INFORMATICA CORP
Form 10-Q
November 05, 2004

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

(Mark One)

þ	**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
	For the quarterly period ended September 30, 2004
	Or
o	**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

Commission file number 0-25871

Informatica Corporation

(Exact name of registrant as specified in its charter)

Delaware	**77-0333710**
(State or other jurisdiction of incorporation or organization)	*(IRS Employer Identification No.)*
2100 Seaport Blvd. Redwood City, California	**94063**
(Address of principal executive offices)	*(Zip Code)*

(650) 385-5000

(Registrant s telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 (the Exchange Act) during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No o

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

As of October 29, 2004, there were 86,570,864 shares of the registrant s Common Stock outstanding.

INFORMATICA CORPORATION

FORM 10-Q

For the Quarter Ended September 30, 2004

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PART I. FINANCIAL INFORMATION

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

INFORMATICA CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEETS

	September 30, 2004	December 31, 2003
	(Unaudited)	
	(In thousands)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 81,634	$ 82,903
Short-term investments	152,541	140,890
Accounts receivable, net of allowances of $777 and $1,269, respectively	38,106	34,375
Prepaid expenses and other current assets	6,510	5,124
Total current assets	278,791	263,292
Restricted cash	12,166	12,166
Property and equipment, net	32,880	38,734
Goodwill	82,003	82,186
Intangible assets, net	3,452	5,325
Other assets	1,374	1,105
Total assets	$410,666	$402,808
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 3,775	$ 4,458
Accrued liabilities	24,139	25,136
Accrued compensation and related expenses	11,008	14,251
Income taxes payable	1,565	1,983
Accrued restructuring charges	4,106	4,624
Accrued merger costs	261	543
Deferred revenue	56,111	51,282
Total current liabilities	100,965	102,277
Accrued restructuring charges, less current portion	17,460	10,543
Accrued merger costs, less current portion	226	389
Commitments and contingencies		
Stockholders equity	292,015	289,599
Total liabilities and stockholders equity	$410,666	$402,808

See notes to condensed consolidated financial statements.

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INFORMATICA CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2004	**2003**	**2004**	**2003**
	(In thousands, except per share data) (Unaudited)			
Revenues:				
License	$22,024	$22,070	$ 70,234	$ 68,524
Service	30,404	28,535	89,401	81,121
Total revenues	52,428	50,605	159,635	149,645
Cost of revenues:				
License	727	974	2,452	2,198
Service	10,399	9,745	30,145	28,661
Amortization of acquired technology	585	82	1,740	457
Total cost of revenues	11,711	10,801	34,337	31,316
Gross profit	40,717	39,804	125,298	118,329
Operating expenses:				
Research and development	12,339	12,090	39,565	34,812
Sales and marketing	22,574	20,353	67,716	62,275
General and administrative	5,950	5,190	15,616	15,981
Amortization of intangible assets	47	17	150	67
Purchased in-process research and development		4,524		4,524
Restructuring charge	9,673		9,673	
Total operating expenses	50,583	42,174	132,720	117,659
Income (loss) from operations	(9,866)	(2,370)	(7,422)	670
Interest income and other, net	1,014	2,895	2,129	5,275
Income (loss) before income taxes	(8,852)	525	(5,293)	5,945
Income tax provision (benefit)	(267)	781	422	1,870
Net income (loss)	$ (8,585)	$ (256)	$ (5,715)	$ 4,075
Net income (loss) per share:				
Basic and diluted	$ (0.10)	$ (0.00)	$ (0.07)	$ 0.05
Weighted shares used in calculation of net income (loss) per share:				
Basic	86,002	80,380	85,566	80,381
Diluted	86,002	80,380	85,566	83,097

See notes to condensed consolidated financial statements.

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INFORMATICA CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Nine Months Ended September 30,	
	2004	**2003**
	(In thousands) (Unaudited)	
Operating activities		
Net income (loss)	$ (5,715)	$ 4,075
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	7,468	8,406
Provision for doubtful accounts and sales returns	(126)	177
Stock-based compensation	3,105	65
Amortization of intangible assets and acquired technology	1,890	524
Purchased in-process research and development		4,524
Other	19	(41)
Changes in operating assets and liabilities:		
Accounts receivable	(3,605)	4,109
Prepaid expenses and other current assets	(1,213)	4,509
Other assets	(269)	1,001
Accounts payable	(683)	(18)
Accrued liabilities	(997)	856
Accrued compensation and related expenses	(3,243)	(538)
Income taxes payable	(418)	(258)
Accrued restructuring charges	6,399	(3,414)
Accrued merger charges	(232)	
Deferred revenue	4,799	(4,484)
Net cash provided by operating activities	7,179	19,493
Investing activities		
Purchase of property and equipment, net	(2,067)	(1,758)
Purchases of investments	(150,397)	(155,620)
Sales and maturities of investments	138,232	147,889
Acquisitions, net of cash acquired		(30,279)
Net cash used in investing activities	(14,232)	(39,768)
Financing activities		
Proceeds from issuances of common stock	11,730	6,532
Repurchases and retirement of common stock	(6,118)	(11,448)
Net cash provided by (used in) financing activities	5,612	(4,916)
Effect of foreign currency translation on cash and cash equivalents	172	315
Decrease in cash and cash equivalents	(1,269)	(24,876)
Cash and cash equivalents at beginning of period	82,903	105,590
Cash and cash equivalents at end of period	$ 81,634	$ 80,714

Supplemental disclosures:		
Income taxes paid	$ 188	$ 2,063
Supplemental disclosures of noncash investing and financing activities:		
Unrealized gain (loss) on available-for-sale securities	$ (514)	$ (562)

See notes to condensed consolidated financial statements.

INFORMATICA CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. Basis of Presentation

The accompanying condensed consolidated financial statements of Informatica Corporation (the Company) have been prepared in conformity with accounting principles generally accepted in the United States. However, certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed, or omitted, pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). In the opinion of management, the financial statements include all adjustments necessary (which are of a normal and recurring nature) for the fair presentation of the results of the interim periods presented. All of the amounts included in this report related to the condensed consolidated financial statements and notes thereto as of and for the three and nine months ended September 30, 2004 and 2003 are unaudited. The interim results presented are not necessarily indicative of results for any subsequent interim period, the year ended December 31, 2004 or any future period.

Approximately $62.9 million in municipal securities have been reclassified from cash and cash equivalents to short-term investments at September 30, 2003 to conform to the current year presentation.

For the three and nine months ended September 30, 2003, previously reported license revenues decreased by $0.7 million and $2.0 million and service revenues increased by $0.6 million and $1.9 million, respectively, due to an error in the allocation of revenues between license and service components in accordance with Statement of Position 98-9, *Modification of SOP 97-2, Software Revenue Recognition, with Respect to Certain Transactions* (SOP 98-9). The error was corrected in the fourth quarter of 2003. There was an immaterial difference in net income (loss) and no difference in net income (loss) per share from amounts previously reported. The Company did not amend any of its periodic reports previously filed with the SEC. However, the previously reported 2003 quarterly results have been adjusted in this Form 10-Q to reflect the impact of the error.

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

These unaudited condensed consolidated financial statements should be read in conjunction with our audited consolidated financial statements and notes thereto for the year ended December 31, 2003 included in the Company s Annual Report on Form 10-K filed with the SEC. The condensed consolidated balance sheet as of December 31, 2003 has been derived from the audited consolidated financial statements of the Company.

2. Revenue Recognition

The Company generates revenues from sales of software licenses and services, which consist of maintenance, consulting and training. The Company s license revenues are derived from its data integration and business intelligence software and are also derived from analytic application suites and data warehouse modules, which the Company ceased selling directly in July 2003. The Company receives software license revenues from licensing its products directly to end users and indirectly through resellers, distributors and OEMs. The Company receives service revenues from maintenance contracts, consulting services and training that it performs for customers that license its products either directly from the Company or indirectly through resellers, distributors and OEMs.

The Company recognizes revenue in accordance with SOP 97-2 (SOP 97-2) *Software Revenue Recognition,* as amended and modified by SOP 98-9. The Company recognizes license revenues when a noncancelable license agreement has been signed, the product has been shipped or the Company has provided the customer with the access codes that allow for immediate possession of the software, the fees are fixed or determinable, collectibility is probable and vendor-specific objective evidence of fair value (VSOE) exists to allocate a portion of the fee to the undelivered elements of the arrangement. VSOE is based on the price

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

charged when an element is sold separately. In the case of an element not yet sold separately, the price, which does not change before the element is made generally available, is established by authorized management. If an acceptance period is required, the Company recognizes revenue upon customer acceptance or the expiration of the acceptance period if all other revenue recognition criteria under SOP 97-2 have been satisfied. Credit-worthiness and collectibility for end users are first assessed on a country level and then, for those customers in countries deemed to have sufficient timely payment history, customers are assessed based on payment history and credit profile. When a customer is not deemed credit-worthy, revenue is recognized upon cash receipt, after all other revenue recognition criteria have been satisfied. For the data integration products, data warehouse modules and business intelligence platform sold directly to end users, the Company recognizes revenue upon shipment when collectibility is probable and after all other revenue recognition criteria have been satisfied. The Company ceased selling date warehouse modules in July 2003. For the Company s analytic application suites, which the Company ceased selling directly in July 2003, it recognizes both the license and maintenance revenue ratably over the initial maintenance period, generally one year, since the Company does not have VSOE of maintenance for its analytic application suites.

The Company 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 products sold indirectly through the Company s resellers and distributors, the Company recognizes revenue upon shipment and receipt of evidence of sell-through if the reseller or distributor has been deemed credit-worthy. Credit-worthiness and collectibility for resellers and distributors are first assessed on a country level and then, for those resellers and distributors in countries deemed to have sufficient timely payment history, resellers and distributors are assessed based on established credit history consisting of sales of at least $1.0 million and with timely payment history, generally for the last 12 months. When resellers and distributors are not deemed credit-worthy, revenue is recognized upon cash receipt; for both cases, revenue is recognized after all other revenue recognition criteria have been satisfied. The Company s standard agreements do not contain product return rights.

The Company also enters into OEM arrangements that provide for license fees based on inclusion of the Company s products in the OEMs products. These arrangements provide for fixed, irrevocable royalty payments. Credit-worthiness and collectibility for OEMs are first assessed on a country level and then, for those OEMs in countries deemed to have sufficient timely payment history, OEMs are assessed based on established credit history consisting of sales of at least $1.0 million and with timely payment history, generally for the last 12 months. For credit-worthy OEMs, royalty payments are recognized based on the activity in the royalty report the Company receives from the OEM, or in the case of OEMs with fixed royalty payments, revenue is recognized when the related payment is due. When OEMs are not deemed credit-worthy, revenue is recognized upon cash receipt, after all other revenue recognition criteria have been satisfied.

The Company recognizes maintenance revenues, which consist of fees for ongoing support and product updates, ratably over the term of the contract, typically one year. Consulting revenues are primarily related to implementation services and product enhancements performed on a time-and-materials basis or, on a very infrequent basis, a fixed fee arrangement under separate service arrangements related to the installation and implementation of the Company s software products. Education revenues are generated from classes offered at the Company s headquarters, sales offices and customer locations. Revenues from consulting and education services are recognized as the services are performed. When a contract includes both license and service elements, the license fee is recognized on delivery of the software or cash collections, provided services do not include significant customization or modification of the base product, and are not otherwise essential to the functionality of the software and the payment terms for licenses are not dependent on additional acceptance criteria.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Deferred revenue includes deferred license, maintenance, consulting and education revenue. The Company s practice is to net unpaid deferred items against the related receivables balances from those OEMs, specific resellers, distributors and specific international customers for which the Company defers revenue until payment is received.

3. Intangible Assets

Intangible assets consist of the following (in thousands):

	September 30, 2004			December 31, 2003		
	Gross Carrying Amount	Accumulated Amortization	Net Intangible Assets	Gross Carrying Amount	Accumulated Amortization	Net Intangible Assets
Core technology	$6,372	$(4,026)	$2,346	$6,355	$(3,343)	$3,012
Developed technology	1,775	(1,424)	351	1,775	(359)	1,416
Customer relationships	945	(190)	755	945	(48)	897
Patents	297	(297)		297	(297)	
Total intangible assets	$9,389	$(5,937)	$3,452	$9,372	$(4,047)	$5,325

Amortization expense of intangible assets was approximately $0.6 million and $0.1 million for the three months ended September 30, 2004 and 2003, and $1.9 million and $0.5 million for the nine months ended September 30, 2004 and 2003, respectively. The weighted-average amortization period of the Company s core technology, developed technology, customer relationships and patents are three and one half years, one and one quarter years, five years and three years, respectively. The amortization expense related to identifiable intangible assets as of September 30, 2004 is expected to be $0.6 million for the remainder of 2004 and $1.1 million, $1.1 million, $0.5 million and $0.1 million for the years ended December 31, 2005, 2006, 2007 and 2008, respectively.

4. Net Income (Loss) Per Share

Under the provisions of SFAS No. 128, *Earnings per Share,* basic net income (loss) per share is computed using the weighted-average number of common shares outstanding during the period. Diluted net income per share reflects the potential dilution of securities by adding other common stock equivalents, primarily stock options, to the weighted-average number of common shares outstanding during the period, if dilutive, using the treasury stock method. Potentially dilutive securities have been excluded from the computation of diluted net income per share if their inclusion is antidilutive.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The calculation of basic and diluted net income (loss) per share is as follows (in thousands, except per share data):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2004	2003	2004	2003
Net income (loss)	$ (8,585)	$ (256)	$ (5,715)	$ 4,075
Weighted-average shares outstanding	86,080	80,380	85,685	80,381
Weighted-average unvested common shares subject to repurchase	(78)		(119)	
Weighted-average basic common shares	86,002	80,380	85,566	80,381
Effect of dilutive securities				2,716
Weighted-average diluted common shares	86,002	80,380	85,566	83,097
Net income (loss) per share:				
Basic and diluted	$ (0.10)	$ (0.00)	$ (0.07)	$ 0.05

5. Stock-Based Compensation

The Company accounts for stock issued to employees using the intrinsic value method 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. 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.*

Pro forma information regarding net income (loss) and net income (loss) per share is required by SFAS 148 as if the Company had accounted for its employee stock options and shares issued under the Employee Stock Purchase Plan using the fair value method of SFAS 123. The fair value of the Company s stock-based awards to employees was estimated using a Black-Scholes option-pricing model.

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 Black-Scholes method of

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

SFAS 123, the Company s net income (loss) and basic and diluted net income (loss) per share would have been changed to the pro forma amounts indicated below (in thousands, except per share data):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2004	2003	2004	2003
Net income (loss), as reported	$ (8,585)	$ (256)	$ (5,715)	$ 4,075
Add: stock-based compensation expense included in reported net income (loss), net of related tax effects	405	22	1,680	65
Deduct: total stock-based compensation expense determined under fair value method for all awards, net of related tax effects	(4,214)	(5,800)	(11,677)	(19,129)
Net loss, pro forma	$(12,394)	$(6,034)	$(15,712)	$(14,989)
Basic and diluted net income (loss) per share, as reported	$ (0.10)	$ (0.00)	$ (0.07)	$ 0.05
Basic and diluted net loss per share, pro forma	$ (0.14)	$ (0.08)	$ (0.18)	$ (0.19)

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

In addition to the $1.7 million of stock-based compensation expense included in reported net income above related to the nine months ended September 30, 2004, the Company recorded $0.4 million related to the acceleration of stock options for terminated employees in the three months ended March 31, 2004 and $1.1 million in the three months ended June 30, 2004 related to the termination of the Company s right to repurchase shares of common stock issued to a former employee as part of an acquisition.

6. Comprehensive Income (Loss)

The components of comprehensive income (loss) are as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2004	2003	2004	2003
Net income (loss), as reported	$(8,585)	$(256)	$(5,715)	$4,075
Other comprehensive income:				
Unrealized gain (loss) on investments	226	(351)	(514)	(562)
Foreign currency translation adjustment	73	151	(71)	315
Comprehensive income (loss)	$(8,286)	$(456)	$(6,300)	$3,828

7. Recent Accounting Pronouncements

In March 2004, the EITF reached a consensus on recognition and measurement guidance previously discussed under EITF 03-01. The consensus clarifies the meaning of other-than-temporary impairment and its application to investments classified as either available-for-sale or held-to-maturity under SFAS 115, *Accounting for Certain Investments in Debt and Equity Securities,* and investments accounted for under the cost method or the equity method. The recognition and measurement guidance for which the consensus was reached is to be applied to other-than-temporary impairment evaluations in reporting periods beginning after June 15, 2004. The Company adopted the recognition and measurement guidance of EITF 03-01 in the third

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

quarter of 2004 and the adoption did not have a material impact on the results of operations or financial condition.

On October 13, 2004, the FASB concluded that SFAS 123R, *Share-Based Payments,* which requires all companies to measure compensation cost for all share-based payments (including employee stock options) at fair value, will be effective for public companies for interim or annual periods beginning after June 15, 2005. Retroactive application of the requirements of SFAS 123 (not SFAS 123R) to the beginning of the fiscal year that includes the effective date would be permitted, but not required. Therefore, the Company will be required to apply SFAS 123R beginning July 1, 2005 (that is, adopt SFAS 123R in the Company s financial statements for the quarter ended September 30, 2005), and could choose to apply SFAS 123 retroactively from January 1, 2005 to June 30, 2005. The cumulative effect of adoption, if any, would be measured and recognized on July 1, 2005. Further, the Company could choose to early adopt the proposed statement at the beginning of the first quarter ended March 31, 2005. The FASB has tentatively concluded that companies could adopt the new standard in one of two ways, either the modified prospective transition method or modified retrospective transition method. The Company will wait for the FASB to issue the final statement before selecting a date of adoption and a transition method. If the new standard is adopted in its current form, the Company believes that either transition method will have a negative affect on the Company s annual 2005 results of operations.

8. Business Combination

On September 29, 2003, the Company acquired Striva Corporation (Striva), a privately held mainframe data integration software vendor. The acquisition extends the Company s data integration and business intelligence software to include Striva s mainframe technology for high-speed bulk data movement and solution for real-time change data capture in legacy and non-legacy environments.

Management believes that it is the investment value of this synergy related to future product offerings that principally contributed to a purchase price that resulted in the recognition of goodwill. The Company paid $58.5 million, consisting of $30.7 million of cash and 3,189,839 shares of the Company s common stock valued at $27.8 million, to acquire all of the outstanding common and preferred shares of Striva, including the assumption by the Company of all of the outstanding stock options issued pursuant to Striva s stock option plan, which became options to purchase 345,220 shares of the Company s common stock. The acquisition was accounted for using the purchase method of accounting.

The Company decreased the amount allocated to goodwill by $0.2 million from the $51.9 million amount previously reported at December 31, 2003 to $51.7 million for the quarter ended March 31, 2004. The decrease in the goodwill was primarily a result of an adjustment to the merger accrual related to a facilities lease. The Company anticipates that none of the $62.1 million of the goodwill and intangible assets recorded in connection with the Striva acquisition will be deductible for income tax purposes.

The accrued merger costs include transaction costs and an accrual for excess leased facilities formerly occupied by Striva. In accordance with EITF No. 95-3, *Recognition of Liabilities in Connection with a Business Combination* (EITF 95-3), the liability associated with this restructuring is considered a liability assumed in the purchase price allocation. As noted above, the merger accrual was adjusted in the first quarter of 2004. The Company decreased the merger accrual by $0.2 million from the $1.9 million amount previously reported at December 31, 2003 to $1.7 million. Of the $1.7 million accrued merger costs included in the purchase price, $0.3 million was paid during the nine months ended September 30, 2004 and $1.0 million was paid during the year ended December 31, 2003. As of September 30, 2004, $0.3 million was classified as current liabilities and $0.2 million was classified as noncurrent liabilities.

The total fair value of the options assumed was $2.3 million, of which $1.0 million was included in the purchase price. The remaining $1.3 million was classified as deferred compensation and is being amortized over the remaining vesting period of the underlying awards. As a result of the acquisition, three employees of

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Striva granted the Company a right to repurchase, subject to continued employment, a certain number of shares of the Company s common stock at a price of $0.001 per share. As a result, an additional $3.4 million (representing the closing stock price on the effective date of the acquisition multiplied by the number of shares) was recorded as deferred stock-based compensation and is being amortized as the right to repurchase lapses. During the three months ended June 30, 2004, the Company s right to repurchase the common stock from one of the three employees was terminated in connection with the employee s termination of his employment with the Company. The stock-based compensation related to the termination of the right to repurchase such shares was $1.1 million and was recorded as research and development expense in the three months ended June 30, 2004. The Company additionally recorded amortization expense of $0.2 million and $0.9 million to research and development and $0.2 million and $0.7 million to sales and marketing expense in the three and nine months ended September 30, 2004, respectively, related to the deferred compensation for all employees who joined the Company as part of the acquisition. The Company expects to record amortization expense of approximately $0.3 million for the remainder of 2004 and $0.8 million, $0.2 million and $11,000 in 2005, 2006 and 2007, respectively.

The results of Striva s operations have been included in the condensed consolidated financial statements 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 actual results of operations for the periods presented.

9. Restructuring Charges

In September 2001, the Company announced a restructuring plan and recorded restructuring charges of approximately $12.1 million (the 2001 Restructuring Charge), 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.

In September 2002, the Company increased the 2001 Restructuring Charge by approximately $17.0 million, consisting of $15.1 million related to estimated facility lease losses and $1.9 million in leasehold improvement and asset write-offs. The timing of the restructuring accrual adjustment was a result of negotiated and executed subleases for the Company s excess facilities in Dallas, Texas and Palo Alto, California during the third quarter of 2002. These subleases included terms that provided a lower level of sublease rates than the initial assumptions. The terms of these new subleases were consistent with the continued deterioration of the commercial real estate market in these areas. In addition, cost containment measures initiated in the same quarter, such as delayed hiring and salary reductions, resulted in an adjustment to management s estimate of occupancy of available vacant facilities. These charges represented adjustments to the original assumptions in the 2001 Restructuring Charge, including the time period that the buildings will be vacant, expected sublease rates, expected sublease terms and the estimated time to sublease. The Company calculated the estimated costs for the additional restructuring charges based on current market information and trend analysis of the real estate market in the respective area.

In October 2004, the Company announced a restructuring plan related to its corporate headquarters in Redwood City, California pursuant to which it expects to record a significant charge in the fourth quarter of 2004 (see Note 13, Subsequent Event). As a result of this restructuring plan, part of the 2001 Restructuring Charge, and subsequent 2002 adjustment was increased by $9.7 million for estimated lease losses to reflect adjustments to the original assumptions. The adjustment was primarily a result of the Company s determination that the building will be vacant for a longer period of time and will be sublet at lower rates. The Company calculated the estimated costs for the additional restructuring charges based on current market information and trend analysis of the real estate market in the respective area.

Actual future cash requirements may differ from the restructuring liability balances as of September 30, 2004 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.

INFORMATICA CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Inherent in the estimation of the costs related to the restructuring efforts are assessments related to the most likely expected outcome of the significant actions to accomplish the restructuring. The estimates of sublease income may vary significantly depending, in part, on factors which may be beyond the Company s control, such as the time periods required to locate and contract suitable subleases and the market rates at the time of such subleases. 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 2013, restructuring charges could increase by approximately $5.9 million.

The restructuring accrual at September 30, 2004 includes facility lease losses for several facility locations and consists of $27.5 million in future minimum lease payments and estimated contractual operating expenses, net of estimated sublease income of $5.9 million. Cash payments during the nine months ended September 30, 2004 related to minimum lease and operating expense payments was $3.7 million, net of estimated sublease income of $0.4 million. A summary of the activity of the accrued restructuring charges for the nine months ended September 30, 2004 is as follows (in thousands):

	Accrued Restructuring Charges at December 31, 2003	Adjustments	Net Cash Payments	Accrued Restructuring Charges at September 30, 2004
Excess leased facilities	$ 15,167	$ 9,673	$ (3,274)	$ 21,566

As of September 30, 2004, $4.1 million of the $21.6 million accrued restructuring charges was classified as current liabilities and the remaining $17.5 million was classified as noncurrent liabilities.

10. Warranties and Indemnification

Warranties

The Company generally provides a warranty for its software products and services to its customers for a period of three to nine months and accounts for its warranties under 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 September 30, 2004 and December 31, 2003. To date, the Company s product warranty expense has not been significant.

Indemnifications

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

The Company believes its internal development processes and other policies and practices limit its exposure related to the indemnification provisions of the License Agreement. In addition, the Company

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INFORMATICA CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

requires its employees to sign a proprietary information and inventions agreement, which assigns the rights to its employees development work to the Company. To date, the Company has not had to reimburse any of its customers for any losses related to these indemnification provisions and no material claims against the Company are outstanding as of September 30, 2004, therefore the Company has not recorded any accrual for indemnification provisions. For several reasons, including the lack of prior indemnification claims and the lack of a monetary liability limit for certain infringement cases under the License Agreement, while the amount of any such payments may be material and may affect operating results, the Company cannot determine the maximum amount of potential future payments, if any, related to such indemnification provisions.

11. Stock Repurchases

On July 2, 2004, the Company announced a share repurchase program for up to 5.0 million shares of the Company s common stock. Purchases may be made from time to time in the open market and will be funded from available working capital. The number of shares to be purchased and the timing of purchases will be based on the level of the Company s cash balances and general business and market conditions. For the three months ended September 30, 2004, the Company purchased 1,055,000 shares at a cost of $6.1 million. These shares were retired and reclassified as authorized and unissued shares of common stock.

12. Litigation

On November 8, 2001, a purported securities class action complaint was filed in the United States District Court for the Southern District of New York. The case is entitled In re Informatica Corporation Initial Public Offering Securities Litigation, Civ. No. 01-9922 (SAS) (S.D.N.Y.), related to In re Initial Public Offering Securities Litigation, 21 MC 92 (SAS) (S.D.N.Y.). Plaintiffs amended complaint was brought purportedly on behalf of all persons who purchased the Company s common stock from April 29, 1999 through December 6, 2000. It names as defendants Informatica Corporation, one of the Company s current officers, and one of the Company s former officers (the Informatica defendants), and several investment banking firms that served as underwriters of the Company s April 29, 1999 initial public offering and September 28, 2000 follow-on public offering. The complaint alleges liability as to all defendants under Sections 11 and/or 15 of the Securities Act of 1933 and Sections 10(b) and/or 20(a) of the Securities Exchange Act of 1934, on the grounds that the registration statements for the offerings did not disclose that: (1) the underwriters had agreed to allow certain customers to purchase shares in the offerings in exchange for excess commissions paid to the underwriters; and (2) the underwriters had arranged for certain customers to purchase additional shares in the aftermarket at predetermined prices. The complaint also alleges that false analyst reports were issued. No specific damages are claimed.

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

The Company has decided to accept a settlement proposal presented to all issuer defendants. In this settlement, plaintiffs will dismiss and release all claims against the Informatica defendants, in exchange for a contingent payment by the insurance companies collectively responsible for insuring the issuers in all of the IPO cases, and for the assignment or surrender of control of certain claims the Company may have against the underwriters. The Informatica defendants will not be required to make any cash payments in the settlement, unless the pro rata amount paid by the insurers in the settlement exceeds the amount of the insurance coverage, a circumstance which the Company does not believe will occur. The settlement will require approval

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

of the Court, which cannot be assured, after class members are given the opportunity to object to the settlement or opt out of the settlement.

On July 15, 2002, the Company filed a patent infringement action in U.S. District Court in Northern California against Acta Technology, Inc. (Acta), now known as Business Objects Data Integration, Inc. (BODI), asserting that certain Acta products infringe on three of our patents: U.S. Patent No. 6,014,670, entitled Apparatus and Method for Performing Data Transformations in Data Warehousing ; U.S. Patent No. 6,339,775, entitled Apparatus and Method for Performing Data Transformations in Data Warehousing (this patent is a continuation-in-part of and claims the benefit of U.S. Patent No. 6,014,670); and U.S. Patent No. 6,208,990, entitled Method and Architecture for Automated Optimization of ETL Throughput in Data Warehousing Applications.

On July 17, 2002, the Company filed an amended complaint alleging that Acta products also infringe on one additional patent: U.S. Patent No. 6,044,374, entitled Object References for Sharing Metadata in Data Marts. In the suit, the Company is seeking an injunction against future sales of the infringing Acta/ BODI products, as well as damages for past sales of the infringing products. The Company has asserted that BODI s infringement of the Informatica patents was willful and deliberate. On September 5, 2002, BODI answered the complaint and filed counterclaims against us seeking a declaration that each patent asserted is not infringed and is invalid and unenforceable. BODI did not make any claims for monetary relief against the Company. The parties presented their respective claim constructions to the Court on September 24, 2003 and are awaiting the Court s ruling. The matter is currently in the discovery phase.

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

13. Subsequent Events

On October 6, 2004, the Company s Board of Directors approved a new lease agreement (the Lease Agreement) and the vacating of the Company s current corporate headquarters in Redwood City, California. On October 7, the Company entered into the Lease Agreement. The Company will be relocating its corporate headquarters to take advantage of more favorable lease terms and reduced operating expenses. In addition, the reduced size of the Company s new corporate headquarters is more appropriate and efficient for the size of the Company s existing operations and currently anticipated headcount growth. The Company expects to complete the move from its current corporate headquarters to this new location no later than December 31, 2004.

The Lease Agreement provides for approximately 159,350 square feet of office space, also located in Redwood City, California. The lease term will begin on December 15, 2004 and end on December 31, 2007. The Company has an option to extend the lease term for an additional three years. Minimum annual lease payments are $1.5 million, $1.9 million and $2.1 million for the years ended December 31, 2005, 2006 and 2007, respectively.

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Item 2. ***Management s Discussion and Analysis of Financial Condition and Results of Operations***

This Quarterly Report on Form 10-Q includes forward-looking statements within the meaning of the federal securities laws, particularly statements referencing our expectations relating to service revenues, cost of license revenues as a percentage of license revenues, cost of service revenues as a percentage of service revenues and operating expenses as a percentage of total revenues; international expansion beyond North America and Europe; the recording of amortization expense for acquired technology and stock-based compensation; the timing and financial impact of the relocation of our corporate headquarters; the integration of our recent acquisition of Striva Corporation with the rest of our operations; our ability to provide continuing support to our current analytic application customers; the extent to which we may generate revenues from the use or sale of elements of our analytic applications; the sufficiency of our cash balances and cash flows for the next 12 months; potential investments of cash or stock to acquire or invest in complementary businesses, products or technologies; the impact of recent changes in accounting standards; and assumptions underlying any of the foregoing. In some cases, forward-looking statements can be identified by the use of terminology such as may, will, expects, intends, plans, anticipates, estimates, potential, or continue, or the negative thereo comparable terminology. Although we believe that the expectations reflected in the forward-looking statements contained herein are reasonable, these expectations or any of the forward-looking statements could prove to be incorrect, and actual results could differ materially from those projected or assumed in the forward-looking statements. Our future financial condition and results of operations, as well as any forward-looking statements, are subject to risks and uncertainties, including but not limited to the factors set forth under the heading Risk Factors . All forward-looking statements and reasons why results may differ included in this report are made as of the date hereof, and we assume no obligation to update any such forward-looking statements or reasons why actual results may differ.

The following discussion should be read in conjunction with our condensed consolidated financial statements and notes thereto appearing elsewhere in this report.

Overview

We are a leading provider of data integration and business intelligence software. We generate revenues from sales of software licenses and services, which consist of maintenance, consulting and education. Our license revenues are derived from our data integration and business intelligence software products, as well as our analytic application suites and data warehouse modules, which we ceased selling directly in July 2003. We receive software license revenues from licensing our products directly to end users and indirectly through resellers, distributors and OEMs. We receive service revenues from maintenance contracts and consulting and education services that we perform for customers that license our products either directly or indirectly. For the three months ended September 30, 2004, license revenues received directly from our end users accounted for 73% of total license revenues, while license revenues received indirectly through our indirect channel partners accounted for 27% of total license revenues.

We license our software and provide services to many industry sectors, including financial services, communications, pharmaceuticals, insurance, manufacturing, utilities, government and retail. We sell our products through both our own direct sales forces and indirect channel partners in the United States as well as Canada, Asia-Pacific, Europe, and Latin America. Substantially all of our international sales have been in Europe. Revenue outside of Europe and North America, which includes the United States and Canada, has been 4% or less of total consolidated revenues during the last two years. However, we anticipate further expansion of our sales efforts outside of these two regions in the future. For example, in the quarter ended June 30, 2004, we launched a Japanese subsidiary and in October 2004 we announced an agreement with a distributor in China, where we plan to open an office.

On October 8, 2004, we announced that we are relocating our Redwood City headquarters to a nearby facility and plan to move into the new headquarters by December 31, 2004. As a result of this decision, part of the 2001 restructuring charge, and subsequent 2002 adjustment was increased by $9.7 million in the third quarter of 2004 for estimated lease losses to reflect adjustments to the original assumptions. The adjustments were primarily a result of our determination that the building will be vacant for a longer period of time and will be sublet at lower rates. In addition, we expect to record a restructuring charge of approximately $90.0 million to $93.0 million related to facility lease losses and a non-cash impairment charge of approximately $20.0 million to $22.0 million related to the impairment of tenant improvements and other assets that will be abandoned as a result of the relocation of our headquarters. We expect to incur additional expenditures for services, furniture and tenant improvements related to the move over the fourth quarter of 2004 and the first quarter of 2005 of approximately $15.0 million in the aggregate. See a further discussion below of the restructuring and impairment charges in the *Results of Operations, Restructuring and Impairment Charges.*

Adjustments to Previously Announced 2003 Quarterly Results

In the fourth quarter of 2003, we discovered an error in the allocation of revenues between license and service components in accordance with Statement of Position 98-9, *Modification of SOP 97-2, Software Revenue Recognition, with Respect to Certain Transactions* (SOP 98-9). This allocation methodology had been applied consistently from the fourth quarter of 1999. We immediately corrected the error in the fourth quarter of 2003. We did not amend any of our periodic reports previously filed with the SEC or revise any results prior to 2003. However, we have adjusted our previously reported 2003 quarterly results in this report and the Selected Quarterly Consolidated Financial Data (Unaudited), in the notes to consolidated financial statements filed in the Company s 2003 Annual Report on Form 10-K to reflect the impact of the error. For the three and nine months ended September 30, 2003, license revenues decreased by $0.7 million and $2.0 million, respectively. There was an immaterial difference in net income and no difference in net income per share from amounts previously reported.

Critical Accounting Policies

Our consolidated financial statements are prepared in accordance with generally accepted accounting principles in the United States, or GAAP. These accounting principles require us to make certain estimates, judgments and assumptions. We believe 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, judgments or assumptions and actual results, our financial statements will be affected.

Our senior management has reviewed these critical accounting policies and related disclosures with our Audit Committee. See Note 1 of Notes to consolidated financial statements filed in our 2003 Annual Report on Form 10-K, which contains additional information regarding our accounting policies and other disclosures required by GAAP. We believe the following critical accounting policies involve our more significant judgments and estimates used in the preparation of our condensed consolidated financial statements:

Revenue Recognition

We follow detailed revenue recognition guidelines, which are discussed below. We recognize revenue in accordance with GAAP guidance that has been prescribed for the software industry. The accounting rules related to revenue recognition are complex and are affected by interpretations of the rules and an understanding of industry practices, both of which are subject to change. Consequently, the revenue recognition accounting rules require management to make significant judgments, such as determining if collectibility is probable and if a customer is credit-worthy. For example, in the three months ended March 31, 2004, management determined that four countries had sufficient credit-worthiness to warrant a re-assessment of our revenue recognition policy, such that revenue generated from these countries is now recognized upon delivery of the product as opposed to receipt of cash, assuming it is a credit-worthy customer. In addition, management determined that the credit-worthiness of one significant customer had deteriorated to the point that management felt it was necessary to defer the recognition of revenue from such customer until such time as we receive payment for our products.

We recognize revenue in accordance with AICPA Statement of Position (SOP) 97-2 *Software Revenue Recognition,* as amended and modified by SOP 98-9. We recognize license revenues when a noncancelable license agreement has been signed, the product has been shipped or we have provided the customer with the access codes that allow for immediate possession of the software (collectively, delivered), the fees are fixed or determinable, collectibility is probable and vendor-specific objective evidence 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, which does not change before the element is made generally available, is established by authorized management. If an acceptance period is required, we recognize revenue upon customer acceptance or the expiration of the acceptance period if all other revenue recognition criteria under SOP 97-2 have been satisfied. Credit-worthiness and collectibility for end users are first assessed on a country level and then, for those customers in countries deemed to have sufficient timely payment history, customers are assessed based on payment history and credit profile. For the data integration products, data warehouse modules, and business intelligence platform sold directly to end users, we recognize revenue upon delivery when collectibility is probable, after all other criteria for revenue recognition have been satisfied. We ceased selling data warehouse modules in July 2003. When a customer is not deemed credit-worthy, revenue is recognized upon cash receipt, after all other revenue recognition criteria have been satisfied. For our analytic application suites, which we ceased selling directly in July 2003, we recognize both the license and maintenance revenue ratably over the initial maintenance period, generally one year, since we do not have vendor-specific objective evidence of maintenance for our analytic application suites. Our standard agreements do not contain product return rights.

We also enter 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 products sold indirectly through our resellers and distributors, we recognize revenue upon delivery and receipt of evidence of sell-through if the reseller or distributor has been deemed credit-worthy. We ceased selling data warehouse modules in July 2003. Credit-worthiness and collectibility for resellers and distributors are first assessed on a country level and then, in countries deemed to have sufficient timely payment history, resellers and distributors are assessed based on established credit history consisting of sales of at least $1.0 million and with timely payment history, generally for the last 12 months. When resellers and distributors are not deemed credit-worthy, revenue is recognized upon cash receipt, after all other revenue recognition criteria have been satisfied.

We also enter into OEM arrangements that provide for license fees based on inclusion of our products in the OEMs products. These arrangements provide for fixed, irrevocable royalty payments. Credit-worthiness and collectibility for OEMs are first assessed on a country level and then, for those OEMs in countries deemed to have sufficient timely payment history, OEMs are assessed based on established credit history consisting of sales of at least $1.0 million and with timely payment history, generally for the last 12 months. For credit-worthy OEMs, royalty payments are recognized based on the activity in the royalty report we receive from the OEM, or in the case of OEMs with fixed royalty payments, revenue is recognized when the related payment is due. When OEMs are not deemed credit-worthy, revenue is recognized upon cash receipt. In both cases, revenue is recognized after all other revenue recognition criteria have been satisfied.

We recognize maintenance revenues, which consist of fees for ongoing support and product updates and upgrades, ratably over the term of the contract, typically one year. Consulting revenues are primarily related to implementation services and product enhancements performed on a time-and-materials basis or, on a very infrequent basis, a fixed fee arrangement under separate service arrangements related to the installation and implementation of our software products. Education revenues are generated from classes offered at our headquarters, sales offices and customer locations. Revenues from consulting and education services are recognized as the services are performed. When a contract includes both license and service elements, the license fee is recognized on delivery of the software or cash collections, provided services do not include significant customization or modification of the base product, and are not otherwise essential to the functionality of the software and the payment terms for licenses are not dependent on additional acceptance criteria.

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Deferred revenue includes deferred license, maintenance, consulting and education revenue. Our 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.

Allowance for Sales Returns and Doubtful Accounts

We maintain allowances for doubtful accounts for estimated losses resulting from the inability of our customers to make required payments. In cases where we are aware of circumstances that may impair a specific customer s ability to meet its financial obligations to us, we record a specific allowance against amounts due to us. For all other customers, we recognize allowances for doubtful accounts based on the length of time the receivables are past due, the current business environment and our historical experience. If the financial condition of our customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required. For example, we recorded an additional bad debt expense in 2002 related to customers that filed for bankruptcy.

We maintain allowances for sales returns on specific revenue in the same period as the related revenues are recorded. These estimates require management judgment and are based on historical sales returns and other known factors. If these estimates do not adequately reflect future sales returns, revenue could be overstated.

Impairment of Goodwill

We assess goodwill for impairment in accordance with Statement of Financial Accounting Standards No. 142, *Goodwill and other Intangible Assets* (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 our determination that we have only one reporting segment, we have determined that there is only one Reporting Unit, specifically the license, implementation and support of our software products. Goodwill is tested for impairment in the annual impairment test on October 31 using the two-step process required by SFAS 142. First, we review the carrying amount of the Reporting Unit compared to the fair value of the Reporting Unit based on quoted market prices of our common stock and the discounted cash flows based on analyses prepared by management. An excess carrying value compared to fair value would indicate that goodwill may be impaired. Second, if we determine that goodwill may be impaired, then we compare the implied fair value of the goodwill, as defined by SFAS 142, to its carrying amount to determine the impairment loss, if any.

Based on these estimates, we determined that as of October 31, 2003 there was no impairment of goodwill. Since October 31, 2003, there have been no indications of impairment and the next annual impairment test will occur as of October 31, 2004. Assumptions and estimates about future values and remaining useful lives are complex and often subjective. They can be affected by a variety of factors, including external factors such as industry and economic trends, and internal factors such as changes in our business strategy and our internal forecasts. Although we believe the assumptions and estimates we have made in the past have been reasonable and appropriate, different assumptions and estimates could materially impact our reported financial results. Accordingly, future changes in market capitalization or estimates used in discounted cash flows analyses could result in significantly different fair values of the Reporting Unit, which may result in impairment of goodwill.

Restructuring Charges

During 2001 we recorded significant charges (2001 Restructuring Charge) in connection with our excess facilities. We significantly increased the 2001 Restructuring Charge in 2002 and 2004 due to changes in our assumptions used to calculate the original charge. The accrued restructuring charges represent gross lease obligations and estimated commissions and other costs (principally leasehold improvements and asset write-offs), offset by estimated gross sublease income, which is net of estimated broker commissions and tenant improvement allowances, expected to be received over the remaining lease terms.

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These liabilities include management s estimates pertaining to sublease activities. Inherent in the estimation of the costs related to our restructuring efforts are assessments related to the most likely expected outcome of the significant actions to accomplish the restructuring. We will continue to evaluate the commercial real estate market conditions periodically to determine if our estimates of the amount and timing of future sublease income are reasonable based on current and expected commercial real estate market conditions. Our estimates of sublease income may vary significantly depending, in part, on factors which may be beyond our control, such as the time periods required to locate and contract suitable subleases and the market rates at the time of such subleases.

If we determine that there is further deterioration in the estimated sublease rates or in the expected time to sublease our vacant space, we may incur additional restructuring charges in the future and our cash position could be adversely affected. For example, we increased our 2001 Restructuring Charge in 2002 and 2004 based on the continued deterioration in the San Francisco Bay Area and Dallas, Texas real estate markets, See Note 9, Restructuring Charges, of Notes to condensed consolidated financial statements in Item 1. Future adjustments to the charges could result from a change in the time period that the buildings will be vacant, expected sublease rate, expected sublease terms and the estimated time to sublease. We will periodically assess the need to update the original restructuring charges based on the current real estate market information and trend analysis and executed sublease agreements.

Deferred Taxes

We recorded a full valuation allowance to reduce all of our deferred tax assets to the amount that is likely to be realized. We have considered future taxable income and ongoing tax planning strategies in assessing the need for a valuation allowance; however, if it were determined that we would be able to realize all or part of our deferred tax assets in the future, an adjustment to the deferred tax asset would increase the results of operations in the period in which such determination was made. Likewise, if we determined that we would not be able to realize all or part of our net deferred tax asset in the future, an adjustment to the deferred tax asset would be charged to results of operations in the period in which such determination was made.

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Results of Operations

Three and Nine Months Ended September 30, 2004 and 2003

The following table presents certain financial data for the three and nine months ended September 30, 2004 and 2003 as a percentage of total revenues:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2004	2003	2004	2003
Consolidated Statements of Operations Data:				
Revenues:				
License	42%	44%	44%	46%
Service	58	56	56	54
Total revenues	100	100	100	100
Cost of revenues:				
License	1	2	2	2
Service	20	19	19	19
Amortization of acquired technology	1		1	
Total cost of revenues	22	21	22	21
Gross profit	78	79	78	79
Operating expenses:				
Research and development*	24	24	25	23
Sales and marketing*	43	40	42	42
General and administrative*	11	10	10	11
Amortization of intangible assets				
Purchased in-process research and development		9		3
Restructuring charge	18		6	
Total operating expenses	96	83	83	79
Income (loss) from operations	(18)	(4)	(5)	
Interest income and other, net	2	6	1	4
Income (loss) before income taxes	(16)	2	(4)	4
Income tax provision (benefit)	(1)	1		1
Net income (loss)	(15)%	(1)%	(4)%	3%
Cost of license revenues, as a percentage of license revenues	3%	4%	3%	3%
Cost of service revenues, as a percentage of service revenues	34%	34%	34%	35%

* These operating expenses for the three and nine months ended September 30, 2004 include an aggregate of $0.4 million and $2.7 million of total stock-based compensation, which represents 1% and 2% of total revenues for those periods, respectively. Stock-based compensation in the three and nine months ended September 30, 2003 was insignificant. Total stock-based compensation expense is allocated to the line items based on the employee who received the benefit. See discussion in *Stock-Based Compensation* below.

Revenues

Our total revenues increased to $52.4 million for the three months ended September 30, 2004 from $50.6 million for the three months ended September 30, 2003, representing an increase of $1.8 million or 4%.

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Total revenues increased to $159.6 million for the nine months ended September 30, 2004 from $149.6 million for the nine months ended September 30, 2003, representing an increase of $10.0 million or 7%.

The following table and discussion compares our revenue by type for the three and nine months ended September 30, 2004 and 2003 (in millions):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2004	2003	2004	2003
License revenues	$22.0	$22.1	$ 70.2	$ 68.5
Service revenues:				
Maintenance revenues	21.6	19.0	64.4	55.3
Consulting and education revenues	8.8	9.5	25.0	25.8
Total service revenues	30.4	28.5	89.4	81.1
Total revenues	$52.4	$50.6	$159.6	$149.6

License Revenues

Our license revenues decreased to $22.0 million for the three months ended September 30, 2004 from $22.1 million for the three months ended September 30, 2003. Although license revenues were relatively flat during this period, we experienced increased sales of our current products, which was offset by a $1.3 million decrease of license revenue attributable to our discontinued analytical applications. For the nine months ended September 30, 2004, our license revenues increased to $70.2 million from $68.5 million for the nine months ended September 30, 2003. The $1.7 million or 2% increase for the nine months ended September 30, 2004 compared to the same period in 2003 was primarily due to $6.1 million of incremental sales of our new products introduced and major new releases of existing products released in the 12-month period ended September 30, 2004. This increase was partially offset by a $5.2 million decrease in license revenue attributable to our discontinued analytical applications.

Maintenance Revenues

Maintenance revenues increased to $21.6 million for the three months ended September 30, 2004 from $19.0 million for the three months ended September 30, 2003 and $64.4 million for the nine months ended September 30, 2004 from $55.3 million for the nine months ended September 30, 2003. The $2.6 million or 14% increase and $9.1 million or 17% increase in the three and nine months ended September 30, 2004 compared to the same periods in 2003, respectively, were primarily due to consistently strong renewals of maintenance contracts in 2004 coupled with our increasing customer base. For the fourth quarter of 2004, we expect maintenance revenue to be relatively consistent with the first three quarters of 2004.

Consulting and Education Revenues

Consulting and education revenues decreased to $8.8 million for the three months ended September 30, 2004 from $9.5 million for the three months ended September 30, 2003. Consulting and education revenues decreased to $25.0 million for the nine months ended September 30, 2004 from $25.8 million for the nine months ended September 30, 2003. The $0.7 million or 7% and $0.8 million or 3% decreases in the three and nine months ended September 30, 2004, respectively, compared to the same period in 2003 was primarily a result of decreased utilization of our consultants in Europe. For the fourth quarter of 2004, we expect revenue from consulting and education services to be relatively consistent with the first three quarters of 2004.

International Revenues

Our international revenues were $13.6 million and $13.1 million for the three months ended September 30, 2004 and 2003, respectively, and $44.6 million and $41.4 million for the nine months ended

September 30, 2004 and 2003, respectively. The $0.5 million or 4%, and $3.2 million or 8% increases for the three and nine months ended September 30, 2004 compared to the same periods in 2003, respectively, were primarily due to the continued foreign exchange benefit of approximately 10% to 13% related to the weak US Dollar compared to the Euro and British Pound, plus the continuing increases in maintenance revenues in Europe, which increased approximately 11% and 14% for the three and nine months ended September 30, 2004, respectively, as a result of strong renewals of maintenance contracts and an increasing customer base. These increases were partially offset by a 21% and 6% decrease in consulting and education services for the three and nine months ended September 30, 2004 compared to the same periods in 2003. The overall increases in Europe for the nine months ended September 30, 2004 were partially offset by a 20% decrease in combined license and service revenue attributable to Asia-Pacific for the three and nine months ended September 30, 2004. International revenues as a percentage of total revenues were 26% and 28% for the three and nine months ended September 30, 2004 and 26% and 28% for the three and nine months ended September 30, 2003, respectively.

Key Factors Affecting Revenues

Certain key factors will affect our ability to meet our forecasted revenue in the fourth quarter of 2004, including the following:

While we expect a seasonal increase in revenues in the fourth quarter of 2004, a further continuation of the weakness in the infrastructure software industry may adversely affect us.

Our ability to meet our forecast will continue to be highly dependent on our success in converting our sales pipeline into license revenues from orders received and shipped within the quarter. See *Risk Factors We have experienced and could continue to experience fluctuations in our quarterly operating results, especially the amount of license revenue we recognize each quarter, and such fluctuations have caused and could continue to cause our stock price to decline.*

We experienced greater than usual sales force turnover during the first quarter of 2004, which impacted our license revenues in the first three quarters of 2004. Although we hired replacements in our sales force during the first half of 2004 and have experienced the reduced turnover in the third quarter of 2004, we typically experience lower productivity from newly hired sales personnel for a period of 6 to 12 months. For this reason, our ability to generate license revenues in the fourth quarter of 2004 may be adversely affected. See *Risk Factors An increase in turnover rates of our sales force personnel may negatively impact our ability to generate license revenues.*

The general economic uncertainty has caused customer purchases to be reduced in amount, deferred or cancelled, and therefore has reduced the overall license pipeline conversion rates in much of 2003 and the three quarters of 2004 and could continue to reduce the rate of conversion of the sales pipeline into license revenue for the fourth quarter of 2004 or beyond. See *Risk Factors If we are unable to accurately forecast revenues, we may fail to meet stock analysts and investors expectations of our quarterly operating results, which could cause our stock price to decline. and Risk Factors We have experienced reduced sales pipeline and pipeline conversion rates in the past, which has adversely affected the growth of our company and the price of our common stock.*

In July 2003, we ceased direct sales of our analytic application suites and data warehouse modules, which remain available to our indirect channel partners to sell. We will not receive any future revenue from the distribution of our analytic application suites and data warehouse modules from our independent channel partners. We will make appropriate efforts to provide support to our existing analytic application customers and to encourage our existing and prospective customers to work with our independent channel partners. We may further use or sell elements of this technology in the future, which may generate revenues. For example, in December 2003, we licensed elements of this software technology to one of our strategic partners.

Finally, license revenue for the three and nine months ended September 30, 2004 does not include amounts related to two large software license agreements in Europe. We deferred the license revenues related

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to these software license agreements at September 30, 2004 due to extended warranties. The deferred revenues balances will be amortized to license revenue over a two to five year period. While historically we have infrequently entered into software license agreements that require ratable recognition of license revenue, we may enter into software license agreements like these in the future.

Our quarterly operating results have fluctuated in the past and are likely to do so in the future. In particular, our license revenues are not predictable with any significant degree of certainty. In addition, we have historically recognized a substantial portion of our revenues in the last month of each quarter, and more recently, in the last few weeks of each quarter. See *Risk Factors We have experienced and could continue to experience fluctuations in our quarterly operating results, especially the amount of license revenue we recognize each quarter, and such fluctuations have caused and could continue to cause our stock price to decline.*

Cost of Revenues

Cost of License Revenues

Our cost of license revenues consists primarily of software royalties, product packaging, documentation, and production costs. Cost of license revenues decreased to $0.7 million for the three months ended September 30, 2004 from $1.0 million for the three months ended September 30, 2003, representing 3% and 4% of license revenues for those periods, respectively. The $0.3 million or 30% decrease in cost of license revenues for the three months ended September 30, 2004 compared to the same period in 2003 was due to changes in our percentage mix of royalty-bearing products. Cost of license revenues increased to $2.5 million for the nine months ended September 30, 2004 from $2.2 million for the nine months ended September 30, 2003, representing 3% of license revenues for those periods. Cost of license revenues for the nine months ended September 30, 2004 includes $0.6 million in credits against royalty costs, including $0.4 million for a settlement with one of our third-party software providers. These credits were offset by an increase in royalties due to changes in our percentage mix of royalty-bearing products in the nine months ended September 30, 2004 compared to the same period in 2003. For the fourth quarter of 2004, we expect the cost of license revenues as a percentage of license revenues to be relatively consistent with the first three quarters of 2004.

Cost of Service Revenues

Our cost of service revenues is a combination of costs of maintenance, consulting and education revenues. Our cost of maintenance revenues consists primarily of costs associated with customer support personnel expenses and software maintenance fees to third-party software providers. Cost of consulting revenues consists primarily of personnel costs and expenses incurred in providing consulting services at customers facilities. Cost of education revenues consists primarily of the costs of providing training classes and materials at our headquarters, sales and training offices and customer locations. Cost of service revenues increased to $10.4 million for the three months ended September 30, 2004 from $9.7 million for the three months ended September 30, 2003, representing approximately 34% of service revenues for those periods. The $0.7 million or 7% increase for the three months ended September 30, 2004 compared to the same period in 2003 was primarily due to headcount growth in the customer support group and subcontractor fees in the consulting services group. Cost of service revenues increased to $30.1 million for the nine months ended September 30, 2004 from $28.7 million for the nine months ended September 30, 2003, representing 34% and 35% of service revenues for those periods, respectively. The $1.4 million or 5% increase for the nine months ended September 30, 2004 compared to the same period in 2003 was primarily due to increased personnel-related expenses of $1.1 million primarily from headcount growth in our customer support. For the fourth quarter of 2004, we expect our cost of service revenues as a percentage of service revenues to be relatively consistent with the first three quarters of 2004.

Amortization of Acquired Technology

Amortization of acquired technology is the amortization of technologies acquired through business combinations. Amortization of acquired technology increased to $0.6 million for the three months ended

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September 30, 2004 from $0.1 million for the three months ended September 30, 2003 and increased to $1.7 million for the nine months ended September 30, 2004 from $0.5 million for the nine months ended September 30, 2003. The increase in the three and nine months ended September 30, 2004 compared to the same period in the prior year is a result of the amortization of intangibles related to our acquisition of Striva in September 2003. For the fourth quarter of 2004, we expect amortization of acquired technology to be approximately $0.6 million.

Operating Expenses

Research and Development

Our research and development expenses consist primarily of salaries and other personnel-related expenses associated with the development of new products, the enhancement and localization of existing products, quality assurance and development of documentation for our products. Research and development expenses increased to $12.3 million for the three months ended September 30, 2004 from $12.1 million for the three months ended September 30, 2003, representing approximately 24% of total revenues for those periods. The $0.2 million or 2% increase for the three months ended September 30, 2004 compared to the same period in 2003 was due primarily to a $0.5 million increase in personnel-related costs due to increases in headcount, offset by a $0.4 million decrease in legal fees related to patent litigation in 2003. Research and development expenses increased to $39.6 million from $34.8 million for the nine months ended September 30, 2004 and 2003, representing approximately 25% and 23% of total revenues for those periods, respectively. The $4.8 million or 14% increase for the nine months ended September 30, 2004 compared to the same period in 2003 was primarily due to a $2.0 million increase in stock-based compensation, which included amortization related to options issued in the Striva acquisition totaling $0.9 million for the nine months ended September 30, 2004 and stock-based compensation related to the termination of our right to repurchase shares of common stock issued to a former employee as part of an acquisition in the amount of $1.1 million during the three months ended June 30, 2004. The increase for the nine months ended September 30, 2004 was also due to $2.4 million in personnel-related costs resulting from an increase in research and development headcount from the expansion of our development center in Bangalore and the acquisition of Striva at the end of the third quarter of 2003. For the fourth quarter of 2004, we expect research and development expenses as a percentage of total revenues to be relatively consistent with the first three quarters of 2004.

Sales and Marketing

Our sales and marketing expenses consist primarily of personnel costs, including commissions, as well as costs of public relations, seminars, marketing programs, lead generation, travel and trade shows. Sales and marketing expenses increased to $22.6 million for the three months ended September 30, 2004 from $20.4 million for the three months ended September 30, 2003, representing approximately 43% and 40%, respectively, of total revenues for those periods. The $2.2 million or 11% increase for the three months ended September 30, 2004 compared to the same period in 2003 is due to increased personnel-related costs of $1.3 million primarily due to commissions expense, travel-related expenses of $0.3 million and increased stock-based compensation of $0.2 million resulting from the Striva acquisition. Sales and marketing expenses increased to $67.7 million for the nine months ended September 30, 2004 from $62.3 million for the nine months ended September 30, 2003, representing approximately 42% of total revenues for those periods. The increase of $5.4 million or 9% for the nine months ended September 30, 2004 compared to the same period in 2003 was due primarily to increased personnel-related costs of $3.0 million primarily due to commissions, travel-related expenses of $1.4 million, increased costs for sales kick-off and incentive events totaling $0.7 million, stock-based compensation of $0.7 million resulting from the Striva acquisition and $0.6 million paid to partners for referral fees, partially offset by $0.4 million less in outside consulting fees and a decrease in marketing and trade show expenses of $0.4 million. For the fourth quarter of 2004, we expect sales and marketing expenses as a percentage of total revenues will remain relatively consistent with the first three quarters of 2004.

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General and Administrative

Our general and administrative expenses consist primarily of personnel costs for finance, human resources, legal and general management, as well as professional services expense associated with recruiting, legal and accounting. General and administrative expenses increased to $6.0 million the three months ended September 30, 2004 from $5.2 million for the three months ended September 30, 2003, representing 11% and 10% of total revenues for those periods, respectively. The $0.8 million or 15% increase for the three months ended September 30, 2004 compared to the same period in 2003 is primarily due to a $0.7 million increase in fees for outside legal, accounting and consulting service providers and $0.2 million is personnel-related costs as a result of severance costs. General and administrative expenses decreased to $15.6 million for the nine months ended September 30, 2004 from $16.0 million for the nine months ended September 30, 2003, representing 10% and 11% of total revenues for those periods. The decrease of $0.4 million or 3% for the nine months ended September 30, 2004 compared to the same period in 2003, was primarily due to a $0.2 million decrease in fees for outside legal, accounting and consulting service providers and included a $0.4 million reimbursement for legal fees related to a lawsuit settlement in the three months ended June 30, 2004. For the fourth quarter of 2004, we expect general and administrative expenses as a percentage of total revenues will remain consistent with the first three quarters of 2004.

Stock-Based Compensation

Costs and expenses include non-cash charges for stock-based compensation as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2004	2003	2004	2003
Cost of service revenues	$ 12	$	$ 36	$
Research and development	184	19	2,032	62
Sales and marketing	248	3	1,117	3
General and administrative	(39)		(80)	
Total stock-based compensation	$405	$ 22	$3,105	$ 65

Stock-based compensation increased to $0.4 million for the three months ended September 30, 2004 from $22,000 for the three months ended September 30, 2003 and to $2.7 million for the nine months ended September 30, 2004 from $65,000 for the nine months ended September 30, 2004. The increase in 2004 was primarily related to the amortization of the deferred compensation recorded in connection with the September 2003 Striva acquisition, including the $1.1 million charge related to the termination of the repurchase right discussed above. We expect to record $0.3 million for the remainder of 2004 for the amortization of stock-based compensation related to the fixed awards issued in conjunction with the Striva acquisition.

Restructuring and Impairment Charges

In September 2001, we announced a restructuring plan and the 2001 Restructuring Charge of approximately $12.1 million, consisting of $10.6 million related to estimated facility lease losses and $1.5 million in leasehold improvement and asset write-offs related to the consolidation of excess leased facilities in the San Francisco Bay Area and Texas.

In September 2002, we increased the 2001 Restructuring Charge by approximately $17.0 million, consisting of $15.1 million related to estimated facility lease losses and $1.9 million in leasehold improvement and asset write-offs. The timing of the restructuring accrual adjustment was a result of negotiated and executed subleases for our excess facilities in Dallas, Texas and Palo Alto, California during the third quarter of 2002. These subleases included terms that provided a lower level of sublease rates than the initial assumptions. The terms of these new subleases were consistent with the continued deterioration of the commercial real estate market in these areas. In addition, cost containment measures initiated in the same quarter, such as delayed hiring and salary reductions, resulted in an adjustment to our estimate of occupancy

of available vacant facilities. The increase represented adjustments to the original assumptions in 2001, including the time period that the buildings are expected to be vacant, expected sublease rates, expected sublease terms and estimated time to sublease.

In October 2004, we announced a restructuring plan related to our corporate headquarters in Redwood City, California pursuant to which we expect to record a significant charge in the fourth quarter of 2004 (see Note 13, Subsequent Event, to the notes to the consolidated financial statement in Item 1 of this report). As a result of this restructuring plan, part of the 2001 Restructuring Charge, and subsequent 2002 adjustment, related to a portion of our corporate headquarters was increased by $9.7 million for estimated facility lease losses to reflect adjustments to the original assumptions. The adjustment is primarily due to revised assumptions that the building will be vacant for a longer period of time and will be sublet at reduced rates.

We calculated the increases to the 2001 Restructuring Charge based on current market information and trend analysis of the real estate market in the respective area.

Net cash payments for the nine months ended September 30, 2004 and 2003 related to the consolidation of excess facilities were $3.3 million and $3.4 million, respectively. Actual future cash requirements may differ from the restructuring liability balances as of September 30, 2004 if there are changes to the time period that facilities are vacant, or the actual sublease income is different from current estimates. As of September 30, 2004, $21.6 million of lease termination costs, net of anticipated sublease income related to facilities expected to be subleased, remains accrued and is expected to be paid by 2013.

Our results of operations were positively affected by the decrease in rent expense, which approximates the cash payments against the restructuring liability of $3.2 million and $3.4 million, and decreases to non-cash depreciation and amortization expense for the property and equipment written-off, totaling $0.3 million and $0.6 million for the nine months ended September 30, 2004 and 2003, respectively. For the fourth quarter of 2004, we expect the effect on the results of operations to remain relatively consistent with the first three quarters of 2004 for the 2001 Restructuring Charge and adjustments noted above, but the results will also include an expected new restructuring and impairment charge.

As a result of the Board of Director s decision to move the corporate headquarters, we expect a restructuring and impairment charge of approximately $110.0 million to $115.0 million, all of which will be recorded in the fourth quarter of 2004, assuming completion of the move from our current corporate headquarters to the new location by December 31, 2004. These charges consist of:

- approximately $90.0 million to $93.0 million in estimated facility lease losses, comprised of the net present value of lease payment obligations for the remaining nine year lease term of our current corporate headquarters, net of estimated sublease income, and

- approximately $20.0 million to $22.0 million of impairment of tenant improvements and other abandoned assets for the Company s current corporate headquarters.

The facilities lease losses will result in future cash expenditures over the remaining nine years of the current lease agreement, and none of the amount representing impairment of tenant improvements and other abandoned assets will result in future cash expenditures. We intend to sublease the office space at its current corporate headquarters.

We will accrete our obligations related to the 2004 restructuring charge to the then present value and, accordingly, will recognize additional interest expense as a restructuring charge over the remaining term of the current lease, which is approximately nine years. We expect the aggregate interest charge to be approximately $24.0 million to $25.0 million.

If we are unable to sublease any of the available vacant facilities during the remaining lease terms from the fourth quarter of 2004 through 2013, restructuring charges could increase by approximately $5.9 million. We have actual sublease agreements for our excess facilities totaling $2.3 million from the fourth quarter of 2004 through 2007.

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Interest Income and Other, Net

Interest income and other, net represents primarily interest income earned on our cash, cash equivalents, investments and restricted cash. Interest income and other, net was $1.0 million and $2.9 million for the three months ended September 30, 2004 and 2003, respectively, and $2.1 million and $5.3 million for the nine months ended September 30, 2004 and 2003, respectively. The decrease of $1.9 million or 66% in the three months ended September 30, 2004 compared to the same period in 2003 was primarily due to a one-time litigation settlement in 2003 totaling $1.6 million. The decrease of $3.2 million or 60% in the nine months ended September 30, 2004 compared to the same period in 2003 was primarily due to the litigation settlement totaling $1.6 million in 2003, a $0.7 million decrease from a foreign exchange gain in 2003 and $0.7 million decrease in interest income. We currently do not engage in any foreign currency hedging activities and, therefore, are susceptible to fluctuations in foreign exchange gains or losses in our results of operations in future reporting periods.

Income Tax Provision

We recorded an income tax benefit of $0.3 million and an income tax provision of $0.4 million for the three and nine months ended September 30, 2004, respectively. The income tax amounts in 2004 include a $0.5 million benefit based on recently filed federal income tax returns in the third quarter of 2004 which was offset by federal alternative minimum taxes, income taxes currently payable on income generated in non-U.S. jurisdictions, and foreign withholding taxes. We recorded an income tax provision of $0.8 million and $1.9 million for the three and nine months ended September 30, 2003, respectively, which primarily represents federal alternative minimum taxes, income taxes currently payable on income generated in non-U.S. jurisdictions, and foreign withholding taxes. The expected tax provision derived from applying the federal statutory rate to our income before income taxes for the nine month period ending September 30, 2004 differed from the recorded income tax provision primarily due to the realization of a portion of previously unbenefitted tax attributes of $1.3 million partially offset by foreign income and withholding taxes of $0.6 million and state taxes of $0.1 million.

Recent Accounting Pronouncements

In March 2004, the EITF reached a consensus on recognition and measurement guidance previously discussed under EITF 03-01. The consensus clarifies the meaning of other-than-temporary impairment and its application to investments classified as either available-for-sale or held-to-maturity under SFAS 115, *Accounting for Certain Investments in Debt and Equity Securities,* and investments accounted for under the cost method or the equity method. The recognition and measurement guidance for which the consensus was reached is to be applied to other-than-temporary impairment evaluations in reporting periods beginning after June 15, 2004. We adopted the recognition and measurement guidance of EITF 03-01 in the third quarter of 2004 and the adoption did not have a material impact on our results of operations or financial condition.

On October 13, 2004, the Financial Accounting Standards Board (FASB) concluded that SFAS 123R, *Share-Based Payment,* which requires all companies to measure compensation cost for all share-based payments (including employee stock options) at fair value, will be effective for public companies for interim or annual periods beginning after June 15, 2005. Retroactive application of the requirements of SFAS 123 (not SFAS 123R) to the beginning of the fiscal year that includes the effective date would be permitted, but not required. We therefore would be required to apply SFAS 123R beginning July 1, 2005 (that is, adopt SFAS 123R in our financial statements for the quarter ended September 30, 2005), and could choose to apply SFAS 123 retroactively from January 1, 2005 to June 30, 2005. The cumulative effect of adoption, if any, would be measured and recognized on July 1, 2005. Further, we could choose to early adopt the proposed statement at the beginning of our first quarter ended March 31, 2005. The FASB has tentatively concluded that companies could adopt the new standard in one of two ways, either the modified prospective transition method or modified retrospective transition method. We are waiting for the FASB to issue the final statement before selecting a date of adoption and a transition method, and we are currently analyzing its impact on our future earnings.

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Liquidity and Capital Resources

We have funded our operations primarily through cash flows from operations and public offerings of our common stock. As of September 30, 2004, we had $234.2 million in available cash and cash equivalents and short-term investments and $12.2 million of restricted cash under the terms of our Pacific Shores property leases.

Operating Activities: For the nine months ended September 30, 2004 and 2003, net cash flows from operating activities were $7.2 million and $19.5 million, respectively. Cash provided by operating activities in 2004 was primarily due to our net loss, adjusted for non-cash charges for depreciation and amortization, a restructuring charge and amortization of stock-based compensation, intangible assets and acquired technology. Significant cash received from deferred revenues, which will be recognized typically within the next 12 months, added to net cash provided by operating activities. These additions were offset by substantial payments in the period of our accrued compensation and related expenses, primarily due to common stock purchased under our Employee Stock Purchase Plan and the payment of semi-annual employee bonuses, payments against our restructuring accrual (facility lease payments) and increases in our accounts receivable balance due to significant agreements executed during the last month of the third quarter of 2004.

Investing Activities: For the nine months ended September 30, 2004 and 2003, net cash flows used in investing activities were $14.2 million and $39.8 million, respectively. Of the $14.2 million of cash used in investing activities for the nine months ended September 30, 2004, $150.4 million was used for the purchase of short-term investments and $2.0 million was used for the purchase of property and equipment for the continued implementation of our information technology infrastructure, partially offset by cash generated from the sale and maturities of investments totaling $138.2 million.

Financing Activities: For the nine months ended September 30, 2004 and 2003, net cash flows provided by (used in) financing activities were $5.6 million and ($4.9) million, respectively. The $5.6 million provided by financing activities in the nine months ended September 30, 2004 was from $11.7 million in proceeds from issuances of our common stock as a result of exercises of outstanding options and the semi-annual purchases of common stock under our Employee Stock Purchase Plan in January and July 2004. The proceeds were partially offset by $6.1 million in cash used to repurchase our common stock.

We believe that our cash balances and the cash flows generated by operations will be sufficient to satisfy our anticipated cash needs for working capital and capital expenditures for at least the next 12 months. However, because our operating results may fluctuate significantly as a result of a decrease in customer demand or the acceptance of our products, we may not in the future be able to generate positive cash flows from operations. If this occurred, we would require additional funds to support our working capital requirements, or for other purposes, and may seek to raise such additional funds through public or private equity financings or from other sources. We may not be able to obtain adequate or favorable financing at that time. Any financing we obtain may dilute your ownership interests.

Operating Leases and Contractual Obligations

We lease certain office facilities and equipment under noncancelable operating leases. Our payment obligations under these operating leases are included in the table below under the caption Operating Leases. In 2001 we recorded restructuring charge related to the consolidation of excess leased facilities in the San Francisco Bay Area and Texas, which was subsequently increased in 2002 and 2004. Our operating lease obligations in the table below include approximately $24.3 million, net of anticipated sublease income, for operating lease commitments for those facilities that are included in accrued restructuring charges as of September 30, 2004. See Note 9 of notes to the condensed consolidated financial statements in Item 1. During 2002, 2003 and the first three months of 2004, we signed sublease agreements for leased office space in Palo Alto, Redwood City, Scotts Valley and San Francisco, California and Carrollton, Texas. Our expected sublease income from these sublease agreements is included in the table below under the caption Sublease Income.

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Our future minimum lease payments as of September 30, 2004 under noncancelable operating leases with original terms in excess of one year and sublease income are summarized as follows (in thousands):

	Operating Leases	Sublease Income	Net
Remaining 2004	$ 4,850	$ 287	$ 4,563
2005	18,539	1,098	17,441
2006	18,052	584	17,468
2007	16,851	257	16,594
2008	16,154	67	16,087
Thereafter	77,906		77,906
Total	$152,352	$2,293	$150,059

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

In October 2004, we entered into a lease agreement for new corporate headquarters in Redwood City, California. The lease term is from December 15, 2004 to December 31, 2007. Minimum lease payments are $1.5 million, $1.9 million and $2.1 million for the years ended December 31, 2005, 2006 and 2007, respectively. There were no other material changes in our contractual obligations from what we disclosed in our Annual Report on Form 10-K for the year ended December 31, 2003.

Other Uses of Cash

A portion of our cash may be used to acquire or invest in complementary businesses or products or to obtain the right to use complementary technologies. From time to time, in the ordinary course of business, we may evaluate potential acquisitions of such businesses, products or technologies.

On July 2, 2004, we announced a share repurchase program for up to 5.0 million shares of our common stock. Purchases may be made from time to time in the open market and will be funded from available working capital. The number of shares to be purchased and the timing of purchases will be based on the level of our cash balances and general business and market conditions. See Part II, Item 2 for more information.

Off-Balance Sheet Arrangements

We do not have any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities, which would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes.

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RISK FACTORS

In addition to the other information contained in this Form 10-Q, we have identified the following risks and uncertainties that may have a material adverse effect on our business, financial condition or results of operation. Investors should carefully consider the risks described below before making an investment decision. The risks described below are not the only ones facing our company. Additional risks not presently known to us or that we currently believe are immaterial may also impair our business operations. Our business could be harmed by any of these risks. The trading price of our common stock could decline due to any of these risks and investors may lose all or part of their investment. In assessing these risks, investors should also refer to the other information contained in our other SEC filings, including our Form 10-K for the year ended December 31, 2003.

We have experienced and could continue to experience fluctuations in our quarterly operating results, especially the amount of license revenue we recognize each quarter, and such fluctuations have caused and could continue to cause our stock price to decline.

Our quarterly operating results have fluctuated in the past and are likely to do so in the future. These fluctuations have caused our stock price to experience declines in the past and could cause our stock price to significantly fluctuate or experience declines in the future. One of the reasons why our operating results have fluctuated is that our license revenues are not predictable with any significant degree of certainty and are vulnerable to short-term shifts in customer demand. For example, we have experienced customer order deferrals in anticipation of future new product introductions or product enhancements, as well as the particular budgeting and purchase cycles of our customers. By comparison, our short-term expenses are relatively fixed and based in part on our expectations of future revenues.

Moreover, we do not have a substantial backlog of license orders at the end of a fiscal period. Historically, this has particularly been the case at the end of the first and third fiscal quarters. For example, in the three months ended March 31, 2004, we experienced greater seasonal reduction in license orders than we expected. Therefore, our license revenues generally reflect orders shipped in the same quarter they are received, and as a result, we do not have significant visibility of expected results for future quarters. Furthermore, we have recognized a substantial portion of our license revenues in the last month of each quarter, and more recently, in the last few weeks of each quarter. As a result, we cannot predict the adverse impact caused by cancellations or delays in orders until the end of each quarter.

Due to the difficulty we experience in predicting our quarterly license revenues, we believe that quarter-to-quarter comparisons of our operating results are not a good indication of our future performance. Furthermore, our future operating results could fail to meet the expectations of stock analysts and investors. If this happens, the price of our common stock could fall.

If we are unable to accurately forecast revenues, we may fail to meet stock analysts and investors expectations of our quarterly operating results, which could cause our stock price to decline.

We use a pipeline system, a common industry practice, to forecast sales and trends in our business. Our sales personnel monitor the status of all proposals, including the date when they estimate that a customer will make a purchase decision and the potential dollar amount of the sale. We aggregate these estimates periodically in order to generate a sales pipeline. We compare the pipeline at various points in time to look for trends in our business. While this pipeline analysis may provide us with some guidance in business planning and budgeting, these pipeline estimates are necessarily speculative and may not consistently correlate to revenues in a particular quarter or over a longer period of time. Additionally, because we have historically recognized a substantial portion of our license revenues in the last month of each quarter, and more recently, in the last few weeks of each quarter, we may not be able to adjust our cost structure in a timely manner in response to variations in the conversion of the sales pipeline into license revenues. Any change in the conversion of the pipeline into customer sales or in the pipeline itself could cause us to improperly budget for future expenses that are in line with our expected future revenues, which would adversely affect our operating margins and results of operations and could cause the price of our common stock to decline.

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We have experienced reduced sales pipeline and pipeline conversion rates in the past, which have adversely affected the growth of our company and the price of our common stock.

In 2002, we experienced a reduced conversion rate of our overall license pipeline, primarily as a result of the general economic slowdown which caused the amount of customer purchases to be reduced, deferred or cancelled. In the first half of 2003, we continued to experience a decrease in our sales pipeline as well as our pipeline conversion rate, primarily as a result of the negative impact of the war in Iraq on the capital spending budgets of our customers, as well as the continued general economic slowdown. While the U.S. economy improved in the second half of 2003 and the first three quarters of 2004, there is still uncertainty regarding our sales pipeline and our ability to convert potential sales of our products into revenue. If we are unable to increase the size of our sales pipeline and our pipeline conversion rate, our results of operations could fail to meet the expectations of stock analysts and investors, which could cause the price of our common stock to decline.

While we believe we currently have adequate internal control over financial reporting, we are required to evaluate our internal control over financial reporting under Section 404 of the Sarbanes Oxley Act of 2002 and any adverse results from such evaluation could result in a loss of investor confidence in our financial reports and have an adverse effect on our stock price.

Pursuant to Section 404 of the Sarbanes-Oxley Act of 2002, beginning with our Annual Report on Form 10-K for the fiscal year ending December 31, 2004, we will be required to furnish a report by our management on our internal control over financial reporting. Such a report will contain, among other matters, an assessment of the effectiveness of our internal control over financial reporting as of the end of our fiscal year, including a statement as to whether or not our internal control over financial reporting is effective. This assessment must include disclosure of any material weaknesses in our internal control over financial reporting identified by management. Such report must also contain a statement that our auditors have issued an attestation report on management s assessment of such internal controls.

The Committee of Sponsoring Organizations of the Treadway Commission (COSO) provides a framework for companies to assess and improve their internal control systems. The Public Company Accounting Oversight Board s Auditing Standard No. 2 (Standard No. 2)provides the professional standards and related performance guidance for auditors to attest to, and report on, management s assessment of the effectiveness of internal control over financial reporting under Section 404. Management s assessment of internal controls over financial reporting requires management to make subjective judgments and, particularly because Standard No. 2 is newly effective, some of the judgments will be in areas that may be open to interpretation and therefore the report may be uniquely difficult to prepare and our auditors may not agree with management s assessments. While we currently believe our internal control over financial reporting is effective, we are still performing the system and process documentation and evaluation needed to comply with Section 404, which is both costly and challenging.

During this process, if our management identifies one or more material weaknesses in our internal control over financial reporting, we will be unable to assert such internal control is effective. If we are unable to assert that our internal control over financial reporting is effective as of December 31, 2004 (or if our auditors are unable to attest that our management s report is fairly stated or they are unable to express an opinion on the effectiveness of our internal controls), we could lose investor confidence in the accuracy and completeness of our financial reports, which would have an adverse effect on our stock price.

Additionally, in the third quarter of 2004, we have experienced changes in our finance and accounting personnel and shifts in responsibilities at the management level. These personnel and responsibility changes adversely affected our ability to effectively follow our internal controls. For example, a significant deficiency was discovered regarding our controls over license revenue recognition in the third quarter of 2004 (see Controls and Procedures, Item 4 of Part I). We believe that we have addressed this deficiency by establishing additional controls to review revenue transactions. We will continue to enhance our internal control over financial reporting by adding resources, as necessary.

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While we currently anticipate being able to satisfy the requirements of Section 404 in a timely fashion, we cannot be certain as to the timing of completion of our evaluation, testing and any required remediation due in large part to the fact that there is no precedent available by which to measure compliance with the new Auditing Standard No. 2. If we are not able to complete our assessment under Section 404 in a timely manner, we and/or our auditors would be unable to conclude that our internal control over financial reporting is effective as of December 31, 2004.

An increase in the turnover rate of our sales force personnel may negatively impact our ability to generate license revenues.

We experienced an increased level of turnover in our direct sales force in the fourth quarter of 2003 and the first quarter of 2004. This increase in the turnover rate impacted our ability to generate license revenues in the first nine months of 2004. Although we have hired replacements in our sales force, if we are unable to effectively train such new personnel, or if we continue to experience a heightened level of sales force turnover, our ability to generate license revenues may be negatively impacted.

The loss of our key personnel or the inability to attract and retain additional personnel could adversely affect our ability to grow our company successfully.

In July 2004, Gaurav S. Dhillon, one of our founders and former president and chief executive officer, resigned. We are uncertain about the potential impact of his departure and there exists the possibility of the loss of key personnel and significant employee turnover.

We believe our success depends upon our ability to attract and retain highly skilled personnel and key members of our management team. We continue to experience changes in members of our senior management team. For example, we recently hired John Entenmann as our Executive Vice President, Corporate Strategy and Marketing, replacing Paul Albright in that position. Accordingly, until such new senior personnel become familiar with our business model and systems, their integration may result in some disruption to our ongoing operations.

We currently do not have any key-man life insurance relating to our key personnel, and their employment is at-will and not subject to employment contracts. We have relied on our ability to grant stock options as one mechanism for recruiting and retaining this highly skilled talent. Potential accounting regulations requiring the expensing of stock options may impair our future ability to provide these incentives without incurring significant compensation costs. There can be no assurance that we will continue to successfully attract and retain key personnel.

If we do not compete effectively with companies selling data integration and business intelligence products, our revenues may not grow and could decline.

The market for our products is highly competitive, quickly evolving and subject to rapidly changing technology. Our competition consists of hand-coded, custom-built data integration solutions developed in-house by various companies in the industry segments that we target as well as other vendors of integration software products, including Ascential Software, Embarcadero Technologies, Group 1 Software, SAS Institute and certain privately-held companies. In addition, we compete against business intelligence vendors that currently offer, or may develop, products with functionalities that compete with our products, such as Business Objects, Cognos, Hyperion Solutions, MicroStrategy and certain privately-held companies. We also compete against certain database and enterprise application vendors, which offer products that typically operate specifically with these competitors proprietary databases. Such potential competitors include IBM, Microsoft, Oracle, PeopleSoft, SAP and Siebel Systems. Many of these competitors have longer operating histories, substantially greater financial, technical, marketing or other resources, or greater name recognition than we do. Our competitors may be able to respond more quickly than we can to new or emerging technologies and changes in customer requirements. Competition could seriously impede our ability to sell

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additional products and services on terms favorable to us. Our current and potential competitors may develop and market new technologies that render our existing or future products obsolete, unmarketable or less competitive. We believe we currently compete more on the basis of our products functionality than on the basis of price. If our competitors develop products with similar or superior functionality, we may have difficulty competing on the basis of price.

Our current and potential competitors may make strategic acquisitions, consolidate their operations or establish cooperative relationships among themselves or with other solution providers, thereby increasing their ability to provide a broader suite of software products or solutions and more effectively address the needs of our prospective customers. Our current and potential competitors may establish or strengthen cooperative relationships with our current or future strategic partners, thereby limiting our ability to sell products through these channels. If any of this were to occur, our ability to market and sell our software products would be impaired. In addition, competitive pressures could reduce our market share or require us to reduce our prices, either of which could harm our business, results of operations and financial condition.

We may not successfully integrate Striva s technology, employees or business operations with our own. As a result, we may not achieve the anticipated benefits of our acquisition, which could adversely affect our operating results and cause the price of our common stock to decline.

In September 2003, we acquired Striva Corporation, a provider of mainframe data integration solutions. The successful integration of Striva s technology, employees and business operations will place an additional burden on our management and infrastructure. This acquisition, and any others we may make in the future, will subject us to a number of risks, including:

- the failure to capture the value of the business we acquired, including the loss of any key personnel, customers and business relationships;
- an inability to generate revenue from the combined products that offsets the associated acquisition and maintenance costs; and
- the assumption of any contracts or agreements from Striva that contain terms or conditions that are unfavorable to us.

There can be no assurance that we will be successful in overcoming these risks or any other problems encountered in connection with our Striva acquisition or any future acquisitions. To the extent that we are unable to successfully manage these risks, our business, operating results or financial condition could be adversely affected, and the price of our common stock could decline.

We rely on our relationships with our strategic partners. If we do not maintain and strengthen these relationships, our ability to generate revenue and control implementation costs could be adversely affected, which could cause a decline in the price of our common stock.

We believe that our ability to increase the sales of our products depends in part upon maintaining and strengthening relationships with our strategic partners and any future strategic partners. In addition to our direct sales force, we rely on established relationships with a variety of strategic partners, such as systems integrators, resellers and distributors, for marketing, licensing, implementing and supporting our products in the United States and internationally. We also rely on relationships with strategic technology partners, such as enterprise application providers, database vendors and data quality vendors, for the promotion and implementation of our products.

Our strategic partners offer products from several different companies, including, in some cases, products that compete with our products. We have limited control, if any, as to whether these strategic partners devote adequate resources to promoting, selling and implementing our products as compared to our competitors products.

We may not be able to maintain our strategic partnerships or attract sufficient additional strategic partners who have the ability to market our products effectively, are qualified to provide timely and cost-effective customer support and service or have the technical expertise and personnel resources necessary to implement our products for our customers. In particular, if our strategic partners do not devote sufficient resources to implement our products, we may incur substantial additional costs associated with hiring and training additional qualified technical personnel to timely implement solutions for our customers. Furthermore, our relationships with our strategic partners may not generate enough revenue to offset the significant resources used to develop these relationships. If we are unable to leverage the strength of our strategic partnerships to generate additional revenue, our revenues and the price of our common stock could decline.

If the current improvement in the U.S. economy does not result in increased sales of our products and services, our operating results would be harmed, and the price of our common stock could decline.

As our business has grown, we have become increasingly subject to the risks arising from adverse changes in the domestic and global economy. We experienced the adverse effect of the economic slowdown in 2002 and the first six months of 2003, which resulted in a significant reduction in capital spending by our customers, as well as longer sales cycles, and the deferral or delay of purchases of our products. In addition, terrorist actions and the military actions in Afghanistan and Iraq have magnified and prolonged the adverse effects of the economic slowdown. Although the U.S. economy improved beginning in the third quarter of 2003, we have not experienced any significant improvement in our pipeline conversion rate. In particular, our ability to forecast and rely on U.S. federal government orders is uncertain due to congressional budget constraints and changes in spending priorities.

If the current improvement in the U.S. economy does not result in increased sales of our products and services, our results of operations could fail to meet the expectations of stock analysts and investors, which could cause the price of our common stock to decline. Moreover, if the current economic conditions in Europe and Asia do not improve or if there is an escalation in regional or global conflicts, we may fall short of our revenue expectations for 2004. In addition, we could experience delays in the payment obligations of our reseller customers if they experience weakness in the end-user market, which would increase our credit risk exposure and harm our financial condition.

As a result of our products lengthy sales cycles, our expected revenues are susceptible to fluctuations, which could cause us to fail to meet stock analysts and investors expectations, resulting in a decline in the price of our common stock.

Due to the expense, broad functionality and company-wide deployment of our products, our customers decision to purchase our products typically requires the approval of their executive decision-makers. In addition, we frequently must educate our potential customers about the full benefits of our products, which also can require significant time. Further, our sales cycle may lengthen as we continue to focus our sales efforts on large corporations. As a result of these factors, the length of time from our initial contact with a customer to the customer s decision to purchase our products typically ranges from three to nine months. We are subject to a number of significant risks as a result of our lengthy sales cycle, including:

- our customers budgetary constraints and internal acceptance review procedures;
- the timing of our customers budget cycles;
- the seasonality of technology purchases, which historically has resulted in stronger sales of our products in the fourth quarter of the year, especially when compared to lighter sales in the first quarter of the year;
- our customers concerns about the introduction of our products or new products from our competitors; or
- potential downturns in general economic or political conditions that could occur during the sales cycle.

If our sales cycle lengthens unexpectedly, it could adversely affect the timing of our revenues or increase costs, which may independently cause fluctuations in our revenue and results of operations. Finally, if we are unsuccessful in closing sales of our products after spending significant funds and management resources, our operating margins and results of operations could be adversely impacted.

If the market in which we sell our products and services does not grow as we anticipate, we may not be able to increase our revenues at an acceptable rate of growth, and the price of our common stock could decline.

The market for software products that enable more effective business decision-making by helping companies aggregate and utilize data stored throughout an organization, is relatively new and still emerging. Substantially all of our revenues are attributable to the sale of products and services in this market. Our potential customers may:

- not fully value the benefits of using our products;
- not achieve favorable results using our products;
- experience technical difficulties in implementing our products; or
- use alternative methods to solve the problems addressed by our products.

If this market does not grow as we anticipate, we would not be able to sell as much of our software products and services as we currently expect, which could result in a decline in the price of our common stock.

We rely on the sale of a limited number of products, and if these products do not achieve broad market acceptance, our revenues would be adversely affected.

To date, substantially all of our revenues have been derived from our data integration products such as PowerCenter, PowerMart, PowerConnect and related services, and to a lesser extent, our analytic application suites, data warehouse modules, business intelligence products and related services. Since we ceased direct sales of our analytic application suites and data warehouse modules in July 2003, we expect sales of our data integration and business intelligence software and related services to comprise substantially all of our revenues for the foreseeable future. If any of these products do not achieve market acceptance, our revenues and stock price could decrease. In particular, with the completion of our Striva acquisition, we began selling and marketing Striva s technology as part of our complete product offering. Market acceptance for Striva s products, as well as our current products, could be affected if, among other things, competition substantially increases in the enterprise analytic software marketplace or transactional applications suppliers integrate their products to such a degree that the utility of the data integration functionality that our products provide is minimized or rendered unnecessary.

We may not be able to successfully manage the growth of our business if we are unable to improve our internal systems, processes and controls.

We need to continue to improve our internal systems, processes and controls to effectively manage our operations and growth. We may not be able to successfully implement improvements to these systems, processes and controls in an efficient or timely manner, and we may discover deficiencies in existing systems, processes and controls. We have licensed technology from third parties to help us accomplish this objective. We may experience difficulties in managing improvements to our systems, processes and controls or in connection with third-party software, which could disrupt existing customer relationships, causing us to lose customers, limit us to smaller deployments of our products or increase our technical support costs.

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The price of our common stock fluctuates as a result of factors other than our operating results, such as the actions of our competitors and securities analysts, as well as developments in our industry and changes in accounting rules.

The market price for our common stock has experienced significant fluctuations and may continue to fluctuate significantly. The market price for our common stock may be affected by a number of factors other than our operating results, including:

the announcement of new products or product enhancements by our competitors;

quarterly variations in our competitors results of operations;

changes in earnings estimates and recommendations by securities analysts;

developments in our industry; and

changes in accounting rules, such as the recording of expenses related to employee stock option grants.

After periods of volatility in the market price of a particular company s securities, securities class action litigation has often been brought against that company. We and certain of our officers and directors have been named as defendants in a purported class action complaint, which was filed on behalf of certain persons who purchased our common stock between April 29, 1999 and December 6, 2000. Such actions could cause the price of our common stock to decline.

If our products are unable to interoperate with hardware and software technologies that are developed and maintained by third parties that are not within our control, our ability to develop and sell our products to our customers could be adversely affected which would result in harm to our business and operating results.

Our products are designed to interoperate with and provide access to a wide range of third-party developed and maintained hardware and software technologies, which are used by our customers. The future design and development plans of the third parties that maintain these technologies are not within our control and may not be in line with our future product development plans. We may also rely on such third parties to provide us with access to these technologies so that we can properly test and develop our products to interoperate with the third-party technologies. These third parties may in the future refuse or otherwise be unable to provide us with the necessary access to their technologies. In addition, these third parties may decide to design or develop their technologies in a manner that would not be interoperable with our own. If either of these risks occur, we would not be able to continue to market our products as interoperable with such third party hardware and software, which could adversely affect our ability to successfully sell our products to our customers.

We rely on a number of different distribution channels to sell and market our products. Any conflicts that we may experience within these various distribution channels could result in confusion for our customers and a decrease in revenue and operating margins.

We have a number of relationships with resellers, systems integrators and distributors which assist us in obtaining broad market coverage for our products and services. Although our discount policies, sales commission structure and reseller licensing programs are intended to support each distribution channel with a minimum level of channel conflicts, we may not be able to minimize these channel conflicts in the future. Any channel conflicts that we may experience could result in confusion for our customers and a decrease in revenue and operating margins.

Any significant defect in our products could cause us to lose revenue and expose us to product liability claims.

The software products we offer are inherently complex and despite extensive testing and quality control, have in the past and may in the future contain errors or defects, especially when first introduced. These defects and errors could cause damage to our reputation, loss of revenue, product returns, order cancellations or lack

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of market acceptance of our products. We have in the past and may in the future need to issue corrective releases of our software products to fix these defects or errors. For example, we issued corrective releases to fix problems with the version of our PowerMart released in the first quarter of 1998. As a result, we had to allocate significant customer support resources to address these problems.

Our license agreements with our customers typically contain provisions designed to limit our exposure to potential product liability claims. However, the limitation of liability provisions contained in our license agreements may not be effective as a result of existing or future national, federal, state or local laws or ordinances or unfavorable judicial decisions. Although we have not experienced any product liability claims to date, the sale and support of our products entails the risk of such claims, which could be substantial in light of the use of our products in enterprise-wide environments. In addition, our insurance against product liability may not be adequate to cover a potential claim.

If we are unable to successfully respond to technological advances and evolving industry standards, we could experience a reduction in our future product sales, which would cause our revenues to decline.

The market for our products is characterized by continuing technological development, evolving industry standards, changing customer needs and frequent new product introductions and enhancements. The introduction of products by our direct competitors or others embodying new technologies, the emergence of new industry standards or changes in customer requirements could render our existing products obsolete, unmarketable or less competitive. In particular, an industry-wide adoption of uniform open standards across heterogeneous applications could minimize the importance of the integration functionality of our products and materially adversely affect the competitiveness and market acceptance of our products. Our success depends upon our ability to enhance existing products, to respond to changing customer requirements and to develop and introduce in a timely manner new products that keep pace with technological and competitive developments and emerging industry standards. We have in the past experienced delays in releasing new products and product enhancements and may experience similar delays in the future. As a result, in the past, some of our customers deferred purchasing our products until the next upgrade was released. Future delays or problems in the installation or implementation of our new releases may cause customers to forego purchases of our products and purchase those of our competitors instead. Additionally, even if we are able to develop new products and product enhancements, we cannot assure you that they will achieve market acceptance.

We recognize revenue from specific customers at the time we receive payment for our products, and if these customers do not make timely payment, our revenues could decrease.

Based on limited credit history, we recognize revenue from direct end users, resellers, distributors and OEMs, which have not been deemed credit-worthy, at the time we receive payment for our products, rather than at the time of sale. If these customers do not make timely payment for our products, our revenues could decrease. If our revenues decrease, the price of our common stock may fall.

We have a limited operating history and a cumulative net loss, which makes it difficult to evaluate our operations, products and prospects for the future.

We were incorporated in 1993 and began selling our products in 1996; therefore, we have a limited operating history upon which investors can evaluate our operations, products and prospects. With the exception of 2003,when we had net income of $7.3 million,, since our inception we have incurred significant annual net losses, resulting in an accumulated deficit of $96.4 million as of September 30, 2004. We cannot assure you that we will be able to sustain profitability in the future. If we are unable to sustain profitability, we may fail to meet the expectations of stock analysts and investors, and the price of our common stock may fall.

Our international operations expose us to greater intellectual property, collections, exchange rate fluctuations, regulatory and other risks, which could limit our future growth.

We have significant operations outside the United States, including software development centers in India, the Netherlands and the United Kingdom, sales offices in Belgium, Canada, France, Germany, the

Netherlands, Switzerland and the United Kingdom, and customer support centers in the Netherlands and the United Kingdom. Our international operations face numerous risks. For example, in order to sell our products in certain foreign countries, our products must be localized, that is, customized to meet local user needs. Developing local versions of our products for foreign markets is difficult, requires us to incur additional expenses and can take longer than we anticipate. We currently have limited experience in localizing products and in testing whether these localized products will be accepted in the targeted countries. We cannot assure you that our localization efforts will be successful.

In addition, we have only a limited history of marketing, selling and supporting our products and services internationally. As a result, we must hire and train experienced personnel to staff and manage our foreign operations. However, we have experienced difficulties in recruiting, training and managing an international staff, and we may continue to experience such difficulties in the future.

We must also be able to enter into strategic distributor relationships with companies in certain international markets where we do not have a local presence. If we are not able to maintain successful strategic distributor relationships internationally or recruit additional companies to enter into strategic distributor relationships, our future success in these international markets could be limited.

Our software development centers in India, the Netherlands and the United Kingdom also subject our business to certain risks, including:

- greater difficulty in protecting our ownership rights to intellectual property developed in foreign countries, which may have laws that materially differ from those in the United States;

- communication delays between our main development center in Redwood Shores, California and our development centers in India, the Netherlands and the United Kingdom as a result of time zone differences, which may delay the development, testing or release of new products;

- greater difficulty in relocating existing trained development personnel and recruiting local experienced personnel, and the costs and expenses associated with such activities; and

- increased expenses incurred in establishing and maintaining office space and equipment for the development centers.

Additionally, our international operations as a whole are subject to a number of risks, including the following:

- greater risk of uncollectible accounts and longer collection cycles;

- greater risk of unexpected changes in regulatory practices, tariffs, and tax laws and treaties;

- business practices with European and other foreign governments and entities may differ from those in North America and may require us to include terms in our software license agreements, such as extended warranty terms, that will require us to defer license revenue and recognize it ratably over the warranty term or other performance obligation included within the agreement;

- fluctuations in exchange rates between the U.S. dollar and foreign currencies in markets where we do business because we do not engage in any hedging activities; and

- general economic and political conditions in these foreign markets.

These factors and other factors could harm our ability to gain future international revenues and, consequently, materially impact our business, results of operations and financial condition. Our failure to manage our international operations and the associated risks effectively could limit the future growth of our business. The expansion of our existing international operations and entry into additional international markets will require significant management attention and financial resources.

If we are not able to adequately protect our proprietary rights, third parties could develop and market products that are equivalent to our own, which would harm our sales efforts.

Our success depends upon our proprietary technology. We believe that our product developments, product enhancements, name recognition and the technological and innovative skills of our personnel are essential to establishing and maintaining a technology leadership position. We rely on a combination of patent, copyright, trademark and trade secret rights, confidentiality procedures and licensing arrangements to establish and protect our proprietary rights.

However, these legal rights and contractual agreements may provide only limited protection. Our pending patent applications may not be allowed or our competitors may successfully challenge the validity or scope of any of our six issued patents or any future issued patents. Our patents alone may not provide us with any significant competitive advantage, and third parties may develop technologies that are similar or superior to our technology or design around our patents. Third parties could copy or otherwise obtain and use our products or technology without authorization, or develop similar technology independently. We cannot easily monitor any unauthorized use of our products, and, although we are unable to determine the extent to which piracy of our software products exists, software piracy is a prevalent problem in our industry in general.

The risk of not adequately protecting our proprietary technology and our exposure to competitive pressures may be increased if a competitor should resort to unlawful means in competing against us. For example, in July 2003 we settled a complaint against Ascential Software Corporation in which a number of former Informatica employees recruited and hired by Ascential, misappropriated our trade secrets, including sensitive products and marketing information and detailed sales information regarding existing and potential customers and unlawfully used that information to benefit Ascential in gaining a competitive advantage against us. Although we were ultimately successful in this lawsuit, there are no assurances that we will be successful in protecting our proprietary technology from competitors in the future.

We have entered into agreements with many of our customers and partners that require us to place the source code of our products into escrow. Such agreements generally provide that such parties will have a limited, non-exclusive right to use such code if: (1) there is a bankruptcy proceeding by or against us; (2) we cease to do business; or (3) we fail to meet our support obligations. Although our agreements with these third parties limit the scope of rights to use of the source code, we may be unable to effectively control such third-party s actions.

Furthermore, effective protection of intellectual property rights is unavailable or limited in various foreign countries. The protection of our proprietary rights may be inadequate and our competitors could independently develop similar technology, duplicate our products or design around any patents or other intellectual property rights we hold.

We may be forced to initiate litigation in order to protect our proprietary rights. For example, on July 15, 2002, we filed a patent infringement lawsuit against Acta Technology, Inc. Although this lawsuit is in the early stages, litigating claims related to the enforcement of proprietary rights can be very expensive and can be burdensome in terms of management time and resources, which could adversely affect our business and operating results.

We may face intellectual property infringement claims that could be costly to defend and result in our loss of significant rights.

As is common in the software industry, we have received and may continue from time to time to receive notices from third parties claiming infringement by our products of third-party patent and other proprietary rights. Third parties could claim that our current or future products infringe their patent or other proprietary rights. As the number of software products in our target markets increases and the functionality of these products further overlaps, we may become increasingly subject to claims by a third party that our technology infringes such party s proprietary rights. Any claims, with or without merit, could be time-consuming, result in costly litigation, cause product shipment delays or require us to enter into royalty or licensing agreements, any of which could adversely affect our business, financial condition and operating results. Although we do not

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believe that we are currently infringing any proprietary rights of others, legal action claiming patent infringement could be commenced against us, and we may not prevail in such litigation given the complex technical issues and inherent uncertainties in patent litigation. The potential effects on our business that may result from a third-party infringement claim include the following:

- we may be forced to enter into royalty or licensing agreements, which may not be available on terms favorable to us, or at all;
- we may be required to indemnify our customers or obtain replacement products or functionality for our customers;
- we may be forced to significantly increase our development efforts and resources to redesign our products as a result of these claims; and
- we may be forced to discontinue the sale of some or all of our products.

The time and expense that we will expend in the relocation of our corporate headquarters could adversely affect our results of operations in the fourth quarter of 2004.

We expect to complete the move from our current corporate headquarters at 2100 Seaport Boulevard, Redwood City, California to our new location at Seaport Center in Redwood City, California by December 31, 2004. The time and effort that we will need to expend in the relocation of our corporate headquarters will be a distraction to our management and could result in a disruption to our ongoing business operations and sales efforts and could adversely affect our results of operations in the fourth quarter of 2004. Additionally, as a result of this move, we expect to incur a pre-tax restructuring charge of approximately $110 million to $115 million in the fourth quarter of 2004. If we do not complete the relocation by December 31, 2004, the timing of this restructuring charge would be delayed and could negatively impact our financial results in the first quarter of 2005.

We may engage in future acquisitions or investments that could dilute our existing stockholders, or cause us to incur contingent liabilities, debt or significant expense.

From time to time, in the ordinary course of business, we may evaluate potential acquisitions of, or investments in, related businesses, products or technologies. For example, we recently acquired Striva in September 2003, and we invested $500,000 in a private company in December 2003 that is still in the development stage of its business cycle. Future acquisitions and investments like these could result in the issuance of dilutive equity securities, the incurrence of debt or contingent liabilities, or the payment of cash to purchase equity securities from third parties. There can be no assurance that any strategic acquisition or investment, including Striva, will succeed.

Delaware law, as well as our certificate of incorporation and bylaws, contains provisions that could deter potential acquisition bids, which may adversely affect the market price of our common stock, discourage merger offers and prevent changes in our management or Board of Directors.

Our basic corporate documents and Delaware law contain provisions that might discourage, delay or prevent a change in the control of Informatica or a change in our management. Our bylaws provide that we have a classified Board of Directors, with each class of directors subject to re-election every three years. This classified board has the effect of making it more difficult for third parties to insert their representatives on our Board of Directors and gain control of Informatica. These provisions could also discourage proxy contests and make it more difficult for our stockholders to elect directors and take other corporate actions. The existence of these provisions could limit the price that investors might be willing to pay in the future for shares of our common stock.

In addition, we have adopted a stockholder rights plan. Under the plan, we issued a dividend of one right for each outstanding share of common stock to stockholders of record as of November 12, 2001, and such rights will become exercisable only upon the occurrence of certain events. Because the rights may substantially dilute the stock ownership of a person or group attempting to take us over without the approval of our Board of

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Directors, the plan could make it more difficult for a third party to acquire us or a significant percentage of our outstanding capital stock without first negotiating with our Board of Directors regarding such acquisition.

We may need to raise additional capital in the future, which may not be available on reasonable terms to us, if at all.

We may not generate sufficient revenue from operations to offset our operating or other expenses. As a result, in the future, we may need to raise additional funds through public or private debt or equity financings. We may not be able to borrow money or sell more of our equity securities to meet our cash needs. Even if we are able to do so, it may not be on terms that are favorable or reasonable to us. If we are not able to raise additional capital when we need it in the future, our business could be seriously harmed.

Business interruptions could adversely affect our business.

Our operations are vulnerable to interruption by fire, earthquake, power loss, telecommunications failure and other events beyond our control. We do not have a detailed disaster recovery plan. Our facilities in the State of California are currently subject to electrical blackouts as a consequence of a shortage of available electrical power, which occurred during 2001. In the event these blackouts are reinstated, they could disrupt the operations of our affected facilities. In connection with the shortage of available power, prices for electricity may continue to increase in the foreseeable future. Such price changes will increase our operating costs, which could negatively impact our profitability. In addition, we do not carry sufficient business interruption insurance to compensate us for losses that may occur, and any losses or damages incurred by us could have a material adverse effect on our business.

Item 3. ***Quantitative and Qualitative Disclosures About Market Risk***

Interest Rate Risk

Our exposure to market risk for changes in interest rates relates primarily to our investment portfolio. We do not use derivative financial instruments in our investment portfolio. The primary objective of our investment activities is to preserve principal while maximizing yields without significantly increasing risk. Our investment policy specifies credit quality standards for our investments and limits the amount of credit exposure to any single issue, issuer or type of investment. Our investments consist primarily of commercial paper, U.S. government notes and bonds, corporate bonds and municipal securities. All investments are carried at market value, which approximates cost.

For the nine months ended September 30, 2004, the average rate of return on our investments was 1.6%. If market interest rates were to increase immediately and uniformly by 100 basis points from levels as of September 30, 2004, the fair market value of the portfolio would decline by approximately $1.0 million. Declines in interest rates will, over time, reduce our interest income.

Foreign Currency Risk

We market and sell our software and services through our direct sales force and indirect channel partners in the United States as well as Belgium, Canada, France, Germany, the Netherlands, Switzerland and the United Kingdom. We also have relationships with indirect channel partners in various other regions, including Asia-Pacific, Australia, Europe, Japan and Latin America. As a result, our financial results could be affected by factors such as changes in foreign currency exchange rates or weak economic conditions in foreign markets. As our sales are primarily in U.S. dollars, a strengthening of the dollar could make our products less competitive in foreign markets. We translate foreign currencies into U.S. dollars for reporting purposes and currency fluctuations may have a quarterly impact on our financial results. To date, we have not engaged in any foreign currency hedging activities.

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Item 4. ***Controls and Procedures***

Evaluation of Disclosure Controls and Procedures. Our management evaluated, with the participation of our Chief Executive Officer and our Chief Financial Officer, the effectiveness of our disclosure controls and procedures as of the end of the period covered by this Quarterly Report on Form 10-Q. Based on this evaluation, our Chief Executive Officer and our Chief Financial Officer have concluded that our disclosure controls and procedures are effective to ensure that information we are required to disclose in reports that we file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms.

Changes in Internal Control Over Financial Reporting. Following a review of license revenue for the three months ended September 30, 2004, our independent auditors determined that we incorrectly recorded revenue related to two software license transactions. Based on the delivery requirements and acceptance terms of these software license agreements, the correct accounting treatment is to defer the license revenue for these transactions until the delivery requirements are fulfilled and acceptance has occurred. Accordingly, we deferred the related revenue at September 30, 2004.

We have determined that, under The Public Company Accounting Oversight Board s Auditing Standard No. 2 (Standard No. 2) and the prior relevant professional auditing standards, this deficiency constituted a significant deficiency, but not a material weakness in our internal controls over financial reporting. We have advised our independent auditors, who concur with our determination, and our audit committee of this significant deficiency in our internal controls over financial reporting. We believe that we have addressed this deficiency in the fourth quarter by establishing additional controls to review revenue transactions.

Accordingly, there was no change in our internal control over financial reporting that occurred during the period covered by this Quarterly Report on Form 10-Q that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

We continue to enhance our internal control over financial reporting by adding resources in key functional areas with the goal of bringing our operations up to the level of documentation, segregation of duties, and systems security necessary, as well as transactional control procedures required under the new Standard No. 2 issued. We discuss and disclose these matters to the audit committee of our Board of Directors and to our independent auditors.

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PART II. OTHER INFORMATION

Item 1. ***Legal Proceedings***

On November 8, 2001, a purported securities class action complaint was filed in the United States District Court for the Southern District of New York. The case is entitled In re Informatica Corporation Initial Public Offering Securities Litigation, Civ. No. 01-9922 (SAS) (S.D.N.Y.), related to In re Initial Public Offering Securities Litigation, 21 MC 92 (SAS) (S.D.N.Y.). Plaintiffs amended complaint was brought purportedly on behalf of all persons who purchased our common stock from April 29, 1999 through December 6, 2000. It names as defendants Informatica Corporation, one of our current officers, and one of our former officers (the Informatica defendants), and several investment banking firms that served as underwriters of our April 29, 1999 initial public offering and September 28, 2000 follow-on public offering. The complaint alleges liability as to all defendants under Sections 11 and/or 15 of the Securities Act of 1933 and Sections 10(b) and/or 20(a) of the Securities Exchange Act of 1934, on the grounds that the registration statements for the offerings did not disclose that: (1) the underwriters had agreed to allow certain customers to purchase shares in the offerings in exchange for excess commissions paid to the underwriters; and (2) the underwriters had arranged for certain customers to purchase additional shares in the aftermarket at predetermined prices. The complaint also alleges that false analyst reports were issued. No specific damages are claimed.

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

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

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

We are also a party to various legal proceedings and claims, either asserted or unasserted, arising from the normal course of business activities.

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

Item 2. ***Unregistered Sales of Equity Securities and Use of Proceeds***

On July 2, 2004, we announced a stock repurchase program to purchase up to 5,000,000 shares of our common stock. The purpose of our stock repurchase program is, among other things, to help offset the dilution caused by the issuance of stock under our employee stock plans. The number of shares acquired and the timing of the repurchases are based on several factors, including general market conditions and the trading price of our common stock. We repurchased a total of 1,055,000 shares in the quarter ended September 30, 2004, and at September 30, 2004, 3,945,000 million shares remained available for repurchase under the program.

The following table provides information about the repurchase of our common stock during the three months ended September 30, 2004:

Period	(1) Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	(2) Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
July 1 - July 31	265,000	$ 5.78	265,000	4,735,000
August 1 - August 31	790,000	$ 5.84	790,000	3,945,000
September 1 - September 30				3,945,000
Total	1,055,000	$ 5.80	1,055,000	3,945,000

(1) All shares repurchased in open-market transactions under the repurchase program.

(2) We announced the repurchase program on July 2, 2004. The repurchase program authorizes the repurchase of up to five million shares of our common stock. The program does not have a fixed expiration date.

Item 5. ***Other Information***

On September 24, 2004, we signed an offer letter with John Entenmann, our Executive Vice President, Corporate Strategy and Marketing. The offer letter provides that Mr. Entenmann will receive a base salary of $285,000. We also granted Mr. Entenmann an option to purchase up to 360,000 shares of our common stock at an exercise price of $6.04 per share. Mr. Entenmann may also earn an annualized bonus of $115,000, based on the terms of our executive bonus program. If, following a change in control of the company, Mr. Entenmann s employment is terminated as a result of the factors listed in his offer letter, which is included as an exhibit to this Form 10-Q, he will receive a lump sum payment equal to his gross base salary for a period equal to 12 months, as well as 12 months of accelerated vesting of his outstanding stock options.

Item 6. ***Exhibits***

Exhibit	
10.27	Offer Letter dated September 21, 2004, by and among the Company and John Entemann.
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	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.

Items 3 and 4 are not applicable and have been omitted.

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SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, Informatica Corporation 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
(Duly Authorized Officer and
Principal Financial and Accounting Officer)

Dated: November 5, 2004

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