 2002 and 2001, respectively	29,982	29,131
Prepaid expenses and other current assets	8,680	7,061
Total current assets	274,537	245,411
Restricted cash	12,166	12,166
Property and equipment, net	47,370	53,180
Goodwill, net	30,274	29,564
Intangible assets, net	517	1,657
Other assets	330	925
Total assets	$365,194	$342,903
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 2,269	$ 2,934
Accrued liabilities	24,384	14,953
Accrued compensation and related expenses	12,666	15,848
Income taxes payable	2,064	2,874
Accrued restructuring charges	4,812	4,136
Deferred revenue	51,702	36,554
Total current liabilities	97,897	77,299
Accrued restructuring charges, less current portion	14,894	5,196
Commitments and contingencies		
Stockholders equity:		
Preferred stock, $0.001 par value; 2,000,000 shares authorized of which 200,000 shares have been designated as Series A preferred stock, $0.001 par value, none issued and outstanding		
Common stock, $0.001 par value; 200,000,000 shares authorized; 80,749,548 and 78,563,288 shares issued and outstanding at December 31, 2002 and 2001, respectively	348,631	342,335
Deferred stock-based compensation	(74)	(299)
Accumulated deficit	(97,994)	(82,380)
Accumulated other comprehensive income	1,840	752
Total stockholders equity	252,403	260,408
Total liabilities and stockholders equity	$365,194	$342,903

See accompanying notes to consolidated financial statements.

INFORMATICA CORPORATION

CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per share data)

	Year Ended December 31,		
	2002	**2001**	**2000**
Revenues:			
License	$ 99,943	$ 119,937	$ 101,649
Service	95,498	80,208	54,953
Total revenues	195,441	200,145	156,602
Cost of revenues:			
License	6,185	4,500	2,034
Service	39,246	42,539	31,009
Total cost of revenues	45,431	47,039	33,043
Gross profit	150,010	153,106	123,559
Operating expenses:			
Research and development	45,631	46,271	26,493
Sales and marketing	86,760	99,334	75,034
General and administrative	20,284	19,629	11,726
Amortization of stock-based compensation	221	1,036	1,514
Amortization of goodwill and other intangible assets	1,140	27,376	14,163
Purchased in-process research and development			8,648
Restructuring charges	17,030	12,096	
Total operating expenses	171,066	205,742	137,578
Loss from operations	(21,056)	(52,636)	(14,019)
Interest income and other, net	6,420	8,971	4,306
Interest expense	(57)	(11)	(458)
Loss before income taxes	(14,693)	(43,676)	(10,171)
Income tax provision	921	1,304	3,345
Net loss	$ (15,614)	$ (44,980)	$ (13,516)
Net loss per share:			
Basic and diluted	$ (0.20)	$ (0.58)	$ (0.19)
Shares used in calculation of net loss per share:			
Basic and diluted	79,753	77,599	69,758

See accompanying notes to consolidated financial statements.

INFORMATICA CORPORATION

CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY

(in thousands, except share data)

	Common Stock		Notes Receivable From	Deferred Stock-Based		Accumulated Other Comprehensive	Total Stockholders
	Shares	Amount	Stockholders	Compensation	Accumulated Deficit	Income (Loss)	Equity
Balances at December 31, 1999	63,997,236	$ 67,020	$ (40)	$ (2,888)	$ (23,884)	$ (84)	$ 40,124
Components of comprehensive loss:							
Net loss					(13,516)		(13,516)
Foreign currency translation adjustment						386	386
Comprehensive loss							(13,130)
Issuance of common stock in connection with secondary public offering, net of offering costs	4,750,000	190,961					190,961
Issuance of common stock in connection with acquisitions	1,325,820	56,508					56,508
Repurchase of common stock	(1,600)	(3)					(3)
Common stock options exercised	4,549,257	10,575					10,575
Common stock issued under employee stock purchase plan	967,472	3,908					3,908
Repayment of notes receivable from stockholders			40				40
Deferred stock-based compensation		2,073		(2,073)			
Amortization of stock-based compensation				1,514			1,514
Balances at December 31, 2000	75,588,185	331,042		(3,447)	(37,400)	302	290,497
Components of comprehensive loss:							
Net loss					(44,980)		(44,980)
Foreign currency translation adjustment						32	32
Unrealized gains on investments						418	418
Comprehensive loss							(44,530)
Issuance of common stock in connection with acquisitions	93,704	2,359					2,359
Common stock options exercised	1,936,001	5,334					5,334
Common stock issued under employee stock purchase plan	945,398	5,712					5,712
Deferred stock-based compensation adjustments		(2,112)		2,112			
Amortization of stock-based compensation				1,036			1,036
Balances at December 31, 2001	78,563,288	342,335		(299)	(82,380)	752	260,408
Components of comprehensive loss:							
Net loss					(15,614)		(15,614)
Foreign currency translation adjustment						783	783
Unrealized gains on investments						305	305
Comprehensive loss							(14,526)
Common stock options exercised	1,591,321	2,130					2,130
Common stock issued under employee stock purchase plan	947,173	5,730					5,730

Compensation expense related to stock options		190					190
Repurchase and retirement of common stock	(352,234)	(1,750)					(1,750)
Deferred stock-based compensation adjustments		(4)		4			
Amortization of stock-based compensation				221			221
Balances at December 31, 2002	80,749,548	$348,631	$	$ (74)	$(97,994)	$1,840	$252,403

See accompanying notes to consolidated financial statements.

INFORMATICA CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

	Year Ended December 31,		
	2002	**2001**	**2000**
Operating activities			
Net loss	$ (15,614)	$ (44,980)	$ (13,516)
Adjustments to reconcile net loss to net cash provided by operating activities:			
Depreciation and amortization	10,477	5,749	1,660
Sales and returns allowances	1,181	1,186	2,506
Provision for doubtful accounts	425	533	242
Amortization of stock-based compensation	221	1,036	1,514
Amortization of goodwill and other intangible assets	1,140	27,376	14,163
Purchased in-process research and development			8,648
Non-cash restructuring charges	1,887	1,497	
Gain on the sale of investments	(154)		
Loss on disposal of property and equipment	357	1,048	
Interest expense related to notes payable			125
Compensation expense related to stock options	190		
Adjustment to acquisition allocation	(710)		
Changes in operating assets and liabilities:			
Accounts receivable	(2,457)	899	(24,739)
Prepaid expenses and other current assets	(1,619)	(3,973)	(1,545)
Other assets	595	559	(1,236)
Accounts payable	(665)	(1,419)	(7,069)
Accrued liabilities	9,431	1,772	13,246
Accrued compensation and related expenses	(3,182)	3,803	5,093
Income taxes payable	(810)	(1,245)	2,919
Accrued restructuring charges	10,374	9,332	
Deferred revenue	15,148	12,748	13,561
Net cash provided by operating activities	26,215	15,921	15,572
Investing activities			
Purchase of property and equipment, net	(6,911)	(30,207)	(30,854)
Purchases of investments	(230,084)	(264,337)	
Proceeds from the sale of investments	195,113	186,800	
Acquisitions, net of cash acquired		(13,737)	(6,318)
Transfer from (to) restricted cash		8,116	(20,282)
Net cash used in investing activities	(41,882)	(113,365)	(57,454)
Financing activities			
Proceeds from secondary public offering of common stock, net			190,961
Proceeds from issuance of common stock, net of payments for repurchases	7,860	11,046	14,480
Repurchase and retirement of common stock	(1,750)		
Payments on notes payable to stockholders			(3,572)
Payments on capital lease obligations		(83)	(221)
Repayment of notes receivable from stockholders			40

Net cash provided by financing activities	6,110	10,963	201,688
Effect of foreign currency translation on cash and cash equivalents	783	32	386
Increase (decrease) in cash and cash equivalents	(8,774)	(86,449)	160,192
Cash and cash equivalents at beginning of year	131,264	217,713	57,521
Cash and cash equivalents at end of year	$ 122,490	$ 131,264	$ 217,713
Supplemental disclosures:			
Interest paid	$ 9	$ 3	$ 253
Income taxes paid	$ 1,943	$ 1,566	$ 163
Supplemental disclosures of noncash investing and financing activities:			
Deferred stock-based compensation related to options granted	$ (4)	$ (2,112)	$ 2,073
Common stock issued for acquisitions	$	$ 2,359	$ 56,508
Unrealized gain on available-for-sale securities	$ 305	$ 418	$

See accompanying notes to consolidated financial statements.

INFORMATICA CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Description of the Company and a Summary of its Significant Accounting Policies

Description of the Company

Informatica Corporation (the Company) was incorporated in California in February 1993 and reincorporated in Delaware in April 1999. The Company is a leading provider of business analytics software that enables its customers to automate the integration, analysis and delivery of critical corporate information. Using the Company s products, managers and executives gain valuable business insight they can use to help improve operational performance and enhance competitive advantage.

Basis of Presentation

The Consolidated Financial Statements include the accounts of the Company and its wholly-owned subsidiaries. All significant intercompany accounts and transactions have been eliminated.

The functional currency of the Company s foreign subsidiaries is the local currency. The Company translates all assets and liabilities of foreign subsidiaries to U.S. dollars at the current exchange rates as of the applicable balance sheet date. Revenue and expenses are translated at the average exchange rate prevailing during the period. Gains and losses resulting from the translation of the foreign subsidiaries financial statements are reported as a separate component of stockholders equity. Net gains and losses resulting from foreign exchange transactions, amounting to a gain (loss) of approximately $1.4 million, $(0.2) million and $(0.6) million for the years ended December 31, 2002, 2001 and 2000, respectively, are included in interest income and other, net in the accompanying Consolidated Statements of Operations.

Certain amounts in the Company s prior years Consolidated Balance Sheets and Statements of Operations were reclassified to conform with the current period presentation. Reimbursements received for out-of-pocket expenses have been reported as service revenues as a result of the adoption of Financial Accounting Standards Board (FASB) in Emerging Issues Task Force No. 01-14 (EITF 01-14), *Income Statement Characterization of Reimbursements Received for Out-of-Pocket Expenses Incurred.* In prior periods, the out-of-pocket expenses were reported as a reduction of cost of service revenues. As a result, the following amounts were reclassified for 2001 and 2000 (in thousands):

	Year Ended December 31, 2001	Year Ended December 31, 2000
Service revenues, as previously reported	$77,415	$52,409
Add: reimbursements for out-of-pocket expenses	2,793	2,544
Service revenues, reclassified	$80,208	$54,953
Cost of service revenues, as previously reported	$39,746	$28,465
Add: reimbursements for out-of-pocket expenses	2,793	2,544
Cost of service revenues, reclassified	$42,539	$31,009

Long-term investments have been reclassified to short-term investments to conform to the current period presentation. In accordance with Statement of Financial Accounting Standards (SFAS) No. 115, *Accounting for Certain Investments in Debt and Equity Securities,* and based on the Company s intention to have the marketable securities available to support its current operations, the Company classifies all marketable securities as available-for-sale and as short-term investments.

Certain identifiable intangible assets with indefinite lives have been reclassified to goodwill to conform to the current period presentation.

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INFORMATICA CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Use of Estimates

The Company s Consolidated Financial Statements are prepared in accordance with accounting principles generally accepted in the United States (GAAP). These accounting principles require us to make certain estimates, judgments and assumptions. The Company believes that the estimates, judgments and assumptions upon which we rely are reasonable based upon information available to us 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, our financial statements would have been 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 areas in which management s judgment in selecting any available alternative would not produce a materially different result.

Cash and Cash Equivalents and Restricted Cash

The Company considers highly liquid investment securities with maturities, at date of purchase, of ninety days or less to be cash equivalents. Cash and cash equivalents, which primarily consist of money market funds and government securities with insignificant interest rate risk, are stated at cost, which approximates fair value. Restricted cash consists of amounts held in deposits that are required as collateral under facilities lease agreements.

Investments

Investments are comprised of marketable securities, which consist primarily of commercial paper, government notes and bonds, corporate bonds and municipal securities with original maturities beyond ninety days. All marketable securities are held in the Company s name and custodied with three major financial institutions. The Company s marketable securities are reported at fair value, with unrealized gains and losses, net of tax, recorded in stockholders equity. The Company classifies all available-for-sale marketable securities as short-term investments. Realized gains or losses and permanent declines in value, if any, on available-for-sale securities will be reported in other income or expense as incurred.

Property and Equipment

Property and equipment is stated at cost less accumulated depreciation. Depreciation is provided using the straight-line method over the estimated useful lives of the related assets, generally three to five years. Leasehold improvements are amortized using the straight-line method over the shorter of the lease term or the estimated useful life of the related asset.

Software Development Costs

The Company accounts for software development costs in accordance with SFAS No. 86, *Accounting for the Costs of Computer Software to be Sold, Leased, or Otherwise Marketed,* under which certain software development costs incurred subsequent to the establishment of technological feasibility are capitalized and amortized over the estimated lives of the related products. Technological feasibility is established upon completion of a working model. Through December 31, 2002, costs incurred subsequent to the establishment of technological feasibility have not been significant and all software development costs have been charged to research and development expense in the accompanying Consolidated Statements of Operations.

Pursuant to AICPA Statement of Position (SOP) No. 98-1, *Accounting for Costs of Computer Software Developed or Obtained for Internal Use,* the Company capitalizes certain costs relating to software acquired, developed or modified solely to meet the Company s internal requirements and for which there are

INFORMATICA CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

no substantive plans to market the software. Costs capitalized relating to software developed to meet internal requirements were $4.4 million and $6.0 million for the years ended December 31, 2002 and 2001, respectively, and are included in property and equipment.

Goodwill and Other Intangible Assets

The FASB issued SFAS No. 141 (SFAS 141), *Business Combinations* and SFAS No. 142 (SFAS 142), *Goodwill and Other Intangible Assets* in July 2001. SFAS 141 requires that all business combinations be accounted for using the purchase method, thereby prohibiting the pooling-of-interests method. SFAS 141 also specifies criteria for recognizing and reporting intangible assets apart from goodwill; however, assembled workforce must be recognized and reported in goodwill. SFAS 142 requires that intangible assets with an indefinite life should not be amortized until their life is determined to be finite, and all other intangible assets must be amortized over their useful life. SFAS 142 also requires that goodwill not be amortized but instead tested for impairment in accordance with the provisions of SFAS 142 at least annually and more frequently upon the occurrence of certain events (see *Impairment of Long-Lived Assets* below).

The Company adopted certain provisions of these pronouncements effective July 1, 2001, as required for goodwill and intangible assets acquired in purchase business combinations consummated after June 30, 2001. The Company adopted the remaining provisions of SFAS 141 and SFAS 142 effective January 1, 2002. There was not a cumulative transition adjustment upon adoption as of July 1, 2001 or January 1, 2002. SFAS 141 and SFAS 142 required the Company to perform the following as of January 1, 2002: (i) review goodwill and intangible assets for possible reclassifications; (ii) reassess the lives of intangible assets; and (iii) perform a transitional goodwill impairment test. The Company reviewed the balances of goodwill and identifiable intangibles and reclassified $0.8 million relating to the carrying value of assembled workforce from identified intangibles to goodwill. The Company has also reviewed the useful lives of its identifiable intangible assets and determined that the original estimated lives remain appropriate. The Company completed the transitional goodwill impairment test and has determined that the Company did not have an impairment of goodwill.

As required by SFAS 142, the Company has not amortized goodwill associated with acquisitions completed after June 30, 2001, for any period presented, and ceased amortization of goodwill associated with acquisitions completed prior to July 1, 2001, effective January 1, 2002. Prior to January 1, 2002, the Company amortized goodwill associated with the pre-July 1, 2001 acquisitions over two years using the straight-line method. Identifiable intangible assets (acquired technology and patents) are currently amortized over two to three years using the straight-line method. See Note 2 and Note 6 for a further discussion of the Company s goodwill and other intangible assets.

Impairment of Long-Lived Assets

The Company assessed goodwill for impairment in accordance with SFAS 142, which requires that goodwill be tested for impairment at the reporting unit level (Reporting Unit) at least annually and more frequently upon the occurrence of certain events, as defined by SFAS 142. Consistent with the Company s determination that it has only one reporting segment, the Company has determined that it has only one Reporting Unit, specifically the license, implementation and support of our software applications. Goodwill was tested for impairment on the adoption of SFAS 142 on January 1, 2002 and in the annual impairment test on October 31, 2002 using the two-step process required by SFAS 142. First, the Company reviewed the carrying amount of its Reporting Unit compared to the fair value of the Reporting Unit based on quoted market prices of the Company s common stock and the discounted cash flows based on analyses prepared by the Company and with the assistance of third-party analysts. The Company s cash flow forecasts were based on assumptions that are consistent with the plans and estimates being used to manage the underlying assumptions. An excess carrying value compared to fair value would indicate that goodwill may be impaired. Second, if the Company determines that goodwill may be impaired, the Company compares the implied fair

INFORMATICA CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

value of the goodwill, as defined by SFAS 142, to its carrying amount to determine the impairment loss, if any. The Company completed the annual impairment test as of October 31, 2002, which did not result in any impairment charge.

On January 1, 2002, the Company adopted SFAS No. 144 (SFAS 144), *Accounting for the Impairment or Disposal of Long-Lived Assets* which supersedes certain provisions of APB Opinion No. 30 *Reporting the Results of Operations Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions* and supersedes SFAS No. 121 *Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of.* There was not a cumulative transition adjustment upon adoption. In accordance with SFAS 144, the Company evaluates long-lived assets, other than goodwill, for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable based on expected undiscounted cash flows attributable to that asset. The amount of any impairment is measured as the difference between the carrying value and the fair value of the impaired asset.

Concentrations of Credit Risk and Credit Evaluations

Financial instruments, which subject the Company to concentrations of credit risk, consist primarily of cash and cash equivalents, investments in marketable securities and trade accounts receivable. The Company maintains its cash and cash equivalents and investments with high quality financial institutions. The Company performs ongoing credit evaluations of its customers, which are primarily located in the U.S., Europe and Canada, and generally does not require collateral. Allowances for credit risks and for estimated future returns are provided upon shipment. Returns to date have not been material. Actual credit losses and returns may differ from the Company s estimates and such differences could be material to the financial statements.

Revenue Recognition

The Company generates revenues from sales of software licenses and services, which consist of maintenance, consulting and training. The Company s license revenues are derived from its business analytics software, which consists of data integration products and, to a lesser extent, data warehouse modules, business intelligence platform and analytic application suites. The Company receives software license revenues from licensing its products directly to end users and indirectly through resellers, distributors and OEMs. The Company receives service revenues from maintenance contracts, consulting services and training that it performs for customers that license its products either directly from the Company or indirectly through resellers, distributors and OEMs.

The Company recognizes revenue in accordance with SOP 97-2 *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, the fees are fixed or determinable, collectibility is probable and vendor-specific objective evidence of fair value exists to allocate the fee to the undelivered elements of the arrangement. Vendor-specific objective evidence is based on the price charged when an element is sold separately. In the case of an element not yet sold separately, the price is established by the Company s authorized management. If an acceptance period is required, the Company recognizes revenue upon customer acceptance or the expiration of the acceptance period. Credit-worthiness and collectibility for end users are first assessed on a country level and then, for those customers in countries deemed to have sufficient timely payment history, customers are assessed based on payment history and credit profile. For the data integration products, data warehouse modules and business intelligence platform sold directly to end users, the Company recognizes revenue upon shipment when collectibility is probable. When a customer is not deemed credit-worthy, revenue is recognized upon cash receipt. For the Company s analytic application suites, it recognizes both the license and maintenance revenue ratably over the maintenance period, generally one

INFORMATICA CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

year. Support for the analytic application suites for the first year is never sold separately and in consideration of the complexities of the implementation the customer is entitled to receive support services that are different than the standard annual support services of the Company s other products. The Company s standard agreements do not contain product return rights.

The Company also enters into reseller and distributor arrangements that typically provide for sublicense or end user license fees based on a percentage of list prices. Revenue arrangements with resellers and distributors require evidence of sell-through, that is, persuasive evidence that the products have been sold to an identified end user. For data integration products, data warehouse modules and business intelligence platform sold indirectly through the Company s resellers and distributors, the Company recognizes revenue upon shipment and receipt of evidence of sell-through if the reseller or distributor has been deemed credit-worthy. Credit-worthiness and collectibility for resellers and distributors are first assessed on a country level and then, for those resellers and distributors in countries deemed to have sufficient timely payment history, resellers and distributors are assessed based on established credit history consisting of sales of at least one million dollars and with timely payment history, generally for the last twelve months. When resellers and distributors are not deemed credit-worthy, revenue is recognized upon cash receipt.

The Company also enters into OEM arrangements that provide for license fees based on inclusion of the Company s products in the OEMs products. These arrangements provide for fixed, irrevocable royalty payments. Credit-worthiness and collectibility for OEMs are first assessed on a country level and then, for those OEMs in countries deemed to have sufficient timely payment history, OEMs are assessed based on established credit history consisting of sales of at least one million dollars and with timely payment history, generally for the last twelve months. For credit-worthy OEMs, royalty payments are recognized when due. When OEMs are not deemed credit-worthy, revenue is recognized upon cash receipt.

The Company recognizes maintenance revenues, which consist of fees for ongoing support and product updates, ratably over the term of the contract, typically one year. Consulting revenues are primarily related to implementation services and product enhancements performed on a time-and-materials basis or, on a very infrequent basis, a fixed fee arrangement under separate service arrangements related to the installation and implementation of our software products. Training revenues are generated from classes offered at the Company s headquarters, sales offices and customer locations. Revenues from consulting and training 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 revenue includes deferred license, maintenance, consulting and training revenue. Deferred revenue amounts do not include items that are both deferred and unbilled. The Company s practice is to net unpaid deferred items against the related receivables balances from those OEMs, specific resellers, distributors and specific international customers for which we defer revenue until payment is received.

Shipping and Handling Costs

Shipping and handling costs in connection with our packaged software products are not material and are expensed as incurred and included in cost of license revenues in the Company s results of operations.

Advertising Expense

Advertising costs are expensed as incurred. Advertising expense was $0.3 million, $0.5 million and $1.5 million for the years ended December 31, 2002, 2001 and 2000, respectively.

INFORMATICA CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Stock-Based Compensation

The Company accounts for stock issued to employees in accordance with Accounting Principles Board Opinion No. 25 (APB 25), *Accounting for Stock Issued to Employees* and complies with the disclosure provisions of SFAS No. 123 (SFAS 123), *Accounting for Stock-Based Compensation* and SFAS No. 148 (SFAS 148), *Accounting for Stock-Based Compensation Transition and Disclosure.* Under APB 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. See Note 9 for the pro forma disclosure required under SFAS 148. The Company accounts for stock issued to non-employees in accordance with the provisions of SFAS 123 and 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.*

Net Loss Per Share

Under the provisions of SFAS No. 128, *Earnings per Share,* basic net loss per share is computed using the weighted-average number of common shares outstanding during the period. Diluted earnings per share reflects the potential dilution of securities by adding other common stock equivalents, including stock options, warrants and convertible preferred stock, 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 loss per share for all periods, as their inclusion would be antidilutive.

The calculation of basic and diluted net loss per share is as follows:

	Year Ended December 31,		
	2002	2001	2000
	(in thousands, except per share data)		
Net loss	$(15,614)	$(44,980)	$(13,516)
Weighted-average shares of common stock outstanding used in calculation of basic and diluted net loss per share	79,753	77,599	69,758
Basic and diluted net loss per share	$ (0.20)	$ (0.58)	$ (0.19)

If the Company had reported net income, the calculation of diluted earnings per share would have included the shares used in the computation of basic net loss per share as well as an additional 3,245,000, 5,121,000 and 10,654,000 common equivalent shares related to outstanding stock options and warrants not included in the calculations above (determined using the treasury stock method) for the years ended December 31, 2002, 2001 and 2000, respectively.

Comprehensive Income (Loss)

The Company reports comprehensive income or loss in accordance with the provisions of SFAS No. 130, *Reporting Comprehensive Income* , which establishes standards for reporting comprehensive income and its components in the financial statements. The components of other comprehensive income (loss) consist of unrealized gains and losses on available-for-sale securities and cumulative translation adjustments. Total comprehensive loss and the components of accumulated other comprehensive income are presented in the accompanying Consolidated Statements of Stockholders Equity. Tax effects of other comprehensive income (loss) are not material for any period presented.

Income Taxes

The Company accounts for income taxes in accordance with SFAS No. 109, *Accounting for Income Taxes,* which requires the use of the liability method in accounting for income taxes. Under this method,

INFORMATICA CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

deferred tax assets and liabilities are measured using enacted tax rates and laws that will be in effect when the differences are expected to reverse. Valuation allowances are established, when necessary, to reduce the deferred tax assets to the amounts expected to be realized.

Recent Accounting Pronouncements

In July 2002, the FASB issued SFAS No. 146 (SFAS 146), *Accounting for Costs Associated with Exit or Disposal Activities.* SFAS 146 addresses financial accounting and reporting for costs associated with an exit or disposal activity and requires such costs to be recognized when the liability is incurred. Previous guidance in EITF No. 94-3, *Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (Certain Costs Incurred in a Restructuring)* required that a liability for an exit cost be recognized at the date of a company s commitment to an exit plan. The provisions of SFAS 146 are effective for exit or disposal activities that are initiated by a company after December 31, 2002. The adoption of SFAS 146 is not expected to have a material effect on the Company s financial position or results of operations.

In December 2002, the FASB issued SFAS No. 148 (SFAS 148), *Accounting for Stock-Based Compensation -Transition and Disclosure* . SFAS 148 amends SFAS 123 to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, SFAS 148 amends the disclosure requirements of SFAS 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. The transition guidance and annual disclosure provisions of SFAS 148 are effective for fiscal years ending after December 15, 2002. The interim disclosure provisions are effective for financial reports containing financial statements for interim periods beginning after December 15, 2002. The adoption of SFAS 148 is not expected to have a material effect on the Company s financial position and results of operations.

In December 2002, the FASB issued Interpretation No. 45 (FIN 45), *Guarantor s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others.* FIN 45 elaborates on the disclosures to be made by a guarantor in its interim and annual financial statements about its obligations under certain guarantees that it has issued. It also clarifies that a guarantor is required to recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. The Company has adopted the disclosure requirements of FIN 45 as of December 31, 2002. In addition, the Company is required to adopt the initial recognition and measurement of the fair value of the obligation undertaken in issuing the guarantee on a prospective basis to guarantees issued or modified after December 31, 2002. As permitted under SFAS 148, the Company adopted on the disclosure provisions of the accounting standard in the Consolidated Financial Statements. The Company does not believe FIN 45 will have a material effect on its financial position or results of operations.

In January 2003, the FASB issued Interpretation No. 46 (FIN 46), *Consolidation of Variable Interest Entities* , an interpretation of Accounting Research Bulletin (ARB) No. 51, *Consolidated Financial Statements.* FIN 46 establishes accounting guidance for consolidation of a variable interest entity (VIE), formerly referred to as special purpose entities. FIN 46 applies to any business enterprise, both public and private, that has a controlling interest, contractual relationship or other business relationship with a VIE. FIN 46 provides guidance for determining when an entity, the Primary Beneficiary, should consolidate another entity, a VIE, that functions to support the activities of the Primary Beneficiary. We currently have no contractual relationship or other business relationship with a VIE and do not have any such plans and therefore the adoption will not have an effect on our consolidated financial position or results of operations.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. Business Combinations

In January 2001, the Company acquired syn-T-sys B.V. and syn-T-sys N.V. (syn-T-sys), distributors of Informatica products in the Netherlands and Belgium, respectively. The agreement was structured as a share purchase and accounted for as a purchase transaction. Under the terms of the agreement, the Company issued 44,161 shares of the Company s common stock, valued at approximately $1.5 million, and paid cash consideration of approximately $5.8 million in exchange for the outstanding shares of capital stock of syn-T-sys. The purchase price of the transaction, including related expenses, was approximately $7.5 million, which was allocated to the acquired assets and liabilities based on the estimated fair values as of the date of the acquisition. Amounts allocated to goodwill of $6.8 million were being amortized on a straight-line basis over a two-year period. In accordance with SFAS 142, goodwill will no longer be amortized after December 2001. The results of operations of syn-T-sys have been included in the Company s results of operations since the acquisition date. Pro forma results of operations have not been presented since the effects of the acquisition were not material to the Company s consolidated financial position, results of operations or cash flows for the periods presented.

In June 2001, the Company acquired Informatica Partners, a distributor of Informatica products in France. The agreement was structured as a share purchase and accounted for as a purchase transaction. Under the terms of the agreement, the Company issued 49,543 shares of the Company s common stock, valued at approximately $0.9 million, and paid cash consideration of approximately $4.0 million in exchange for the outstanding shares of capital stock of Informatica Partners. As part of the agreement, 6,907 of the shares issued pursuant to the acquisition were placed in escrow contingent on the continued employment of certain employees and were not included in the purchase price. In 2002, these 6,907 shares were released from escrow. The purchase price of the transaction, including related expenses, was approximately $5.0 million, which was allocated to the acquired assets and liabilities based on the estimated fair values as of the date of the acquisition. Amounts allocated to goodwill of $4.8 million were being amortized on a straight-line basis over a two-year period. In accordance with SFAS 142, goodwill will no longer be amortized after December 2001. The results of operations of Informatica Partners have been included in the Company s results of operations since the acquisition date.

The following unaudited pro forma adjusted summary reflects the Company s condensed consolidated results of operations for the year ended December 31, 2001 and 2000, assuming Informatica Partners had been acquired on January 1, 2000 and is not intended to be indicative of future results:

	Year ended December 31,	
	2001	2000
	(in thousands, except per share data)	
Pro forma adjusted total revenue	$200,624	$159,317
Pro forma adjusted net loss	$ (46,604)	$ (15,076)
Pro forma adjusted net loss per share basic and diluted	$ (0.60)	$ (0.22)

In February 2000, the Company acquired Delphi Solutions AG (Delphi), a distributor of Informatica products in Switzerland. The agreement was structured as a share purchase and accounted for as a purchase transaction. The estimated purchase price of $9.2 million included payments associated with 1999 revenues and projections for 2000 revenues. The first payment of approximately $3.6 million was paid in February 2000, and the second payment of approximately $4.3 million was paid in January 2001. In June 2001, we paid the final payment under the share purchase agreement. As a result, the purchase price and related goodwill were reduced by $0.6 million. Following the final payment in June 2001, the Company is no longer required to hold a certificate of deposit for $8.1 million, which was classified as restricted cash on the Company s Consolidated Balance Sheet until July 2001. The purchase price of the transaction was allocated to the acquired assets and liabilities based on the estimated fair values as of the date of the acquisition. Amounts allocated to goodwill of

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

$8.4 million, net of the $0.6 million reduction, were being amortized on a straight-line basis over a two-year period. In accordance with SFAS 142, goodwill will no longer be amortized after December 2001. As part of this agreement, the Company is required to hold a certificate of deposit for $8.1 million that was classified as restricted cash on the Company s balance sheet until July 2001. The results of operations of Delphi have been included in the Company s results of operations since the acquisition date. Pro forma results of operations have not been presented since the impact of Delphi s January 2000 results were not material to the Company s actual results of operations for the periods presented.

In August 2000, the Company completed the acquisition of Zimba, a leading provider of e-business analytic solutions that enable mobile professionals with real-time access to corporate and external information through wireless devices, voice recognition technology and the Internet. The transaction was accounted for as a purchase transaction. Under the terms of the agreement, the Company issued 507,544 shares of common stock in exchange for the outstanding shares of common stock of Zimba. In addition, all the outstanding options to purchase Zimba common stock were automatically converted into options to purchase the Company s common stock based on the conversion ratio in the agreement with a corresponding adjustment to their respective exercise prices. The total purchase price, including assumed liabilities and related expenses, was $26.0 million, of which $2.1 million was allocated to identifiable intangible assets, including core technology of $1.4 million, acquired workforce of $0.4 million and patents of $0.3 million, $0.6 million was allocated to assumed liabilities and related expenses, and the balance of $18.2 million was allocated to goodwill. Goodwill and other intangible assets were being amortized on a straight-line basis over two years for the acquired workforce and over three years for the core technology, patents and goodwill. In accordance with SFAS 142, goodwill will no longer be amortized after December 2001. Purchased in-process research and development of $5.1 million was expensed in the third quarter of 2000 because the in-process technology had not reached technological feasibility and had no alternative uses. The value of the purchased in-process research and development was computed using a discounted cash flow analysis based on management s estimates of future revenues, cost of revenues and operating expenses related to the products and technologies acquired from Zimba. All assumed options of Zimba were valued at fair value and included in the purchase price, net of the intrinsic value of any unvested options, which were included in deferred stock-based compensation as a component of stockholders equity and are being amortized over the remaining vesting period. The results of operations of Zimba have been included in the Company s results of operations since the acquisition date.

The following unaudited pro forma adjusted summary reflects the condensed consolidated results of operations for the year ended December 31, 2000, assuming Zimba had been acquired on January 1, 2000 and is not intended to be indicative of future results:

	Year Ended December 31, 2000
	(in thousands, except per share data)
Pro forma adjusted total revenue	$156,602
Pro forma adjusted net loss	$ (15,322)
Pro forma adjusted net loss per share basic and diluted	$ (0.22)

3. Asset Acquisitions

In April 2000, the Company announced a strategic alliance with PricewaterhouseCoopers (PwC) to jointly develop, market, sell and support analytic application suites. In connection with the agreement relating to the strategic alliance, PwC received 818,276 shares of the Company s common stock. The total purchase price, including related expenses, was approximately $31.8 million, which was allocated to goodwill and various identifiable intangible assets, including goodwill of $22.9 million, core technology of $1.7 million and acquired workforce and consultants of $5.0 million. Goodwill and other identifiable intangible assets were

INFORMATICA CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

being amortized on a straight-line basis over two years for the acquired workforce and consultants and over three years for the core technology and goodwill. In accordance with SFAS 142, goodwill will no longer be amortized after December 2001. Purchased in-process research and development of $2.2 million was expensed in the second quarter of 2000 because the in-process technology had not reached technological feasibility and had no alternative uses. The value of the purchased in-process research and development was computed using a discounted cash flow analysis based on management s estimates of future revenues, cost of revenues and operating expenses related to the products and technologies acquired from PwC.

In November 2000, the Company completed an intellectual property transfer agreement with certain individuals (QRB Developers). The acquisition was accounted for as a purchase transaction. The total purchase price, including related expenses, was approximately $4.1 million, of which $0.1 million was allocated to the acquired workforce and $2.7 million was allocated to goodwill. Goodwill and other identifiable intangible assets were being amortized on a straight-line basis over three years for goodwill and over two years for the acquired workforce. In accordance with SFAS 142, goodwill will no longer be amortized after December 2001. Purchased in-process research and development of $1.3 million was expensed in the fourth quarter of 2000 because the in-process technology had not reached technological feasibility and had no alternative uses. The value of the purchased in-process research and development was computed using a discounted cash flow analysis based on management s estimates of future revenues, cost of revenues and operating expenses related to the technologies acquired from QRB Developers.

4. 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. Realized gains and losses and permanent declines in value, if any, on available-for-sale securities will be reported in other income or expense as incurred. The Company reported a realized gain of $0.2 million for the year ended December 31, 2002. No realized gains and losses were reported for the years ended December 31, 2001 and 2000. The cost of securities sold was determined based on the specific identification method.

The available-for-sale securities consist of the following as of December 31, 2002:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
		(in thousands)		
Money market funds	$ 47,239	$	$	$ 47,239
Corporate notes and bonds	32,218	320		32,538
Municipal securities	26,200			26,200
U.S. Government notes and bonds	74,144	403		74,547
	$179,801	$723	$	$180,524

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The available-for-sale securities consist of the following as of December 31, 2001:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
		(in thousands)		
Money market funds	$ 86,343	$	$	$ 86,343
Corporate notes and bonds	20,086	303	(8)	20,381
Municipal securities	11,600			11,600
U.S. Government notes and bonds	57,451	129	(6)	57,574
	$175,480	$432	$(14)	$175,898

As of December 31, 2002, investments of $67.1 million are classified as cash and cash equivalents, $28.2 million are classified as short-term investments due within one year and $85.2 million are classified as short-term due within two years.

5. Property and Equipment

Property and equipment consists of the following:

	December 31,	
	2002	2001
	(in thousands)	
Computer and office equipment	$ 24,081	$12,811
Furniture and fixtures	6,700	6,675
Leasehold improvements	32,551	33,994
Capital work-in-progress	187	6,032
	63,519	59,512
Less accumulated depreciation and amortization	(16,149)	(6,332)
	$ 47,370	$53,180

Included in property and equipment are assets acquired under capital lease obligations with an original cost of approximately $0.9 million. As of December 31, 2002 and 2001, accumulated amortization of these assets was $0.9 million. The related amortization is included with depreciation expense.

The Company recorded a charge of $1.9 million and $1.5 million related to the write-off of leasehold improvements and furniture and fixtures at excess facilities during the year ended December 31, 2002 and 2001, respectively. See Note 8. Capital work-in-progress consists of capitalized costs relating to software acquired, developed or modified solely to meet the Company s internal requirements, pursuant to SOP No. 98-1. For the year ended December 31, 2002, the Company placed in service $6.0 million from capital work-in-progress as of December 31, 2001 to computer and office equipment and began amortization.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

6. Goodwill and Other Intangible Assets

Intangible assets consist of the following (in thousands):

	December 31, 2002			December 31, 2001		
	Gross Carrying Amount	Accumulated Amortization	Net Intangible Assets	Gross Carrying Amount	Accumulated Amortization	Net Intangible Assets
Core technology	$3,122	$(2,670)	$452	$3,122	$(1,630)	$1,492
Patents	297	(232)	65	297	(132)	165
Total intangible assets	$3,419	$(2,902)	$517	$3,419	$(1,762)	$1,657

Amortization expense of intangible assets was approximately $1.1 million, $1.1 million and $0.6 million for the years ended December 31, 2002, 2001, and 2000, respectively. The amortization expense related to identifiable intangible assets as of December 31, 2002 is expected to be $0.5 million for the year ended December 31, 2003.

As required by SFAS 142, the results for years ended December 31, 2001 and 2000 have not been restated. The following table discloses the effect on net income (loss) and basic and diluted net income (loss) per share as if the Company had not amortized its goodwill and assembled workforce under SFAS 142 for all periods presented (in thousands, except per share data):

	Year Ended December 31,		
	2002	2001	2000
Reported net loss	$(15,614)	$(44,980)	$(13,516)
Add:			
Goodwill and assembled workforce amortization, net of tax		26,237	13,540
Adjusted net income (loss)	$(15,614)	$(18,743)	$ 24
Basic and diluted net loss per share:			
Reported net income (loss) per share	$ (0.20)	$ (0.58)	$ (0.19)
Add:			
Goodwill and assembled workforce amortization, net of tax		0.34	0.19
Adjusted basic and diluted net income (loss) per share	$ (0.20)	$ (0.24)	$ 0.00

In 2002, the Company recorded an increase in goodwill of $0.7 million related to acquisitions to reflect an adjustment to the purchase price allocation.

7. Lease Obligations

In February 2000, the Company entered into two lease agreements for new corporate headquarters in Redwood City, California. The Company occupied the new corporate headquarters in August 2001. The lease expires in July 2013. The Company paid for tenant improvements, primarily related to the exercise of build-to-suit options under the facility lease agreement. The total cost of leasehold improvements for this facility through its completion in June 2002 was approximately $33.4 million. 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 covenants are met. 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,

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

including property taxes, insurance and maintenance. Rent expense was $16.2 million, $15.8 million and $4.8 million for the years ended December 31, 2002, 2001 and 2000, respectively. Operating lease payments in the table below include approximately $16.9 million, net of anticipated sublease income, for operating lease commitments for facilities that are included in restructuring charges. See Note 8 for a further discussion.

Future minimum lease payments as of December 31, 2002 under noncancelable operating leases with original terms in excess of one year are summarized as follows:

	Operating Leases
	(in thousands)
Years ending December 31:	
2003	$ 17,334
2004	17,897
2005	18,062
2006	17,969
2007	16,774
Thereafter	93,847
Total minimum lease payments	$181,883

During 2002, the Company signed sublease agreements for leased office space in Palo Alto, California and Carrollton, Texas. Under the sublease agreements, the Company received $0.1 million sublease income for the year ended December 31, 2002 and will receive sublease income of $0.6 million, $0.6 million, $0.5 million and $39,000 for the years ended December 31, 2003, 2004, 2005 and 2006, respectively.

8. Restructuring Charges

During 2001, the Company announced a 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 related to the consolidation of excess leased facilities in the San Francisco Bay Area and Texas as a result of continued deterioration of the commercial real estate market in these areas. 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 with the assistance of current market information and trend analysis provided by a commercial real estate brokerage firm retained by the Company.

Net cash payments for 2002 related to the consolidation of excess facilities amounted to $4.8 million. Actual future cash requirements may differ from the restructuring liability balances as of December 31, 2002 if the Company continues to be unable to sublease the excess leased facilities, there are changes to the time period that facilities are vacant, or the actual sublease income is different from current estimates. As of December 31, 2002, $19.7 million of lease termination costs, net of related costs and anticipated sublease income related to facilities to be subleased, remains accrued and is expected to be utilized by 2007. If the Company is unable to sublease any of the available vacant facilities during the remaining lease terms from the fourth quarter of 2004 through 2007, restructuring charges could increase by approximately $3.2 million. If the Company does not occupy certain available vacant facilities during the remaining lease terms from 2008 through 2013, restructuring charges could increase by approximately an additional $15.5 million.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

A summary of the activity of the accrued restructuring charges for the year ended December 31, 2002 is as follows (in thousands):

	Accrued Restructuring Charges at December 31, 2001	Adjustments	Cash Payments	Non-Cash Charges	Accrued Restructuring Charges at December 31, 2002
Property and equipment write-offs	$	$ 1,887	$	$(1,887)	$
Excess leased facilities	9,332	15,143	(4,769)		19,706
	$9,332	$17,030	$(4,769)	$(1,887)	$19,706

A summary of the activity of the accrued restructuring charges for the year ended December 31, 2001 is as follows (in thousands):

	Accrued Restructuring Charges at December 31, 2000	Additions	Cash Payments	Non-Cash Charges	Accrued Restructuring Charges at December 31, 2001
Property and equipment write-offs	$	$ 1,497	$	$(1,497)	$
Excess leased facilities		10,599	(1,267)		9,332
	$	$12,096	$(1,267)	$(1,497)	$9,332

As of December 31, 2002, $4.8 million of the $19.7 million accrued restructuring charges was classified as current liabilities and the remaining $14.9 million was classified as noncurrent liabilities.

9. Stockholders Equity

Common Stock

On October 3, 2000, the Company completed a follow-on public offering in which it sold 4,750,000 shares of common stock, including 750,000 shares in connection with the exercise of the underwriters over-allotment option, at $42.50 per share. The Company received $191.0 million in cash, net of underwriting discounts, commissions and other offering costs.

Stock Splits

On each of February 18, 2000 and November 29, 2000, the Company effected a two-for-one split of its common stock to be effected in the form of a stock dividend. The stock split was effected by distribution of one share of the Company s common stock for each share of common stock held by each stockholder of record. All references in the financial statements to number of shares and per share amounts of the Company s common stock have been restated for the effect of the stock splits.

Stock Option Plans

1993 and 1996 Flexible Stock Incentive Plans

The Company s 1993 and 1996 Flexible Stock Incentive Plans (the Stock Plans), in effect through our initial public offering, authorized the granting of 16,909,000 incentive and non-qualified common stock options to employees, directors, and consultants at exercise prices no less than 100% and 85%, respectively, of the fair market value of the common stock on the grant date, as determined by the Board of Directors. Options granted are exercisable over a maximum term of ten years and generally vest over a period of up to four years. In the event option holders cease to be employed by the Company, all unvested options are forfeited and all

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

vested options may be exercised within a 90 day period after termination; under the restricted portion of the plans, the Company also has the right to repurchase at the original purchase price any unvested shares if the holder is no longer employed by the Company. As of December 31, 2002, no outstanding common shares were subject to such repurchase rights. Options that are canceled under the 1996 Stock Plan are available for future grants under the 1999 Stock Incentive Plan. There were no shares available for option grants under the 1996 Stock Plan at December 31, 2002.

1999 Stock Incentive Plan

The Company s stockholders approved the 1999 Stock Incentive Plan (the 1999 Incentive Plan) in April 1999 under which 2,600,000 shares have been reserved for issuance. In addition, any shares not issued under the 1996 Stock Plan are also available for grant. The number of shares reserved under the Incentive Plan automatically increases annually beginning on January 1, 2000 by the lesser of 16,000,000 shares or 5% of the total amount of fully diluted shares of common stock outstanding as of such date. Under the 1999 Incentive Plan, eligible employees may purchase stock options, stock appreciation rights, restricted shares and stock units. The exercise price for incentive stock options and non-qualified options may not be less than 100% and 85%, respectively, of the fair value of common stock at the option grant date. Options granted are exercisable over a maximum term of ten years from the date of the grant and generally vest over a period of four years. As of December 31, 2002, the Company had 7,864,220 shares available for future issuance under the 1999 Incentive Plan.

1999 Non-Employee Director Stock Incentive Plan

The Company s stockholders adopted the 1999 Non-Employee Director Stock Option Incentive Plan (the Directors Plan) in April 1999 under which 1,000,000 shares have been reserved for issuance. Each non-employee joining the Board of Directors following the completion of the initial public offering will automatically receive options to purchase 100,000 shares of common stock at an exercise price per share equal to the fair market value of the common stock. These options are exercisable over a maximum term of five years and will vest in four equal annual installments on each yearly anniversary from the date of the grant. In addition, each non-employee director, who has been a member of the Board for at least six months prior to each annual stockholders meeting, will automatically receive options to purchase 20,000 shares of common stock at each such meeting. Each option will have an exercise price equal to the fair value of the common stock on the automatic grant date, a maximum term of five years and will vest on the first anniversary of the grant date. There were no automatic annual options granted in 2002 under the Directors Plan. As of December 31, 2002, the Company has 720,000 shares available for future issuance under the Directors Plan.

2000 Employee Stock Incentive Plan

In January 2000, the Board of Directors approved the 2000 Employee Stock Incentive Plan (the 2000 Incentive Plan) under which 1,600,000 shares have been reserved for issuance. Under the 2000 Incentive Plan, eligible employees and consultants may purchase stock options, stock appreciation rights, restricted shares and stock units. The exercise price for non-qualified options may not be less than 85% of the fair value of common stock at the option grant date. Options granted are exercisable over a maximum term of ten years from the date of the grant and generally vest over a period of four years from the date of the grant. As of December 31, 2002, the Company had 492,249 shares available for future issuance under the 2000 Incentive Plan.

Influence 1996 Incentive Stock Option Plan

In connection with the acquisition of Influence in 1999, the Company converted options to purchase shares of Influence common stock into options to purchase 574,104 shares of the Company s common stock.

INFORMATICA CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The number of shares of the Company s common stock issuable under each option and the exercise price for each grant were adjusted by an exchange ratio. The Company assumed the Influence Stock Incentive Plan (Influence Plan) under which the options had been originally granted, however, no further options will be granted under the Influence Plan. The converted options continue to be subject to the terms of the Influence Plan. The Influence Plan provided for the granting of incentive stock options and non-qualified stock options. The exercise price of all options granted prior to the acquisition were determined by the Influence Board of Directors and were not less than the fair market value on the date of the grant. The options generally expire seven years from the date of the grant and vest over a period of four years from the date of the grant.

Zimba 1999 Stock Option Plan

In connection with the acquisition of Zimba, as discussed in Note 2, the Company converted options to purchase shares of Zimba common stock into options to purchase 91,176 shares of the Company s common stock. The number of shares of the Company s common stock issuable under each option and the exercise price for each grant were adjusted by an exchange ratio. The Company assumed the Zimba 1999 Stock Option Plan (Zimba Plan) under which the options had been originally granted, however, no further options will be granted under the Zimba Plan. The converted options continue to be subject to the terms of the Zimba Plan. The Zimba Plan provided for the granting of incentive stock options and non-qualified stock options. The exercise price of all options granted prior to the acquisition were determined by the Zimba Board of Directors and were not less than the fair market value on the date of the grant. Generally, options granted were immediately exercisable and such resulting shares issued under the Zimba Plan were subject to certain repurchase rights, also assumed by the Company. As of December 31, 2002, there were no shares of the Company s common stock issued pursuant to the Zimba Plan that were subject to repurchase by the Company. These repurchase rights generally lapse over a four-year period from the date of grant. The options generally expire ten years from the date of the grant.

Stock Option Plan Activity

A summary of the Company s stock option activity under all plans is set forth below:

	Number of Shares	Weighted Average Exercise Price per Share
Outstanding at December 31, 1999	16,413,318	$ 5.60
Granted	6,680,460	34.34
Exercised	(4,549,257)	2.32
Canceled	(2,725,723)	11.15
Outstanding at December 31, 2000	15,818,798	17.73
Granted	3,847,350	17.75
Exercised	(1,936,001)	2.76
Canceled	(9,995,709)	28.19
Outstanding at December 31, 2001	7,734,438	7.96
Granted	11,848,462	7.58
Exercised	(1,591,321)	1.34
Canceled	(3,074,259)	10.65
Outstanding at December 31, 2002	14,917,320	$ 7.81

INFORMATICA CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following table summarizes information concerning currently outstanding and exercisable options as of December 31, 2002:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price per Share	Number	Weighted Average Exercise Price per Share
$ 0.06 $ 1.63	1,622,877	4.67	$ 0.75	1,612,660	$ 0.74
$ 1.75 $ 3.10	1,234,604	6.15	$ 2.60	1,158,152	$ 2.58
$ 3.23 $ 7.15	1,637,814	9.46	$ 4.95	155,414	$ 5.40
$ 7.21 $ 7.90	6,352,176	7.47	$ 7.90	3,849,981	$ 7.90
$ 7.91 $ 8.06	1,885,545	9.21	$ 8.06	423,498	$ 8.06
$ 8.07 $18.07	1,512,157	7.64	$13.98	762,808	$14.18
$18.22 $48.63	672,147	6.78	$25.97	534,397	$25.94
	14,917,320	7.48	$ 7.81	8,496,910	$ 7.48

Stock-Based Compensation

In connection with the grant of certain stock options to employees, the Company recorded deferred stock-based compensation of $0.8 million in 1999 prior to the Company s initial public offering and $2.8 million in 2000, representing the difference between the deemed fair value of the Company s common stock and the option exercise price at the date of grant. This deferred stock-based compensation is being amortized to operations over a four-year vesting period using the graded vesting method. The Company also recorded deferred stock-based compensation of $0.3 million in 2000 relating to the issuance of options to consultants. This amount was computed using the Black-Scholes option valuation model, and the related amortization is being charged to operations over the related term of these consulting agreements. In 1999 and 2000, the Company recorded a total of $1.9 million of deferred stock-based compensation in conjunction with the assumption of certain stock options in the acquisitions of Influence and Zimba, which is being amortized over four years. In 2001, we recorded a reduction for deferred stock-based compensation of $2.1 million of which $1.9 million was in connection with a cancelled bonus agreement related to cancelled stock options. During 2002, the Company charged $0.2 million of stock-based compensation to operations related to the modification of stock option vesting. Deferred stock-based compensation is presented as a reduction of stockholders equity. Amortization of stock-based compensation amounted to $0.2 million, $1.0 million and $1.5 million in 2002, 2001 and 2000, respectively.

1999 Employee Stock Purchase Plan

The stockholders adopted the 1999 Employee Stock Purchase Plan (the Purchase Plan) in April 1999 under which 1,600,000 shares have been reserved for issuance. The number of shares reserved under the Purchase Plan automatically increases beginning on January 1 of each year by the lesser of 6,400,000 shares or 2% of the total amount of fully diluted common stock shares outstanding on such date. Under the Purchase Plan, eligible employees may purchase common stock in an amount not to exceed 10% of the employees cash compensation. The purchase price per share will be 85% of the lesser of the common stock fair market value either at the beginning of a rolling two-year offering period or at the end of each six-month purchase period within the two-year offering period. During 2002, there were 947,173 shares issued under the Purchase Plan at a weighted-average price of $6.05 per share. As of December 31, 2002, the Company has 3,632,802 shares available for future issuance under the Purchase Plan.

INFORMATICA CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Pro Forma Effect of Stock-based Compensation

Pro forma information regarding results of operations and net loss per share is required by SFAS 123, which also requires that the information be determined as if the Company had accounted for its employee stock options under the fair value method of SFAS 123.

For all grants that were granted prior to the Company s initial public offering in April 1999, the fair value of these options was estimated at the date of the grant using a Black-Scholes option pricing model with the following weighed-average assumptions: a risk-free interest rate of 5.5% and 5.0% for 1999 and 1998, respectively; no dividend yield or volatility factors of the expected market price of the Company s common stock; and a weighted-average expected life of the option of five years. The fair value for the options granted subsequent to the Company s initial public offering was estimated at the date of grant using a Black-Scholes option pricing model using the following weighted-average assumptions: a risk-free interest rate of 3.8%, 4.6% and 6.2% for 2002, 2001 and 2000, respectively; a volatility factor of the expected market price of the Company s common stock of 97% for 2002, 127% for 2001 and 100% for 2000; no dividend yield; and a weighted-average expected life of the option of 2.4 years for 2002, 3.3 years for 2001 and 3.4 years for 2000.

The fair value of the shares granted under the Purchase Plan is estimated using the Black-Scholes option pricing model with the following weighted-average assumptions: a risk-free interest rate of 3.8%, 4.6% and 6.2% for 2002, 2001 and 2000, respectively; a volatility factor of the expected market price of the Company s common stock of 97% for 2002, 127% for 2001 and 100% for 2000; no dividend yield and a weighted-average expected life of approximately six months for 2002, 2001 and 2000.

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.

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 minimum value method of SFAS 123, the Company s net loss and basic and diluted net loss per share would have been increased to the pro forma amounts indicated below:

	Year Ended December 31,		
	2002	2001	2000
	(in thousands, except per share data)		
Net loss, as reported	$(15,614)	$ (44,980)	$(13,516)
Add: stock-based compensation expense included in reported net loss, net of related tax effects	411	1,036	1,514
Deduct: total stock-based compensation expense determined under fair value method for all awards, net of related tax effects	(47,442)	(87,485)	(66,889)
Net loss, pro forma	$(62,645)	$(131,429)	$(78,891)
Basic and diluted net loss per share, as reported	$ (0.20)	$ (0.58)	$ (0.19)
Basic and diluted net loss per share, pro forma	$ (0.79)	$ (1.69)	$ (1.13)

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. The weighted average fair value of options granted, which is the value assigned to the options under SFAS 123, was $9.29, $13.32 and $23.23 for options granted during 2002, 2001 and 2000, respectively. The weighted-average fair value of shares granted issued under the Purchase Plan was $3.35, $4.53 and $2.44 for 2002, 2001 and 2000, respectively.

INFORMATICA CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Stock Option Exchange Program

In July 2001, the Company adopted a voluntary stock option exchange program for its employees. Under the program, the Company s employees were given the option to cancel outstanding stock options previously granted in exchange for a new non-qualified stock option grant for an equal number of shares to be granted at a future date, at least six months and one day from the cancellation date of the exchanged options, which was September 14, 2001. Under the exchange program, options to purchase approximately 7.9 million shares of the Company s common stock were tendered and cancelled. On March 15, 2002, replacement options were granted to participating employees under the exchange program for approximately 7.7 million shares of common stock. Each participant received a one-for-one replacement option for each option included in the exchange at an exercise price of $7.90 per share, which was the fair market value of the Company s common stock on March 15, 2002. The new options have terms and conditions that are substantially the same as those of the cancelled options. The exchange program did not result in any additional compensation charges or variable plan accounting.

Stockholders Rights Plan

In October 2001, the Board of Directors adopted the Stockholder Rights Plan and declared a dividend distribution of one common stock purchase right for each outstanding share of common stock held on November 12, 2001. Each right entitles the holder to purchase 1/1000th of a share of Series A Preferred Stock of the Company, par value $0.001, at an exercise price of $90 per share. The rights become exercisable in certain circumstances and are redeemable at the Company s option, at an exercise price of $0.001 per right. The rights expire on the earlier of November 12, 2011 or on the date of their redemption or exchange. The Company may also exchange the rights for shares of common stock under certain circumstances. The Stockholders Rights Plan was adopted to protect stockholders from unfair or coercive takeover practices.

Stock Repurchase Plan

In September 2002, the Company s Board of Directors authorized a one-year stock repurchase program for up to five million shares of the Company s common stock. Purchases will 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, general business and market conditions, and other factors, including alternative investment opportunities. In 2002, the Company purchased 352,234 shares at a cost of $1.8 million. These shares were retired and reclassified as authorized and unissued shares of common stock.

10. Accumulated Other Comprehensive Income (Loss)

The components of accumulated other comprehensive income (loss) as of December 31, 2002 and 2001, as presented in the Consolidated Statements of Stockholders Equity, are as follows (in thousands):

	December 31, 2002	December 31, 2001
Unrealized gain on investments	$ 723	$418
Foreign currency translation adjustment	1,117	334
Accumulated other comprehensive income	$1,840	$752

INFORMATICA CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

11. Income Taxes

The federal, state and foreign income tax provisions for the years ended December 31, 2002, 2001 and 2001 are summarized as follows:

	Year Ended December 31,		
	2002	2001	2000
	(in thousands)		
Current:			
Federal	$	$ 76	$2,111
State	50	55	101
Foreign	871	1,173	1,133
	$921	$1,304	$3,345

The foreign income tax provision for December 31, 2002 of $0.9 million included a benefit of approximately $0.5 million attributable to the reversal of foreign income taxes accrued in prior periods due to a change in estimate.

The components of income (loss) before income taxes attributable to domestic and foreign operations are as follows:

	Year Ended December 31,		
	2002	2001	2000
	(in thousands)		
Domestic	$ (8,218)	$(36,103)	$(12,745)
Foreign	(6,475)	(7,573)	2,574
	$(14,693)	$(43,676)	$(10,171)

A reconciliation of the provision computed at the statutory federal income tax rate to the Company s income tax provision is as follows:

	Year Ended December 31,		
	2002	2001	2000
	(in thousands)		
Income tax benefit computed at statutory rate	$(5,143)	$(15,286)	$(3,560)
Federal alternative minimum taxes		76	2,794
State taxes	33	36	65
Foreign income tax	871	1,173	1,133
Non-deductible purchased technology		5,506	1,791
Non-deductible merger costs			797

Amortization of deferred stock compensation	77	363	
Valuation allowance	4,861	8,724	
Other	222	712	325
	$ 921	$ 1,304	$ 3,345

INFORMATICA CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Significant components of the Company s deferred tax assets are as follows:

	December 31,	
	2002	**2001**
	(in thousands)	
Deferred tax assets:		
Net operating loss carryforwards	$ 24,075	$ 27,783
Tax credit carryforwards	8,831	5,180
Deferred revenue	12,588	2,860
Reserves and accrued costs not currently deductible	9,024	10,932
Amortization of intangibles	2,967	1,979
Capitalized research and development	1,494	1,309
Total gross deferred tax assets	58,979	50,043
Valuation allowance	(58,979)	(50,043)
Net deferred tax assets	$	$

SFAS 109 provides for the recognition of deferred tax assets if realization of such assets is more likely than not. Based upon the weight of available evidence, which includes the Company s historical operating performance and the reported cumulative net losses in all prior years, the Company has provided a full valuation allowance against its net deferred tax assets. The valuation allowance increased by $8.9 million, $11.7 million and 25.8 million during the years ended December 31, 2002, 2001, and 2000 respectively.

As of December 31, 2002, approximately $38.2 million of the valuation allowance reflected above relates to the tax benefits of stock option deductions, which will be credited to equity when realized.

As of December 31, 2002, the Company has federal and state net operating loss carryforwards of approximately $67.6 million and $6.9 million, respectively. The Company also had federal and state research and development tax credit carryforwards of approximately $4.2 million and $4.1 million, respectively and foreign tax credits of approximately $2.0 million. The net operating loss carryforwards and tax credit carryforwards will expire at various times beginning in 2009, if not utilized.

Utilization of net operating loss and tax credit carryforwards may be subject to a substantial annual limitation due to the ownership change limitations provided by the Internal Revenue Code and similar state provisions. The annual limitation may result in the expiration of the net operating loss and credit carryforwards before utilization.

12. Employee 401(K) Plan

The Company s employee savings and retirement plan is qualified under Section 401 of the Internal Revenue Code. The Plan is available to all regular employees on the Company s U.S. payroll and provides employees with tax deferred salary deductions and alternative investment options. Employees may contribute up to 25% of their salary up to the statutory prescribed annual limit. The Company matches 50% per dollar contributed by eligible employees who participate in the plan, up to a maximum of $1,500 per calendar year. The Company s match was suspended for calender year 2002. The Company expensed $0, $0.8 million and $0.6 million in 2002, 2001 and 2000, respectively, for its matching contributions to the Plan. Contributions made by the Company vest 100% upon contribution. In addition, the Plan provides for discretionary contributions at the discretion of the Board of Directors. No discretionary contributions have been made by the Company to date.

INFORMATICA CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

13. Segment Information

The Company has adopted SFAS No. 131 (SFAS 131), Disclosure About Segments of an Enterprise and Related Information. The Company operates solely in one segment, the development and marketing of enterprise analytics software.

The Company markets its products and services in the United States and in foreign countries through its direct sales force and indirect distribution channels. No customer accounted for more than 10% of revenue in 2002, 2001 or 2000. Net revenue from international customers accounted for 26%, 28% and 20% of total net revenue in 2002, 2001 and 2000, respectively. There were no significant long-lived assets held outside the United States.

Revenue was derived from customers in the following geographic areas:

	Year Ended December 31,		
	2002	2001	2000
		(in thousands)	
North America	$145,178	$143,614	$124,785
Europe	46,132	52,252	30,851
Other	4,131	4,279	966
	$195,441	$200,145	$156,602

14. 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 FASB s 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 December 31, 2002 and 2001. To date, the Company s product warranty expense has not been significant.

15. Related Party Transaction

Mark A. Bertelsen, a director of Informatica since September 2002, serves as a member of Wilson Sonsini Goodrich & Rosati (WGSR), our principal outside legal counsel. Fees paid by the Company to WSGR for legal services rendered for the years ended December 31, 2002, 2001 and 2000 were $0.2 million, $0.2 million and $0, respectively. The Company believes that the services rendered by WSGR were provided on terms no more or less favorable than those with unrelated parties.

16. 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 now captioned as 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.).

On or about April 19, 2002, plaintiffs electronically served an amended complaint. The amended complaint is brought purportedly on behalf of all persons who purchased the Company s common stock from

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INFORMATICA CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

April 29, 1999 through December 6, 2000. It names as defendants the Company, one of the Company s current officers; one of the Company s former officers; and several investment banking firms that served as underwriters of the Company s April 29, 1999 initial public offering and September 28, 2000 secondary public offering. The amended complaint alleges liability as to all defendants under Sections 11 and 15 of the Securities Act of 1933 and Sections 10(b) and 20(a) of the Securities Exchange Act of 1934, on the grounds that the registration statement 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 amended complaint also alleges that false analyst reports were issued. No specific damages are claimed.

The Company is aware that similar allegations have been made in other lawsuits filed in the Southern District of New York challenging over 300 other initial public offerings and secondary offerings conducted in 1999 and 2000. Those cases have been consolidated for pretrial purposes before the Honorable Judge Shira A. Scheindlin. On July 15, 2002, the Company and its affiliated individual defendants (as well as all other issuer defendants) filed a motion to dismiss the complaint. On February 19, 2003, the Court ruled on the motions to dismiss. The Court denied the motions to dismiss claims under the Securities Act of 1933 in all but ten of the cases, including the case involving the Company. The Court denied the motion to dismiss the claim under Section 10(a) of the Securities Exchange Act of 1934 against the Company and 184 other issuer defendants, on the basis that the respective amended complaints alleged that the issuers had acquired companies or conducted follow-on offerings after their initial public offerings. The Court denied the motion to dismiss the claims under Section 10(a) and 20(a) of the Securities Exchange Act of 1934 against the Informatica individual defendants and sixty-two other individual defendants, on the basis that the respective amended complaints alleged that the individuals sold stock. The Company believes that it has meritorious defenses to the claims against it, and intends to defend itself vigorously.

On July 15, 2002, the Company filed a patent infringement action in U.S. District Court in Northern California against Acta Technology, Inc. (Acta), asserting that certain Acta products infringe on three of the Company s 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 Company 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 products, as well as damages for past sales of the infringing products. The Company has asserted that Acta s infringement of the Informatica patents was willful and deliberate. Acta answered the complaint on September 5, 2002, and filed counterclaims against the Company seeking a declaration that each patent asserted is not infringed and is invalid and unenforceable. Acta did not make any claims for monetary relief against the Company. The case is currently in the claim construction and discovery phase.

The Company is aware that a putative class action complaint titled Lui v. Credit Suisse First Boston Corporation et al, No. 03-20459, has been filed in the United States District Court, Southern District of Florida. The complaint purports to allege securities fraud, fraud, and negligent misrepresentation claims against: (1) Credit Suisse First Boston; (2) numerous companies whose initial public offerings were underwritten by Credit Suisse First Boston, including the Company; and (3) certain officers or directors of those companies, including two individuals affiliated with the Company at the time of the initial public offering. No specific amount of damages is claimed.

INFORMATICA CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The Company is also party to various legal proceedings and claims, either asserted or unasserted, arising from the normal course of business activities.

In management s opinion, resolution of these matters is not expected to have a material adverse impact on the Company s results of operations, cash flows or its financial position. However, depending on the amount and timing, an unfavorable resolution of any of these matters could materially and adversely affect the Company s future results of operations, cash flows or financial position in a particular period.

17. Selected Quarterly Consolidated Financial Data (Unaudited)

	Three Months Ended			
	March 31,	**June 30,**	**September 30,**	**December 31,**
	(in thousands, except per share data)			
2002 :				
Total revenues	$48,527	$ 49,146	$ 47,645	$ 50,123
Gross profit	37,270	37,699	36,504	38,537
Amortization of stock-based compensation	73	65	52	31
Amortization of other intangible assets	285	285	285	285
Restructuring charges			17,030	
Income (loss) from operations	(1,556)	(1,482)	(18,392)	374
Net income (loss)	(254)	434	(17,280)	1,486
Net income (loss) per share:				
Basic and diluted	$ (0.00)	$ 0.01	$ (0.22)	$ 0.02
Shares used in calculation of net income (loss) per share:				
Basic	78,963	79,308	79,999	80,720
Diluted	78,963	82,796	79,999	83,082
2001:				
Total revenues(1)	$54,898	$ 47,824	$ 47,093	$ 50,330
Gross profit	43,323	36,547	34,968	38,268
Amortization of stock-based compensation	356	316	277	87
Amortization of goodwill and other intangible assets	6,594	6,795	6,994	6,993
Restructuring charges			12,096	
Loss from operations	(2,939)	(10,129)	(29,321)	(10,247)
Net loss	(1,913)	(7,542)	(26,983)	(8,542)
Net loss per share:				
Basic and diluted	$ (0.02)	$ (0.10)	$ (0.35)	$ (0.11)
Shares used in calculation of net loss per share:				
Basic and diluted	76,628	77,307	78,038	78,400

(1) Services revenues and cost of service revenues have been reclassified for 2001 to reflect out-of-pocket expenses billed to customers as revenue rather than a reduction of the related expense. See Note 1 of Notes to Consolidated Financial Statements.

SIGNATURE

Pursuant to the requirements of section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

INFORMATICA CORPORATION

By: /s/ EARL E. FRY

Earl E. Fry
Chief Financial Officer, Senior Vice President and Secretary

Dated: May 14, 2003

CERTIFICATIONS

I, Gaurav S. Dhillon, certify that:

1. I have reviewed this annual report on Form 10-K, as amended, of Informatica Corporation;

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;

4. The registrant s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

   a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;

   b) evaluated the effectiveness of the registrant s disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the Evaluation Date); and

   c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant s other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant s auditors and the audit committee of registrant s board of directors (or persons performing the equivalent functions):

   a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant s ability to record, process, summarize and report financial data and have identified for the registrant s auditors any material weaknesses in internal controls; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant s internal controls; and

6. The registrant s other certifying officer and I have indicated in this annual report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

/s/ GAURAV S. DHILLON

Gaurav S. Dhillon
Chief Executive Officer and President

Dated: May 14, 2003

I, Earl E. Fry, certify that:

1. I have reviewed this annual report on Form 10-K, as amended, of Informatica Corporation;

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;

4. The registrant s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

   a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;

   b) evaluated the effectiveness of the registrant s disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the Evaluation Date); and

   c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant s other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant s auditors and the audit committee of registrant s board of directors (or persons performing the equivalent functions):

   a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant s ability to record, process, summarize and report financial data and have identified for the registrant s auditors any material weaknesses in internal controls; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant s internal controls; and

6. The registrant s other certifying officer and I have indicated in this annual report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

/s/ EARL E. FRY

Earl E. Fry
Chief Financial Officer and Senior Vice President

Dated: May 14, 2003

EXHIBIT INDEX

Exhibit Number	Document
3.1	Amended and Restated Certificate of Incorporation of Informatica Corporation.(1)
3.2	Bylaws, as amended, of Informatica Corporation.(1)
3.4	Certificate of Amendment to the Company s Amended and Restated Certificate of Incorporation to increase the aggregate number of shares of the Company s common stock authorized for issuance from 100,000,000 to 200,000,000 shares.(2)
3.5	Certificate of Designation of the Rights, Preferences and Privileges of Series A Participating Preferred Stock of Informatica Corporation.(3)
4.1	Reference is made to Exhibits 3.1 and 3.2.
4.2	Preferred Stock Rights Agreement, dated as of October 17, 2001, between Informatica Corporation and American Stock Transfer & Trust Company.(3)
10.1*	Company s 2000 Employee Stock Incentive Plan, as amended.(4)
10.6*	Form of Indemnification Agreement between the Company and each of its executive officers and directors.(1)
10.10*	Company s 1996 Flexible Stock Incentive Plan, including forms of agreements thereunder.(5)
10.11*	Company s 1999 Stock Incentive Plan, as amended.(6)
10.12*	Company s 1999 Employee Stock Purchase Plan, as amended, including forms of agreements thereunder.(7)
10.13*	Company s 1999 Non-Employee Director Stock Incentive Plan.(1)
10.14	Lease Agreement regarding Building 1 Lease, dated as of February 22, 2000, by and among the Company and Pacific Shores Center LLC.(8)
10.15	Lease Agreement regarding Building 2 Lease, dated as of February 22, 2000, by and among the Company and Pacific Shores Center LLC.(8)
10.16*	Offer Letter, dated as of July 2, 2001, by and among the Company and Kyle L. Bowker. (9)
10.17*	Severance Agreement and Mutual Release, dated as of July 29, 2002, by and among the Company and Diaz H. Nesamoney. (10)
10.18*	Severance Agreement and Mutual Release, dated as of July 31, 2002, by and among the Company and Kyle L. Bowker. (10)
10.19*	Offer Letter, dated as of August 6, 2002, by and among the Company and Clive A. Harrison. (10)
10.20*	Description of management arrangement with Earl E. Fry. (8)
21.1**	List of Subsidiaries.
23.2	Consent of Ernst & Young LLP, Independent Auditors.
99.1	Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

(1) Incorporated by reference to the identically numbered exhibit to Amendment No. 1 of the Company s Registration Statement on Form S-1 (Commission File No. 333-72677) filed with the Securities and Exchange Commission on April 8, 1999.

(2) Incorporated by reference to the identically numbered exhibit to the Company s Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on August 14, 2000.

(3) Incorporated by reference to the identically numbered exhibit to the Company s Registration Statement on Form 8-A filed with the Securities and Exchange Commission on November 6, 2001.

(4) Incorporated by reference to the identically numbered exhibit to the Company s Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on August 8, 2001.

(5) Incorporated by reference to the identically numbered exhibit to the Company s Registration Statement on Form S-1 (Commission File No. 333-72677) filed with the Securities and Exchange Commission on February 19, 1999.

(6) Incorporated by reference to exhibit 4.3 to the Company s Registration Statement on Form S-8 filed with the Securities and Exchange Commission on August 3, 2001.

(7) Incorporated by reference to exhibit 4.4 to the Company s Registration Statement on Form S-8 filed with the Securities and Exchange Commission on August 3, 2001.

(8) Incorporated by reference to the identically numbered exhibit to the Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 30, 2000.

(9) Incorporated by reference to the identically numbered exhibit to the Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 18, 2002.

(10) Incorporated by reference to the identically numbered exhibit to the Company s Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on November 13, 2002.

* Indicates management contract or compensatory plan or arrangement.

** Incorporated by reference to the identically numbered exhibit to the Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 19, 2002, to which this amendment applies.