

INFORMATICA CORP  
Form 10-Q  
November 07, 2011  
Table of Contents

UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

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FORM 10-Q

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R Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934  
For the quarterly period ended September 30, 2011

or  
£ Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Commission File Number: 0-25871

INFORMATICA CORPORATION

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of  
incorporation or organization)

77-0333710

(I.R.S. Employer  
Identification No.)

100 Cardinal Way

Redwood City, California 94063

(Address of principal executive offices and zip code)

(650) 385-5000

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days.

R Yes £ No

Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the Registrant was required to submit and post such files). Yes R No £

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer R Accelerated filer £ Non-accelerated filer £ Smaller reporting company £

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). £ Yes R No

As of October 31, 2011, there were approximately 106,347,000 shares of the registrant's Common Stock outstanding.

INFORMATICA CORPORATION  
TABLE OF CONTENTS

	Page No.
<u>PART I. FINANCIAL INFORMATION</u>	
<u>Item 1. Condensed Consolidated Financial Statements:</u>	<u>3</u>
<u>Condensed Consolidated Balance Sheets as of September 30, 2011 and December 31, 2010</u>	<u>3</u>
<u>Condensed Consolidated Statements of Income for the three and nine months ended September 30, 2011 and 2010</u>	<u>4</u>
<u>Condensed Consolidated Statements of Cash Flows for the nine months ended September 30, 2011 and 2010</u>	<u>5</u>
<u>Notes to Condensed Consolidated Financial Statements</u>	<u>6</u>
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>29</u>
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	<u>46</u>
<u>Item 4. Controls and Procedures</u>	<u>47</u>
<u>PART II. OTHER INFORMATION</u>	
<u>Item 1. Legal Proceedings</u>	<u>48</u>
<u>Item 1A. Risk Factors</u>	<u>48</u>
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>61</u>
<u>Item 6. Exhibits</u>	<u>62</u>
<u>Signature</u>	<u>63</u>
<u>Exhibit Index</u>	<u>64</u>

Table of Contents

## PART I: FINANCIAL INFORMATION

## ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## INFORMATICA CORPORATION

## CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except par value)

	September 30, 2011 (Unaudited)	December 31, 2010
Assets		
Current assets:		
Cash and cash equivalents	\$248,714	\$208,899
Short-term investments	305,173	262,047
Accounts receivable, net of allowances of \$3,589 and \$4,289, respectively	129,372	147,534
Deferred tax assets	18,868	22,664
Prepaid expenses and other current assets	36,340	32,321
Total current assets	738,467	673,465
Property and equipment, net	13,886	9,866
Goodwill	428,033	400,726
Other intangible assets, net	68,782	77,927
Long-term deferred tax assets	24,838	18,314
Other assets	6,061	9,343
Total assets	\$1,280,067	\$1,189,641
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$7,046	\$5,948
Accrued liabilities	47,495	50,199
Accrued compensation and related expenses	43,328	56,315
Accrued facilities restructuring charges	20,314	18,498
Deferred revenues	193,373	172,559
Convertible senior notes	—	200,693
Total current liabilities	311,556	504,212
Accrued facilities restructuring charges, less current portion	8,453	20,410
Long-term deferred revenues	6,505	6,987
Long-term deferred tax liabilities	172	311
Long-term income taxes payable	16,663	12,739
Other liabilities	7,376	—
Total liabilities	350,725	544,659
Commitments and contingencies (Note 12)		
Stockholders' equity:		
Common stock, \$0.001 par value; 200,000 shares authorized; 106,058 shares and 94,461 shares issued and outstanding at September 30, 2011 and December 31, 2010, respectively	106	94
Additional paid-in capital	725,008	514,365
Accumulated other comprehensive loss	(6,934	) (5,530
Retained earnings	211,162	136,053
Total stockholders' equity	929,342	644,982
Total liabilities and stockholders' equity	\$1,280,067	\$1,189,641

See accompanying notes to condensed consolidated financial statements.

3

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Table of ContentsINFORMATICA CORPORATION  
CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(In thousands, except per share data)

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Revenues:				
License	\$83,736	\$69,829	\$241,580	\$194,892
Service	112,151	91,421	315,066	257,149
Total revenues	195,887	161,250	556,646	452,041
Cost of revenues:				
License	1,011	1,124	3,669	3,232
Service	30,432	25,304	87,111	73,402
Amortization of acquired technology	5,156	3,445	14,334	9,833
Total cost of revenues	36,599	29,873	105,114	86,467
Gross profit	159,288	131,377	451,532	365,574
Operating expenses:				
Research and development	34,577	26,269	98,093	76,648
Sales and marketing	70,437	60,854	200,962	172,326
General and administrative	14,516	11,346	40,507	33,619
Amortization of intangible assets	1,886	2,280	5,959	7,345
Facilities restructuring charges (benefit)	(282)	) 553	704	1,545
Acquisitions and other charges (benefit)	917	(2,323)	) (5	) 1,326
Total operating expenses	122,051	98,979	346,220	292,809
Income from operations	37,237	32,398	105,312	72,765
Interest income	1,185	1,002	3,374	2,802
Interest expense	(105)	) (1,575)	) (2,006)	) (4,731)
Other income (expense), net	685	(229)	) (795)	) 1,784
Income before income taxes	39,002	31,596	105,885	72,620
Income tax provision	12,012	9,125	30,776	20,928
Net income	\$26,990	\$22,471	\$75,109	\$51,692
Basic net income per common share	\$0.25	\$0.24	\$0.73	\$0.56
Diluted net income per common share	\$0.24	\$0.21	\$0.67	\$0.50
Shares used in computing basic net income per common share	106,274	92,794	103,080	91,746
Shares used in computing diluted net income per common share	112,406	109,494	112,655	108,283

See accompanying notes to condensed consolidated financial statements.

Table of ContentsINFORMATICA CORPORATION  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	Nine Months Ended September 30,	
	2011	2010
Operating activities:		
Net income	\$75,109	\$51,692
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	4,303	4,614
Recovery of doubtful accounts	(488)	(27)
Gain on sale of investment in equity interest	(706)	(1,824)
Stock-based compensation	24,300	17,017
Deferred income taxes	633	2,113
Tax benefits from stock-based compensation	20,088	15,159
Excess tax benefits from stock-based compensation	(19,795)	(14,389)
Amortization of intangible assets and acquired technology	20,293	17,178
Non-cash facilities restructuring charges	704	1,545
Other non-cash items	(1,702)	(2,146)
Changes in operating assets and liabilities:		
Accounts receivable	18,910	23,240
Prepaid expenses and other assets	(10,615)	(2,307)
Accounts payable and accrued liabilities	(14,104)	(12,575)
Income taxes payable	3,793	(13,285)
Accrued facilities restructuring charges	(10,723)	(11,143)
Deferred revenues	20,247	13,060
Net cash provided by operating activities	130,247	87,922
Investing activities:		
Purchases of property and equipment	(8,502)	(4,584)
Purchases of investments	(304,871)	(211,977)
Purchase of investment in equity interest	(164)	(1,500)
Sale of investment in equity interest	706	4,824
Maturities of investments	102,524	220,390
Sales of investments	158,647	98,566
Business acquisitions, net of cash acquired	(27,969)	(168,777)
Net cash used in investing activities	(79,629)	(63,058)
Financing activities:		
Net proceeds from issuance of common stock	45,457	44,807
Repurchases and retirement of common stock	(70,111)	(10,651)
Redemption of convertible senior notes	(4)	—
Withholding taxes related to restricted stock units net share settlement	(5,701)	(1,713)
Payment of issuance costs on credit facility	—	(1,881)
Excess tax benefits from stock-based compensation	19,795	14,389
Net cash provided by (used in) financing activities	(10,564)	44,951
Effect of foreign exchange rate changes on cash and cash equivalents	(239)	(1,696)
Net increase in cash and cash equivalents	39,815	68,119
Cash and cash equivalents at beginning of period	208,899	159,197
Cash and cash equivalents at end of period	\$248,714	\$227,316

See accompanying notes to condensed consolidated financial statements.

5

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Table of Contents

INFORMATICA CORPORATION  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying condensed consolidated financial statements of Informatica Corporation (“Informatica,” or the “Company”) have been prepared in conformity with generally accepted accounting principles (“GAAP”) in the United States of America. However, certain information and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been condensed, or omitted, pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”). In the opinion of management, the financial statements include all normal and recurring adjustments that are necessary to fairly present the results of the interim periods presented. All of the amounts included in this Quarterly Report on Form 10-Q related to the condensed consolidated financial statements and notes thereto as of and for the three and nine months ended September 30, 2011 and 2010 are unaudited. The interim results presented are not necessarily indicative of results for any subsequent interim period, the year ending December 31, 2011, or any other future period.

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

These unaudited, condensed consolidated financial statements should be read in conjunction with the Company's audited consolidated financial statements and notes thereto for the year ended December 31, 2010 included in the Company's Annual Report on Form 10-K filed with the SEC. The condensed consolidated balance sheet as of December 31, 2010 has been derived from the audited consolidated financial statements of the Company.

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

Revenue Recognition

The Company derives its revenues from software license fees, maintenance fees, professional services, consisting of consulting and education services, and other revenues, primarily consisting of subscriptions for address validation and cloud services. The Company recognizes revenue in accordance with ASC 985-605, Software Revenue Recognition, ASC 605-35, Revenue Recognition for Construction-Type and Production-Type Contracts, the Securities and Exchange Commission's Staff Accounting Bulletin No. 104 (“SAB 104”), Revenue Recognition, and other authoritative accounting literature.

Under ASC 985-605-25, revenue is recognized when persuasive evidence of an arrangement exists, delivery has occurred, the fee is fixed or determinable, and collection is probable.

Persuasive evidence of an arrangement exists. The Company determines that persuasive evidence of an arrangement exists when it has a written contract, signed by both the customer and the Company, and written purchase authorization.

Delivery has occurred. Software is considered delivered when title to the physical software media passes to the customer or, in the case of electronic delivery, when the customer has been provided with the access codes to download and operate the software.



Fee is fixed or determinable. The Company considers arrangements with extended payment terms not to be fixed or determinable. If the license fee in an arrangement is not fixed or determinable, revenue is recognized as payments become due. The Company's standard agreements do not contain product return rights.

Collection is probable. The Company first assesses the credit-worthiness and collectability at a country level based on the country's overall economic climate and general business risk. Then, for the customers in the countries that are deemed credit-

Table of Contents

INFORMATICA CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

worthy, it assesses credit and collectability based on their payment history and credit profile. When a customer is not deemed credit-worthy, revenue is recognized at the time that payment is received.

The Company requires evidence of sell-through from resellers and distributors for order acceptance. The Company then recognizes revenue from resellers and distributors upon shipment if all other revenue recognition criteria are met, which in substantially all cases is when cash is collected or when the reseller or distributor is deemed credit-worthy based on their payment history and credit profile to conclude that collectability is probable.

The Company also enters into Original Equipment Manufacturer (“OEM”) arrangements that provide for license fees based on inclusion of technology and/or products in the OEM’s products. These arrangements provide for fixed and irrevocable royalty payments. The Company recognizes royalty payments as revenues based on the royalty report that it receives from the OEMs. In the case of OEMs with fixed royalty payments, revenue is recognized upon execution of the agreement, delivery of the software, and when all other criteria for revenue recognition have been met.

Multiple contracts with a single counterparty executed within close proximity of each other are evaluated to determine if the contracts should be combined and accounted for as a single arrangement. The Company recognizes revenues net of applicable sales taxes, financing charges absorbed by the Company, and amounts retained by our resellers and distributors, if any.

The Company’s software license arrangements include the following multiple elements: license fees from our core software products and/or product upgrades that are not part of post-contract services, maintenance fees, consulting, and/or education services. The Company uses the residual method to recognize license revenue when the license arrangement includes elements to be delivered at a future date and vendor-specific objective evidence (“VSOE”) of fair value exists to allocate the fee to the undelivered elements of the arrangement. VSOE is based on the price charged when an element is sold separately. If VSOE does not exist for any undelivered software product element of the arrangement, all revenue is deferred until all elements have been delivered or VSOE is established. If VSOE does not exist for any undelivered services elements of the arrangement, all revenue is recognized ratably over the period that the services are expected to be performed. If the software arrangement includes significant modification or customization of the software, software license revenue is recognized as the consulting services revenue is recognized. 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 configurations performed on a time-and-materials basis and, occasionally, on a fixed fee basis. Education services revenues are generated from classes offered at both Company and customer locations. Revenues from consulting and education services are recognized as the services are performed.

Other revenues, primarily consisting of subscriptions for address validation and cloud services (which are not material for any period presented), are generally recognized as the services are delivered.

Deferred revenues include deferred license, maintenance, consulting, education, and other services revenues. For customers not deemed credit-worthy, the Company’s practice is to net unpaid deferred revenue for that customer against the related receivable balance.

**Multiple Element Arrangements - Nonsoftware Arrangements or Arrangements with Software and Nonsoftware Elements**

In October 2009, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2009-13, Revenue Recognition (Topic 605): Multiple-Deliverable Revenue Arrangements, which amended the accounting standards applicable to revenue recognition for multiple-deliverable revenue arrangements that are outside the scope of industry-specific software revenue recognition guidance. The new guidance amends the criteria for allocating the consideration in multiple-deliverable revenue arrangements by establishing a selling price hierarchy.

The selling price used for each deliverable will be based on VSOE if available, third-party evidence (“TPE”) if VSOE is not available, or estimated selling price (“ESP”) if neither VSOE nor TPE is available. The guidance also eliminates the use of the residual method of allocation and requires that the arrangement consideration be allocated at the

inception of the arrangement to all deliverables using the relative selling price method.

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

The Company's multiple-element arrangements are primarily software or software-related, which are excluded from the new guidance. Multiple-element arrangements that include non-software related elements and software or software-related elements, which are included in the new guidance, are not material to date.

7

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Table of Contents

## INFORMATICA CORPORATION

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

For multiple element arrangements that include software and non-software related elements, for example, on-site software licenses sold together with subscriptions for the Company's cloud and hosted address validation services, the Company allocates revenue to each software and non-software element as a group based upon the relative selling price of each in accordance with the selling price hierarchy, which includes (i) VSOE if available, (ii) TPE if VSOE is not available, and (iii) ESP if neither VSOE nor TPE is available. Revenue allocated to each element is then recognized when the basic revenue recognition criteria are met for each element. The manner in which the Company accounts for multiple element arrangements that contain only software and software-related elements remains unchanged.

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

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

Given the nature of the Company's transactions, which are primarily software or software-related, the adoption of this new accounting guidance did not have a significant impact on the timing and pattern of revenue recognition when applied to multiple-element arrangements. Total net revenue as reported during the nine months ended September 30, 2011 is materially consistent with total net revenue that would have been reported if the transaction entered into or materially modified after December 31, 2010 were subject to previous accounting guidance. The new accounting guidance for revenue recognition, if applied in the same manner to the year ended December 31, 2010, would not have had a material impact on total net revenues for the fiscal year 2010.

## Fair Value Measurement of Financial Assets and Liabilities

The following table summarizes financial assets and financial liabilities that the Company measures at fair value on a recurring basis as of September 30, 2011 (in thousands):

	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Money market funds (i)	\$58,953	\$58,953	\$—	\$—
Time deposits (ii)	12,081	12,081	—	—
Marketable debt securities (ii)	294,242	—	294,242	—
Total money market funds, time deposits, and marketable debt securities	365,276	71,034	294,242	—
Foreign currency derivatives (iii)	322	—	322	—
Total assets	\$365,598	\$71,034	\$294,564	\$—
Liabilities:				
Foreign currency derivatives (iv)	\$603	\$—	\$603	\$—
Total liabilities	\$603	\$—	\$603	\$—



Table of Contents

## INFORMATICA CORPORATION

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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

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

(i) Included in cash and cash equivalents on the condensed consolidated balance sheets.

(ii) Included in either cash and cash equivalents or short-term investments on the condensed consolidated balance sheets.

(iii) Included in prepaid expenses and other current assets on the condensed consolidated balance sheets.

(iv) Included in accrued liabilities on the condensed consolidated balance sheets.

#### Money Market Funds, Time Deposits, Marketable Securities, and Convertible Senior Notes

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

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

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

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

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

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

Table of Contents

INFORMATICA CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Foreign Currency Derivatives and Hedging Instruments

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

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

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

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

The Company's marketable securities are classified as available-for-sale as of the balance sheet date and are reported at fair value with unrealized gains and losses reported as a separate component of accumulated other comprehensive income in stockholders' equity, net of tax. Realized gains or losses and other-than-temporary impairments, if any, on available-for-sale securities are reported in other income or expense as incurred. Realized gains recognized for the three months ended September 30, 2011 and 2010 were not significant. Realized gains recognized for the nine months ended September 30, 2011 and 2010 were approximately \$0.3 million and \$0.2 million, respectively. The cost of securities sold was determined based on the specific identification method.



Table of Contents

## INFORMATICA CORPORATION

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

The following table summarizes the Company's cash, cash equivalents, and short-term investments as of September 30, 2011 (in thousands):

	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Cash	\$188,611	\$—	\$—	\$188,611
Cash equivalents:				
Money market funds	58,953	—	—	58,953
Federal agency notes and bonds	600	—	—	600
U.S. government notes and bonds	550	—	—	550
Total cash equivalents	60,103	—	—	60,103
Total cash and cash equivalents	248,714	—	—	248,714
Short-term investments:				
Certificates of deposit	4,762	5	—	4,767
Commercial paper	7,993	—	—	7,993
Corporate notes and bonds	158,459	189	(679	) 157,969
Federal agency notes and bonds	96,300	161	(67	) 96,394
Time deposits	12,081	—	—	12,081
U.S. government notes and bonds	2,894	22	—	2,916
Municipal notes and bonds	23,006	47	—	23,053
Total short-term investments	305,495	424	(746	) 305,173
Total cash, cash equivalents, and short-term investments <sup>(i)</sup>	\$554,209	\$424	\$(746	) \$553,887

<sup>(i)</sup> Total estimated fair value above included \$365.3 million comprised of cash equivalents and short-term investments at September 30, 2011.

Table of Contents

## INFORMATICA CORPORATION

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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

	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Cash	\$197,169	\$—	\$—	\$197,169
Cash equivalents:				
Money market funds	2,231	—	—	2,231
Federal agency notes and bonds	9,499	—	—	9,499
Total cash equivalents	11,730	—	—	11,730
Total cash and cash equivalents	208,899	—	—	208,899
Short-term investments:				
Certificates of deposit	14,437	—	—	14,437
Commercial paper	10,977	—	—	10,977
Corporate notes and bonds	97,899	444	(86	) 98,257
Federal agency notes and bonds	105,120	40	(140	) 105,020
U.S. government notes and bonds	10,156	19	(10	) 10,165
Municipal notes and bonds	23,205	5	(19	) 23,191
Total short-term investments	261,794	508	(255	) 262,047
Total cash, cash equivalents, and short-term investments <sup>(i)</sup>	\$470,693	\$508	\$(255	) \$470,946

(i) Total estimated fair value above included \$273.8 million comprised of cash equivalents and short-term investments at December 31, 2010.

See Note 1. Summary of Significant Accounting Policies of Notes to Condensed Consolidated Financial Statements for further information regarding the fair value of the Company's financial instruments.

The following table summarizes the fair value and gross unrealized losses related to available-for-sale securities, aggregated by investment category that have been in a continuous unrealized loss position for less than twelve months, at September 30, 2011 (in thousands):

	Less Than 12 months	
	Fair Value	Gross Unrealized Losses
Corporate notes and bonds	\$103,894	\$679
Federal agency notes and bonds	48,027	67
Total	\$151,921	\$746

As of September 30, 2011, the Company did not have any investments that were in a continuous unrealized loss position for periods greater than 12 months. The changes in value of these investments are primarily related to changes in interest rates and are considered to be temporary in nature.

Table of Contents

## INFORMATICA CORPORATION

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

The following table summarizes the cost and estimated fair value of the Company's short-term investments by contractual maturity at September 30, 2011 (in thousands):

	Cost	Fair Value
Due within one year	\$137,057	\$136,919
Due in one year to two years	124,291	124,004
Due after two years	44,147	44,250
Total	\$305,495	\$305,173

## Note 3. Intangible Assets and Goodwill

The carrying amounts of the intangible assets other than goodwill as of September 30, 2011 and December 31, 2010 are as follows (in thousands, except years):

	Intangible Assets, Gross		Accumulated Amortization			Intangible Assets, Net		Weighted Average Useful Life (Years)	
	December 31, 2010	September 30, 2011	December 31, 2010	September 30, 2011	December 31, 2010	September 30, 2011			
Developed and core technology	\$90,497	\$9,569	\$100,066	\$(35,254)	\$(14,319)	\$(49,573)	\$55,243	\$50,493	6
Customer relationships	33,501	642	34,143	(20,811)	(3,960)	(24,771)	12,690	9,372	6
Vendor relationships	7,908	—	7,908	(2,659)	(1,165)	(3,824)	5,249	4,084	5
Other:									
Trade names	2,494	—	2,494	(1,286)	(269)	(1,555)	1,208	939	5
Covenants not to compete	2,000	—	2,000	(1,617)	(300)	(1,917)	383	83	5
Patents	3,720	—	3,720	(566)	(280)	(846)	3,154	2,874	10
Total intangible assets subject to amortization	140,120	10,211	150,331	(62,193)	(20,293)	(82,486)	77,927	67,845	
In-process research and development	—	937	937	—	—	—	—	937	N.A.
Total intangible assets, net	\$140,120	\$11,148	\$151,268	\$(62,193)	\$(20,293)	\$(82,486)	\$77,927	\$68,782	

Total amortization expense related to intangible assets was \$7.0 million and \$5.7 million for the three months ended September 30, 2011 and 2010, respectively, and \$20.3 million and \$17.2 million for the nine months ended September 30, 2011 and 2010, respectively. Certain intangible assets were recorded in foreign currencies; and therefore, the gross carrying amount and accumulated amortization are subject to foreign currency translation adjustments.



Table of Contents

## INFORMATICA CORPORATION

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

As of September 30, 2011, the amortization expense related to identifiable intangible assets in future periods is expected to be as follows (in thousands):

	Acquired Technology	Other Intangible Assets	Total Intangible Assets
Remaining 2011	\$5,139	\$1,750	\$6,889
2012	20,460	5,876	26,336
2013	15,914	5,118	21,032
2014	5,752	2,421	8,173
2015	2,055	726	2,781
Thereafter	1,173	1,461	2,634
Total intangible assets subject to amortization	\$50,493	\$17,352	\$67,845

In the second quarter of 2011, in conjunction with our acquisition of WisdomForce, the Company recorded in-process research and development (IPR&D) of \$1.6 million. The IPR&D capitalized costs were associated with software development efforts in process at the time of the business combination that had not yet achieved technological feasibility and no future alternative uses had been identified. Technological feasibility was achieved in August 2011 for a portion of the IPR&D valued at \$0.7 million, which was reclassified to developed technology and is being amortized over its useful life.

The changes in the carrying amount of goodwill for the nine months ended September 30, 2011 are as follows (in thousands):

	September 30, 2011
Beginning balance as of December 31, 2010	\$400,726
Goodwill from acquisitions	33,230
Subsequent goodwill adjustments	(5,923 )
Ending balance as of September 30, 2011	\$428,033

Subsequent goodwill adjustments of \$5.9 million for the nine months ended September 30, 2011 include income tax related balance sheet adjustments within the measurement period related to the Siperian, 29West, ActiveBase, and WisdomForce acquisitions and foreign currency translation adjustments. See Note 15. Acquisitions for a further discussion of goodwill from acquisitions.

## Note 4. Borrowings

## Convertible Senior Notes

On March 8, 2006, the Company issued and sold Convertible Senior Notes (the "Notes") with an aggregate principal amount of \$230.0 million due 2026. The Company paid interest at 3.0% per annum to holders of the Notes, payable semi-annually on March 15 and September 15 of each year, commencing September 15, 2006. Each \$1,000 principal amount of Notes was initially convertible, at the option of the holders, into 50 shares of the Company's common stock prior to the earlier of the maturity date (March 15, 2026) or the redemption or repurchase of the Notes. The initial conversion price represented a premium of 29.28% relative to the last reported sale price of common stock of the Company on the NASDAQ National Market of \$15.47 on March 7, 2006. The conversion rate initially represented a conversion price of \$20.00 per share. The balance of the Notes at December 31, 2010 was \$200.7 million.

On February 14, 2011, the Company notified the holders of its Notes that it would exercise its option to redeem the principal amount outstanding on March 18, 2011. On or prior to the close of business on March 17, 2011, the holders had the option to convert their Notes into shares of the Company's common stock at a price of approximately \$20 per share, or 50 shares of the Company's common stock per \$1,000 principal amount of Notes. Holders of approximately \$200.7 million in aggregate principal amount of the Notes converted their notes into approximately 10.0 million

shares of the Company's common stock prior to the close of business on March 17, 2011. On March 18, 2011, the Company redeemed \$4,000 principal amount of Notes not surrendered for conversion prior to the redemption date. As of March 31, 2011, none of the Notes were outstanding. From the second quarter of 2011 and beyond, the shares of the Company's common stock issued upon conversion are included in the denominator for both basic and diluted net income per common share, and there is no interest or amortization of issuance costs.

Table of Contents

## INFORMATICA CORPORATION

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

## Credit Agreement

On September 29, 2010, the Company entered into a Credit Agreement (the "Credit Agreement") that matures on September 29, 2014. The Credit Agreement provides for an unsecured revolving credit facility in an amount of up to \$220.0 million, with an option for the Company to request to increase the revolving loan commitments by an aggregate amount of up to \$30.0 million with new or additional commitments, for a total credit facility of up to \$250.0 million. No amounts were outstanding under the Credit Agreement as of September 30, 2011, and a total of \$220.0 million remained available for borrowing.

Revolving loans accrue interest at a per annum rate based on either, at our election, (i) the base rate plus a margin ranging from 1.00% to 1.75% depending on the Company's consolidated leverage ratio, or (ii) LIBOR (based on 1-, 2-, 3-, or 6-month interest periods) plus a margin ranging from 2.00% to 2.75% depending on the Company's consolidated leverage ratio. The base rate is equal to the highest of (i) JPMorgan Chase Bank, N.A.'s prime rate, (ii) the federal funds rate plus a margin equal to 0.50%, and (iii) LIBOR for a 1-month interest period plus a margin equal to 1.00%. Revolving loans may be borrowed, repaid and reborrowed until September 29, 2014, at which time all amounts borrowed must be repaid. Accrued interest on the revolving loans is payable quarterly in arrears with respect to base rate loans and at the end of each interest rate period (or at each 3-month interval in the case of loans with interest periods greater than 3 months) with respect to LIBOR loans. The Company is also obligated to pay other customary closing fees, arrangement fees, administrative fees, commitment fees, and letter of credit fees. A quarterly commitment fee is applied to the average daily unborrowed amount under the credit facility at a per annum rate ranging from 0.35% to 0.50% depending on the Company's consolidated leverage ratio. The Company may prepay the loans or terminate or reduce the commitments in whole or in part at any time, without premium or penalty, subject to certain conditions including minimum amounts in the case of commitment reductions and reimbursement of certain costs in the case of prepayments of LIBOR loans.

The Credit Agreement contains customary representations and warranties, covenants, and events of default, including the requirement to maintain a maximum consolidated leverage ratio of 2.75 to 1.00 and a minimum consolidated interest coverage ratio of 3.50 to 1.00. The occurrence of an event of default could result in the acceleration of the obligations under the Credit Agreement. Under certain circumstances, a default interest rate will apply on all obligations during the existence of an event of default under the Credit Agreement at a per annum rate equal to 2.00% above the applicable interest rate for any overdue principal and 2.00% above the rate applicable for base rate loans for any other overdue amounts. The Company was in compliance with all covenants under the Credit Agreement as of September 30, 2011.

## Note 5. Other Comprehensive Income

The components of other comprehensive income ("OCI"), net of taxes, for the three and nine months ended September 30, 2011 and 2010 were as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Net income, as reported	\$26,990	\$22,471	\$75,109	\$51,692
Other comprehensive income (loss):				
Unrealized gain (loss) on investments	(445	) 308	(357	) 210
Cumulative translation adjustments	(9,805	) 9,315	(961	) (2,336
Derivative gain (loss)	416	115	(86	) 164
Total other comprehensive income (loss)	(9,834	) 9,738	(1,404	) (1,962
Total comprehensive income, net of taxes	\$17,156	\$32,209	\$73,705	\$49,730

The change in cumulative translation adjustments for the three months ended September 30, 2011 compared to the same period in 2010 was primarily due to the strengthening of the U.S. dollar against the euro.





Table of Contents

## INFORMATICA CORPORATION

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Accumulated other comprehensive loss, net of taxes, as of September 30, 2011 and December 31, 2010 consisted of the following (in thousands):

	September 30, 2011	December 31, 2010	
Net unrealized gain (loss) on available-for-sale investments	\$(200	) \$157	
Cumulative translation adjustments	(6,364	) (5,403	)
Derivative loss	(370	) (284	)
Accumulated other comprehensive loss, net of taxes	\$(6,934	) \$(5,530	)

The Company did not have any other-than-temporary gain or loss reflected in accumulated other comprehensive income (loss) as of September 30, 2011 and December 31, 2010.

See Note 1. Summary of Significant Accounting Policies, Note 6. Derivative Financial Instruments, and Note 12. Commitments and Contingencies of Notes to Condensed Consolidated Financial Statements for a further discussion.

**Note 6. Derivative Financial Instruments**

The Company's earnings and cash flows are subject to fluctuations due to changes in foreign currency exchange rates. The Company uses derivative instruments to manage its exposures to fluctuations in certain foreign currency exchange rates which exist as part of ongoing business operations. The Company and its subsidiaries do not enter into derivative contracts for speculative purposes.

**Cash Flow Hedges**

The Company enters into certain cash flow hedge programs in an attempt to reduce the impact of certain foreign currency fluctuations. These contracts are designated and documented as cash flow hedges. The purpose of these programs is to reduce the volatility of identified cash flow and expenses caused by movement in certain foreign currency exchange rates, in particular, the euro, Indian rupee and Israeli shekel. The Company is currently using foreign exchange forward contracts to hedge certain non-functional currency anticipated expenses and revenue reflected in the intercompany accounts between Informatica U.S. and its subsidiaries in Cayman, India, Israel, and the Netherlands. In December 2010, the Company entered into additional foreign exchange forward contracts with monthly expiration dates through January 17, 2012. The Company releases the amounts accumulated in other comprehensive income into earnings in the same period or periods during which the forecasted hedge transaction affects earnings.

The Company has forecasted the amount of its anticipated foreign currency expenses and intercompany revenue based on its historical performance and its 2011 financial plan. As of September 30, 2011, these foreign exchange contracts, carried at fair value, have a maturity of four months or less. During the nine months ended September 30, 2011, the Company did not enter into any new forward exchange contracts. The Company closes out approximately three foreign exchange contracts per month when the foreign currency denominated expenses are paid or intercompany revenue is received and any gain or loss is offset against expense.

The notional amount of these foreign exchange forward contracts was \$20.4 million and \$51.0 million as of September 30, 2011 and December 31, 2010, respectively.

**Balance Sheet Hedges**

In the second quarter of 2011, the Company also entered into foreign exchange contracts to hedge monetary assets and liabilities that are denominated in currencies other than the functional currency of its subsidiaries. These foreign exchange contracts are carried at fair value and do not qualify for hedge accounting treatment and are not designated as hedging instruments. Changes in the value of the foreign exchange contracts are recognized in other income (expense) and offset the foreign currency gain or loss on the underlying monetary assets or liabilities. The notional amounts of foreign currency contracts were \$5.0 million at September 30, 2011.



Table of Contents

## INFORMATICA CORPORATION

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

The following table reflects the fair value amounts for the foreign exchange contracts designated and not designated as hedging instruments at September 30, 2011 and December 31, 2010 (in thousands):

	September 30, 2011		December 31, 2010	
	Fair Value Derivative Assets (i)	Fair Value Derivative Liabilities (ii)	Fair Value Derivative Assets (i)	Fair Value Derivative Liabilities (ii)
Derivatives designated as hedging instruments	\$—	\$452	\$102	\$569
Derivatives not designated as hedging instruments	322	151	50	—
Total fair value of derivative instruments	\$322	\$603	\$152	\$569

(i) Included in prepaid expenses and other current assets on the condensed consolidated balance sheets.

(ii) Included in accrued liabilities on the condensed consolidated balance sheets.

As of September 30, 2011, a derivative loss of \$0.4 million was included in accumulated other comprehensive income, net of applicable taxes. The Company expects to reflect this amount in its condensed consolidated statements of income during the next three months.

The Company evaluates prospectively as well as retrospectively the effectiveness of its hedge programs using statistical analysis at the inception of the hedge. Informatica uses the spot price method and excludes the time value of derivative instruments for determination of hedge effectiveness.

The effects of derivative instruments designated as cash flow hedges on the accumulated other comprehensive income and condensed consolidated statements of income for the three and nine months ended September 30, 2011 and 2010 are as follows (in thousands):

	Three Months Ended September 30, 2011		Nine Months Ended September 30, 2011	
	2011	2010	2011	2010
Amount of gain (loss) recognized in other comprehensive income (effective portion)	\$ 15	\$ 154	\$(1,750)	\$ 265
Amount of gain (loss) reclassified from accumulated other comprehensive income to operating expenses (effective portion)	\$(654)	\$(36)	\$(1,610)	\$(5)
Amount of gain (loss) recognized in income on derivatives for the amount excluded from effectiveness testing located in operating expenses	\$ 20	\$ 84	\$ 483	\$ 61

The Company did not have any ineffective portion of the derivative recorded in the condensed consolidated statements of income.

The gain recognized in other income (expense), net for non-designated foreign currency forward contracts for the three and nine months ended September 30, 2011 and 2010 is as follows (in thousands):

	Three Months Ended September 30, 2011		Nine Months Ended September 30, 2011	
	2011	2010	2011	2010
Gain recognized in interest and other income (expense), net	\$ 928	\$ 77	\$ 1,728	\$ 106

See Note 1. Summary of Significant Accounting Policies and Note 5. Other Comprehensive Income of Notes to Condensed Consolidated Financial Statements for a further discussion.



Table of Contents

## INFORMATICA CORPORATION

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

## Note 7. Stock Repurchase Program

The Company's Board of Directors has approved a stock repurchase program for the Company to repurchase its common stock. The primary purpose of the program is to enhance shareholder value, including to offset the dilutive impact of stock based incentive plans. The number of shares to be purchased and the timing of the purchases are based on several factors, including the price of the Company's common stock, the Company's liquidity and working capital needs, general business and market conditions, and other investment opportunities. These purchases can be made from time to time in the open market and are funded from the Company's available working capital.

This repurchase program does not have an expiration date. Repurchased shares are retired and reclassified as authorized and unissued shares of common stock. The Company may continue to repurchase shares from time to time, as determined by management under programs approved by the Board of Directors.

During the three months ended September 30, 2011, the Company repurchased approximately 1,110,000 shares of its common stock at a cost of \$50.5 million. The Company did not repurchase any shares of its common stock during the three months ended September 30, 2010. During the nine months ended September 30, 2011 and 2010, the Company repurchased approximately 1,475,000 shares of its common stock at a cost of \$70.1 million and approximately 435,000 shares of its common stock at a cost of \$10.7 million, respectively. There were no repurchases of the Notes during the nine months ended September 30, 2011 and 2010. The Notes were redeemed on March 18, 2011. See Note 4. Borrowings - Convertible Senior Notes of Notes to Condensed Consolidated Financial Statements for a further discussion.

As of September 30, 2011, \$6.4 million remained available for repurchase under this program.

## Note 8. Stock-Based Compensation

The Company grants restricted stock units ("RSUs") and stock options under its 2009 Employee Stock Incentive Plan. The Company uses the Black-Scholes-Merton option pricing model to determine the fair value of each option award on the date of grant. The Company uses a blend of average historical and market-based implied volatilities for calculating the expected volatilities for employee stock options, and it uses market-based implied volatilities for its Employee Stock Purchase Plan ("ESPP"). The expected term of employee stock options granted is derived from historical exercise patterns of the options, and the expected term of ESPP is based on the contractual terms. The risk-free interest rate for the expected term of the options and ESPP is based on the U.S. Treasury yield curve in effect at the time of grant.

The Company records stock-based compensation for RSUs and options granted net of estimated forfeiture rates. The Company estimates forfeiture rates at the time of grant and revises those estimates in subsequent periods if actual forfeitures differ from those estimates. The Company uses historical forfeitures to estimate its future forfeiture rates. The fair value of the Company's stock-based awards was estimated based on the following assumptions:

	Three Months Ended September 30, 2011		Nine Months Ended September 30, 2011		2010	
Option grants:						
Expected volatility	38	% 37	% 35 - 38%	34 - 38%		
Weighted-average volatility	38	% 37	% 36	% 35	%	
Expected dividends	—	—	—	—		
Expected term of options (in years)	3.8	3.7	3.8	3.7		
Risk-free interest rate	0.9	% 1.3	% 1.5	% 1.9	%	
ESPP:*						
Expected volatility	38	% 36	% 35 - 38%	34	%	
Weighted-average volatility	38	% 36	% 36	% 34	%	
Expected dividends	—	—	—	—		
Expected term of ESPP (in years)	0.5	0.5	0.5	0.5		



Table of Contents

## INFORMATICA CORPORATION

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

The allocations of the stock-based compensation, net of income tax benefit, for the three and nine months ended September 30, 2011 and 2010 are as follows (in thousands):

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2011	2010	2011	2010
Cost of service revenues	\$874	\$641	\$2,599	\$1,956
Research and development	2,825	1,925	7,878	5,285
Sales and marketing	2,616	1,817	7,503	5,383
General and administrative	2,318	1,573	6,320	4,393
Total stock-based compensation	8,633	5,956	24,300	17,017
Tax benefit of stock-based compensation	(2,219 )	(1,263 )	(6,169 )	(3,558 )
Total stock-based compensation, net of tax benefit	\$6,414	\$4,693	\$18,131	\$13,459

## Note 9. Facilities Restructuring Charges

## 2004 Restructuring Plan

In October 2004, the Company announced a restructuring plan (“2004 Restructuring Plan”) related to the December 2004 relocation of the Company’s corporate headquarters within Redwood City, California. In 2005, the Company subleased the available space at the Pacific Shores Center under the 2004 Restructuring Plan. The Company recorded restructuring charges of approximately \$103.6 million, consisting of \$21.6 million in leasehold improvement and asset write-offs and \$82.0 million related to estimated facility lease losses, which consist of the present value of lease payment obligations for the remaining 21 months lease term of the previous corporate headquarters, net of actual and estimated sublease income. The Company has actual and estimated sublease income, including the reimbursement of certain property costs such as common area maintenance, insurance, and property tax, net of estimated broker commissions, of \$1.6 million for the remainder of 2011, \$4.2 million in 2012, and \$2.7 million in 2013.

Subsequent to 2004, the Company continued to record accretion on the cash obligations related to the 2004 Restructuring Plan. Accretion represents imputed interest and is the difference between the non-discounted future cash obligations and the discounted present value of these cash obligations. At September 30, 2011, the Company will recognize approximately \$1.6 million of accretion as a restructuring charge over the remaining 21 months lease term as follows: \$0.4 million for the remainder of 2011, \$1.0 million in 2012, and \$0.2 million in 2013.

## 2001 Restructuring Plan

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

During 2002, the Company recorded additional restructuring charges of approximately \$17.0 million, consisting of \$15.1 million related to estimated facility lease losses and \$1.9 million in leasehold improvement and asset write-offs. The Company calculated the estimated costs for the additional restructuring charges based on current market information and trend analysis of the real estate market in the respective area.

In December 2004, the Company recorded additional restructuring charges of \$9.0 million related to estimated facility lease losses. The restructuring accrual adjustments recorded in the third and fourth quarters of 2004 were the result of the relocation of its corporate headquarters within Redwood City, California in December 2004, an executed sublease for the Company’s excess facilities in Palo Alto, California during the third quarter of 2004, and an adjustment to management’s estimate of occupancy of available vacant facilities. In 2005, the Company subleased the available space at the Pacific Shores Center under the 2001 Restructuring Plan through May 2013, which was subsequently subleased until July 2013 under a December 2007 sublease agreement.





Table of Contents

## INFORMATICA CORPORATION

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

A summary of the activity of the accrued restructuring charges for the nine months ended September 30, 2011 is as follows (in thousands):

	Accrued Restructuring Charges at December 31, 2010	Restructuring		Net Cash Payment	Non-Cash Reclass	Accrued Restructuring Charges at September 30, 2011
		Charges	Adjustments			
2004 Restructuring Plan						
Excess lease facilities	\$33,791	\$1,304	\$(600 )	\$(9,325 )	\$(122 )	\$25,048
2001 Restructuring Plan						
Excess lease facilities	5,117	—	—	(1,398 )	—	3,719
Total restructuring plans	\$38,908	\$1,304	\$(600 )	\$(10,723 )	\$(122 )	\$28,767

For the nine months ended September 30, 2011, the Company recorded \$0.7 million of restructuring charges related to the 2004 Restructuring Plan. These charges consist of accretion charges and amortization of tenant improvements and are included in facilities restructuring charges on the condensed consolidated statement of income. Net cash payments for the nine months ended September 30, 2011 for facilities included in the 2004 and 2001 Restructuring Plans amounted to \$9.3 million and \$1.4 million, respectively.

Inherent in the assessment of the costs related to our restructuring efforts are estimates related to the probability weighted outcomes of the significant actions to accomplish the restructuring. The estimates of sublease income may vary significantly depending, in part, on factors that may be beyond our control, such as the global economic downturn, time periods required to locate and contract suitable subleases, and market rates at the time of subleases. Currently, the Company has subleased its excess facilities in connection with its 2004 and 2001 facilities restructuring for durations through the end of the master lease in 2013. Future adjustments to the charges could result from any default by a sublessor, which could impact the time period that the buildings will be vacant, expected sublease rates, expected sublease terms, and the expected time it will take to sublease.

## Note 10. Income Taxes

The Company's effective tax rates were 31% and 29% for the three months ended September 30, 2011 and 2010, respectively, and 29% for both the nine months ended September 30, 2011 and 2010. The effective tax rates differed from the federal statutory rate of 35% primarily due to benefits of certain earnings from operations in lower-tax jurisdictions throughout the world, the impact of Section 199 of the Internal Revenue Code, and the recognition of current year research and development credits offset by compensation expense related to non-deductible stock-based compensation, acquisition related costs, and the accrual of reserves related to uncertain tax positions. The Company has not provided for residual U.S. taxes in almost all of these lower-tax jurisdictions since it intends to indefinitely reinvest these earnings offshore with the exception of Israel.

ASC 740, Income Taxes, provides for the recognition of deferred tax assets if realization of such assets is more likely than not. In assessing the need for any additional valuation allowance in the quarter ended September 30, 2011, the Company considered all available evidence both positive and negative, including historical levels of income, legislative developments, expectations and risks associated with estimates of future taxable income, and ongoing prudent and feasible tax planning strategies. As a result of this analysis for the quarter ended September 30, 2011, consistent with prior quarters, it was considered more likely than not that the Company's non-stock-based payments related deferred tax assets would be realized. As a result, the remaining valuation allowance is primarily related to deferred tax assets that were created through the benefit from stock option deductions on a "with" and "without" basis and recorded on the balance sheet with a corresponding valuation allowance prior to the Company's adoption of ASC 718, Stock Compensation. Pursuant to ASC 718-740-25-10, the benefit of these deferred tax assets will be recorded in stockholders' equity when they are utilized on an income tax return to reduce the Company's taxes payable, and as

such, they will not impact the Company's effective tax rate.

The unrecognized tax benefits related to ASC 740, if recognized, would impact the income tax provision by \$15.2 million and \$12.7 million as of September 30, 2011 and 2010, respectively. The Company has elected to include interest and penalties as a component of tax expense. Accrued interest and penalties as of September 30, 2011 and 2010 were approximately \$2.3 million and \$1.7 million, respectively. As of September 30, 2011, the gross uncertain tax position was approximately \$16.1 million.

Table of Contents

## INFORMATICA CORPORATION

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

The Company files U.S. federal income tax returns as well as income tax returns in various states and foreign jurisdictions. The Company has been informed by certain state and foreign taxing authorities that it was selected for examination. Most state and foreign jurisdictions have three or four open tax years at any point in time. The field work for certain state and foreign audits has commenced and is at various stages of completion as of September 30, 2011. Although the outcome of any tax audit is uncertain, the Company believes that it has adequately provided in its financial statements for any additional taxes that it may be required to pay as a result of such examinations. The Company regularly assesses the likelihood of outcomes resulting from these examinations to determine the adequacy of its provision for income taxes, and believes its current reserve to be reasonable. If tax payments ultimately prove to be unnecessary, the reversal of these tax liabilities would result in tax benefits in the period that the Company had determined such liabilities were no longer necessary. However, if an ultimate tax assessment exceeds its estimate of tax liabilities, an additional tax provision might be required.

## Note 11. Net Income per Common Share

The following table sets forth the calculation of basic and diluted net income per share for the three and nine months ended September 30, 2011 and 2010 (in thousands, except per share amounts):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Net income	\$26,990	\$22,471	\$75,109	\$51,692
Effect of convertible senior notes, net of related tax effects	—	961	811	2,884
Net income adjusted	\$26,990	\$23,432	\$75,920	\$54,576
Weighted-average shares of common stock used to compute basic net income per share (excluding unvested restricted stock)	106,274	92,794	103,080	91,746
Effect of dilutive common stock equivalents:				
Dilutive effect of unvested restricted stock units	458	422	545	374
Dilutive effect of employee stock options	5,674	6,228	6,283	6,113
Dilutive effect of convertible senior notes	—	10,050	2,747	10,050
Shares used in computing diluted net income per common share	112,406	109,494	112,655	108,283
Basic net income per common share	\$0.25	\$0.24	\$0.73	\$0.56
Diluted net income per common share	\$0.24	\$0.21	\$0.67	\$0.50
Weighted average stock options and restricted stock units excluded from calculation due to anti-dilutive effect	1,730	864	1,213	1,690

The diluted net income per common share calculation requires the dilutive effect of convertible securities to be reflected in the diluted net income per share by application of the “if-converted” method. This method assumes an add-back of interest and amortization of issuance cost, net of income taxes, to net income if the securities are converted. The Company determined that the Notes had a dilutive effect on diluted net income per share for the nine months ended September 30, 2011 and for the three and nine months ended September 30, 2010. As such, the Company had an add-back of \$0.8 million for the nine months ended September 30, 2011, and \$1.0 million and \$2.9 million for the three and nine months ended September 30, 2010, respectively, in interest and issuance cost amortization, net of income taxes, to net income for the diluted net income per share calculation. The impact of the Notes for the nine months ended September 30, 2011 represents interest and issuance cost amortization until the redemption of the Notes on March 18, 2011. See Note 4. Borrowings - Convertible Senior Notes of Notes to Condensed Consolidated Financial Statements for a further discussion.

## Note 12. Commitments and Contingencies

## Lease Obligations

In December 2004, the Company relocated its corporate headquarters within Redwood City, California and entered into a new lease agreement. The initial lease term was from December 15, 2004 to December 31, 2007 with a three-year option to renew to December 31, 2010 at fair market value. In May 2007, the Company exercised its renewal option to extend the office lease term to December 31, 2010. In May 2009, the Company executed the lease amendment to further extend the lease term for another

Table of Contents

## INFORMATICA CORPORATION

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

three years to December 31, 2013. The future minimum contractual lease payments are \$0.9 million for the remainder of 2011, and \$3.5 million and \$3.6 million for the years ending December 31, 2012 and 2013, respectively.

The Company entered into two lease agreements in February 2000 for two office buildings at the Pacific Shores Center in Redwood City, California, which was used as its former corporate headquarters from August 2001 through December 2004. The leases will expire in July 2013.

The Company leases certain office facilities under various non-cancelable operating leases, including those described above, which expire at various dates through 2021 and require the Company to pay operating costs, including property taxes, insurance, and maintenance. Operating lease payments in the table below include approximately \$32.5 million for operating lease commitments for facilities that are included in restructuring charges. See Note 9. Facilities Restructuring Charges of Notes to Condensed Consolidated Financial Statements for a further discussion.

Future minimum lease payments as of September 30, 2011 under non-cancelable operating leases with original terms in excess of one year are summarized as follows (in thousands):

	Operating Leases	Sublease Income	Net
Remaining 2011	\$7,169	\$858	\$6,311
2012	29,878	3,464	26,414
2013	21,544	1,786	19,758
2014	5,403	—	5,403
2015	4,407	—	4,407
Thereafter	2,389	—	2,389
Total future minimum operating lease payments	\$70,790	\$6,108	\$64,682

Of these future minimum lease payments, the Company has accrued \$28.8 million in the facilities restructuring accrual at September 30, 2011. This accrual, in addition to minimum lease payments of \$32.5 million, includes estimated operating expenses of \$8.2 million and sublease commencement costs associated with excess facilities and is net of estimated sublease income of \$10.3 million and a present value discount of \$1.6 million recorded in accordance with ASC 420, Exit or Disposal Cost Obligations.

**Warranties**

The Company generally provides a warranty for its software products and services to its customers for a period of three to six months and accounts for its warranties. The Company's software products' media are generally warranted to be free from defects in materials and workmanship under normal use, and the products are also generally warranted to substantially perform as described in certain Company documentation and the product specifications. 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. To date, the Company's product warranty expense has not been significant. The warranty accrual as of September 30, 2011 and December 31, 2010 was not material.

**Indemnification**

The Company sells software licenses and services to its customers under contracts, which the Company refers to as the License to Use Informatica Software ("License Agreement"). Each License Agreement contains the relevant terms of the contractual arrangement with the customer and generally includes certain provisions for indemnifying the customer against losses, expenses, liabilities, and 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 with a non-infringing product.

The Company believes its internal development processes and other policies and practices limit its exposure related to the indemnification provisions of the License Agreement. In addition, the Company requires its employees to sign a proprietary information and inventions agreement, which assigns the rights to its employees' development work to the Company. To date, the Company has not had to reimburse any of its customers for any losses related to these indemnification provisions, and no material

Table of Contents

INFORMATICA CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

claims against the Company are outstanding as of September 30, 2011. For several reasons, including the lack of prior indemnification claims and the lack of a monetary liability limit for certain infringement cases under the License Agreement, the Company cannot determine the maximum amount of potential future payments, if any, related to such indemnification provisions.

As permitted under Delaware law, the Company has agreements whereby the Company indemnifies its officers and directors for certain events or occurrences while the officer or director is, or was serving, at our request, in such capacity. The maximum potential amount of future payments the Company could be required to make under these indemnification agreements is unlimited; however, the Company has director and officer insurance coverage that reduces the Company's exposure and enables the Company to recover a portion of any future amounts paid. The Company believes the estimated fair value of these indemnification agreements in excess of applicable insurance coverage is minimal.

The Company accrues for loss contingencies when available information indicates that it is probable that an asset has been impaired or a liability has been incurred and the amount of the loss can be reasonably estimated in accordance with ASC 450, Contingencies.

Derivative Financial Instruments

The Company uses derivative instruments to manage its exposure to fluctuations in certain foreign currency exchange rates which exist as part of ongoing business operations. See Note 1. Summary of Significant Accounting Policies, Note 5. Other Comprehensive Income, and Note 6. Derivative Financial Instruments of Notes to Condensed Consolidated Financial Statements for a further discussion.

Litigation

IPO Class Action. On November 8, 2001, a purported securities class action complaint was filed in the U.S. 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, two of our former officers (together with the Company, the "Informatica defendants"), and several investment banking firms that served as underwriters of our April 29, 1999 initial public offering (IPO) 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 more than 300 other initial public offerings and follow-on offerings conducted in 1999 and 2000. The cases were consolidated for pretrial purposes. On February 19, 2003, the Court ruled on all defendants' motions to dismiss. The Court denied the motions to dismiss the claims under the Securities Act of 1933. The Court denied the motion to dismiss the Section 10(b) claim against Informatica and 184 other issuer defendants. The Court denied the motion to dismiss the Section 10(b) and 20(a) claims against the Informatica defendants and 62 other individual defendants.

The Company accepted a settlement proposal presented to all issuer defendants. In this settlement, plaintiffs will dismiss and release all claims against the Informatica defendants, in exchange for a contingent payment by the insurance companies collectively responsible for insuring the issuers in all of the IPO cases, and for the assignment or surrender of control of certain claims 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. Any final settlement will require approval of the Court after class

members are given the opportunity to object to the settlement or opt out of the settlement.

All parties in all lawsuits have reached a settlement, which, as noted above, will not require the Company to contribute cash unless the pro rata amount paid by the insurers in the settlement exceeds the amount of the insurance coverage. The Court gave preliminary approval to the settlement on June 10, 2009 and gave final approval on October 6, 2009. Several objectors have filed notices of appeals of the final judgment dismissing the cases upon the settlement. The Company has not paid, and does not expect to pay in the future, any amount towards the settlement. As of September 30, 2011, the Company has not accrued or disclosed any amounts because further losses are not considered probable or reasonably possible.



Table of Contents

## INFORMATICA CORPORATION

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Data Retrieval. In November 2008, Data Retrieval Technologies LLC ("Data Retrieval") filed a complaint in the Western District of Washington against the Company and another defendant, alleging patent infringement. In January 2010, Data Retrieval initiated another action for patent infringement against the Company and another defendant in the United States District Court for the Northern District of California. In June 2011, the Company entered into a confidential settlement agreement that settled both Data Retrieval actions.

The Company is also a party to various legal proceedings and claims arising from the normal course of its business activities, including proceedings and claims related to patents and other intellectual property related matters. The Company reviews the status of each matter and records a provision for a liability when it is considered both probable that a liability has been incurred and the amount of the loss can be reasonably estimated. These provisions are reviewed quarterly and adjusted as additional information becomes available. If both of the criteria are not met, the Company assesses whether there is at least a reasonable possibility that a loss, or additional losses, may be incurred. If there is a reasonable possibility that a material loss may be incurred, the Company discloses the estimate of the possible loss, range of loss, or a statement that such an estimate cannot be made.

Litigation is subject to inherent uncertainties. Were an unfavorable outcome to occur, there exists the possibility of a material adverse impact on the Company's financial position and results of operation for the period in which the unfavorable outcome occurred, and potentially in future periods.

## Note 13. Significant Customer Information and Segment Information

The Company is organized and operates in a single segment: the design, development, marketing, and sales of software solutions. The Company's chief operating decision maker is its Chief Executive Officer, who reviews financial information presented on a consolidated basis for purposes of making operating decisions and assessing financial performance. The Company markets its products and services in the United States and in foreign countries through its direct sales force and indirect distribution channels.

No customer accounted for more than 10% of revenue in the three and nine months ended September 30, 2011 and 2010. At September 30, 2011 and 2010, no customer accounted for more than 10% of the accounts receivable balance. North America revenues include the United States and Canada. Revenue from international customers (defined as those customers outside of North America) accounted for 32% and 28% of total revenues in the third quarter of 2011 and 2010, respectively, and 34% and 32% of total revenues for the nine months ended September 30, 2011 and 2010, respectively.

Total revenue by geographic region is summarized as follows (in thousands):

	Three Months Ended		Nine Months Ended	
	September 30, 2011	2010	September 30, 2011	2010
Revenues:				
North America	\$ 132,282	\$ 116,559	\$ 370,076	\$ 308,628
Europe	46,663	30,487	136,113	101,871
Other	16,942	14,204	50,457	41,542
Total revenues	\$ 195,887	\$ 161,250	\$ 556,646	\$ 452,041

Long-lived assets by geographic region are summarized as follows (in thousands):

	September 30, 2011	December 31, 2010
Long-lived assets, net (excluding assets not allocated):		
North America	\$ 71,586	\$ 81,762
Europe	3,341	4,145
Other	7,741	1,886
Total long-lived assets	\$ 82,668	\$ 87,793



Table of Contents

## INFORMATICA CORPORATION

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

## Note 14. Recent Accounting Pronouncements

In May 2011, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update No. 2011-04, Financial Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs ("ASU 2011-04"). ASU 2011-04 provides a consistent definition of fair value and aligns the fair value measurement and disclosure requirements between U.S. GAAP and International Financial Reporting Standards ("IFRS"). ASU 2011-04 clarifies the application of certain existing fair value measurement guidance and expands the disclosures for fair value measurements that are estimated using significant unobservable (Level 3) inputs. This ASU will be effective for the Company's first quarter of 2012 and should be applied prospectively. Early adoption is not permitted. The Company is currently evaluating the impact of its pending adoption of ASU 2011-04 on the consolidated financial statements.

In June 2011, the FASB issued Accounting Standards Update No. 2011-05, Comprehensive Income (Topic 220): Presentation of Comprehensive Income. ASU 2011-05 requires an entity to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. ASU 2011-05 eliminates the option to present other comprehensive income as part of the statement of stockholders' equity. This ASU will be effective for the Company's first quarter of 2012 and should be applied retrospectively. Early adoption is permitted. The Company does not expect its adoption of ASU 2011-05 to have an impact to the consolidated financial statements.

In September 2011, the FASB issued Accounting Standards Update No. 2011-08, Intangibles—Goodwill and Other (Topic 350): Testing Goodwill for Impairment. ASU 2011-08 allows an entity to use a qualitative approach to test goodwill for impairment. This ASU permits an entity to first perform a qualitative assessment to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying value. If it is concluded that this is the case, it is necessary to perform the currently prescribed two-step goodwill impairment test. Otherwise, the two-step goodwill impairment test is not required. ASU 2011-08 is effective for the Company's impairment test in 2012 and early adoption is permitted. The Company does not expect its adoption of ASU 2011-08 to have an impact to the consolidated financial statements.

## Note 15. Acquisitions

## ActiveBase

On July 13, 2011, the Company acquired all of the outstanding securities of ActiveBase Ltd. ("ActiveBase"), a privately-held company, for approximately \$6.0 million in cash. ActiveBase provides dynamic data masking technology. As a result of this acquisition, the Company also assumed certain liabilities and commitments. Approximately \$1.2 million of the consideration otherwise payable to former ActiveBase stockholders was placed into an escrow fund and held as partial security for the indemnification obligations of the former ActiveBase stockholders. The escrow fund will remain in place until July 14, 2013.

The Company is obligated to pay up to an additional \$4.0 million for certain variable and deferred earn-out payments based upon the achievement of certain performance targets. The Company determined the fair market value of these earn-outs based on probability analysis. At the time of acquisition, the fair market value and gross amount of these earn-out payments were \$3.3 million and \$4.0 million, respectively.

The following table summarizes the fair value of assets acquired and liabilities assumed of \$8.3 million and the acquiree's transaction related costs and debt settlement of \$1.0 million (in thousands):

Goodwill	\$7,042
Developed and core technology	2,080
Customer relationships	120
Assumed liabilities, net of assets	(968 )
Total purchase price allocation	8,274

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Acquiree's transaction related costs and debt settlement	974
Total	\$9,248

The acquiree's transaction related costs consist of legal and accounting fees and certain employee related compensation as of the date of this acquisition. The goodwill is not deductible for tax purposes.

25

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Table of Contents

## INFORMATICA CORPORATION

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

## WisdomForce Technologies, Inc.

On June 28, 2011, the Company acquired all of the outstanding securities of WisdomForce Technologies, Inc. (“WisdomForce”), a privately-held company, and certain assets of its two affiliated companies for approximately \$25.0 million in cash. WisdomForce develops and markets software that helps improve the quality, availability and continuity of data within information technology systems. As a result of this acquisition, the Company also assumed certain liabilities and commitments. Approximately \$5.0 million of the consideration otherwise payable to former WisdomForce stockholders was placed into an escrow fund and held as partial security for the indemnification obligations of the former WisdomForce stockholders. The escrow fund will remain in place until December 28, 2012. Informatica is obligated to pay up to an additional \$10.0 million for certain variable and deferred earn-out payments based upon the achievement of certain performance targets. The Company determined the fair market value of these earn-outs based on probability analysis. At the time of acquisition, the fair market value and gross amount of these earn-out payments were \$7.3 million and \$10.0 million, respectively.

The following table summarizes the fair value of assets acquired and liabilities assumed of \$32.1 million and the acquiree's transaction related costs of \$0.2 million (in thousands):

Goodwill	\$26,188
Developed and core technology	6,910
Customer relationships	500
In-process research and development	1,632
Assumed liabilities, net of assets	(3,180 )
Total purchase price allocation	32,050
Acquiree's transaction related costs	231
Total	\$32,281

The acquiree's transaction related costs consist of legal, accounting, and consulting fees as of the date of this acquisition. The goodwill is not deductible for tax purposes.

## Siperian, Inc.

On January 28, 2010, the Company acquired Siperian, Inc. (“Siperian”), a privately-held company. Siperian provides an integrated model-driven master data management (“MDM”) platform that adapts to most business requirements. The Company acquired Siperian in a cash merger transaction valued at approximately \$130.0 million. As a result of this acquisition, the Company also assumed certain facility leases and certain liabilities and commitments. Approximately \$18.3 million of the consideration otherwise payable to former Siperian stockholders, vested option holders, and participants in Siperian's Management Acquisition Bonus Plan was placed into an escrow fund and held as partial security for the indemnification obligations of the former Siperian stockholders, vested option holders, and participants in Siperian's Management Acquisition Bonus Plan set forth in the merger agreement and for purposes of the working capital adjustment stated in the contract. The escrow period terminated and the remaining funds were subsequently paid out in the third quarter of 2011.

The following table summarizes the fair value of assets acquired and liabilities assumed of \$102.9 million and the acquiree's transaction related costs and debt settlement of \$27.1 million, which were paid by the Company on January 28, 2010 or shortly thereafter (in thousands):

Goodwill	\$78,360
Developed and core technology	21,340
Customer relationships	1,630
In-process research and development	1,920
Assumed liabilities, net of assets	(333 )
Total purchase price allocation	102,917
Acquiree's transaction related costs and debt settlement	27,083

Total

\$130,000

26

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Table of Contents

## INFORMATICA CORPORATION

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

The acquiree's transaction related costs consist of investment banker, legal and accounting fees and certain employee related compensation as of the date of this acquisition. The goodwill is not deductible for tax purposes.

At the time of acquisition, the Company finalized plans to terminate certain employees and vacate certain facilities of Siperian. The cost associated with such exit activities, which are reflected in Acquisitions and Other Charges (Benefit) on the condensed consolidated statement of income, is as follows (in thousands):

Termination of certain employees	\$ 326
Vacating certain facilities of Siperian	1,121
Total	\$1,447

The following table presents the unaudited pro forma results of Informatica (including Siperian) for the nine months ended September 30, 2010 (in thousands, except per share amounts). The unaudited pro forma financial information combines the results of operations of Informatica and Siperian as though the companies had been combined as of the beginning of the fiscal period presented. The unaudited pro forma financial information is presented for informational purposes only and is not indicative of the results of operations that would have been achieved if the acquisition had taken place at the beginning of fiscal 2010. The unaudited pro forma results presented include amortization charges for acquired intangible assets, eliminations of intercompany transactions, adjustments to interest expense and interest income, adjustment of deferred revenues to its estimated fair values, and tax adjustments and tax benefits related to the acquisition.

	Nine Months Ended September 30, 2010
Pro forma total revenues	\$452,960
Pro forma net income	\$45,466
Pro forma net income per share - basic	\$0.50
Pro forma net income per share - diluted	\$0.45
Pro forma weighted-average basic shares	91,746
Pro forma weighted-average diluted shares	108,283

See Note 11. Net Income per Common Share of Notes to Condensed Consolidated Financial Statements for a discussion of the calculation of basic and diluted net income per share.

In the first quarter of 2011, the Company recorded a benefit of \$1.7 million for the difference between estimates of liabilities and assets recorded at the time of acquisition and the actual amounts. This change in estimate is included in Acquisition and Other Charges (Benefit) for the nine months ended September 30, 2011 on the condensed consolidated statement of income.

29West Inc.

On March 22, 2010, the Company acquired all of the outstanding securities of 29West Inc. ("29West"), a privately-held company, for approximately \$50.0 million in cash. 29West develops high-speed messaging software, known as Ultra Messaging. This software is used for distribution of data, streaming market data, and proprietary trading and market making, and is sold to banks, hedge funds, exchanges, and software application vendors worldwide. As a result of this acquisition, the Company also assumed certain facility leases, liabilities, and commitments. Approximately \$7.0 million of the consideration otherwise payable to former 29West stockholders and vested option holders was placed into an escrow fund and held as partial security for the indemnification obligations of the former 29West stockholders and vested option holders. The escrow period terminated and the remaining funds were subsequently paid out in the third quarter of 2011.





Table of Contents

## INFORMATICA CORPORATION

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

The following table summarizes the fair value of assets acquired and liabilities assumed of \$47.0 million and the acquiree's transaction related costs of \$3.0 million (in thousands):

Goodwill	\$36,397
Developed and core technology	9,750
Customer relationships	590
Acquired assets, net of liabilities	262
Total purchase price allocation	46,999
Acquiree's transaction related costs	3,001
Total	\$50,000

The acquiree's transaction related costs consist of investment banker, legal and accounting fees and certain employee related compensation as of the date of this acquisition. The goodwill is not deductible for tax purposes.

## Note 16. Subsequent Event

In October 2011, our Board of Directors authorized the repurchase of up to an additional \$75.0 million of our outstanding common stock under the repurchase program.

Table of Contents

## 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 license revenues, service revenues, international revenues, deferred revenues, cost of license revenues, cost of service revenues, operating expenses, amortization of acquired technology, stock-based compensation, and provision for income taxes; the growth of our customer base and customer demand for our products and services, continuing impacts from our 2004 and 2001 Restructuring Plans; the sufficiency of our cash balances and cash flows for the next 12 months; our stock repurchase programs; investment and potential investments of cash or stock to acquire or invest in complementary businesses, products, or technologies; the impact of recent changes in accounting standards; market risk sensitive instruments, contractual obligations; 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," "continue," or the negative thereof, or other 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 in this Report under Part II, Item 1A. Risk Factors. All forward-looking statements and reasons why results may differ included in this Report are made as of the date of the filing of this Report, 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 in Part I, Item 1 of this Report.

## Overview

We are the leading independent provider of enterprise data integration and data quality software and services. We generate revenues from sales of software licenses for our enterprise data integration software products, including product upgrades that are not part of post-contract services, and from sales of services, which consist of maintenance, consulting, education, and subscription services.

We receive revenues from licensing our products under perpetual licenses directly to end users and indirectly through resellers, distributors, and OEMs in the United States and internationally. We receive service revenues from maintenance contracts, consulting services, and education services that we perform for customers that license our products either directly or indirectly. We also receive a small but increasing amount of revenues from our customers and partners under subscription-based licenses for a variety of cloud and address validation offerings. Most of our international sales have been in Europe, and revenues outside of Europe and North America have comprised less than 10% of total consolidated revenues during the past three years.

We license our software and provide services to many industry sectors, including, but not limited to, energy and utilities, financial services, government and public agencies, healthcare, high technology, insurance, manufacturing, retail, services, telecommunications, and transportation.

We grew our total revenues in the third quarter of 2011 by 21% to \$195.9 million compared to \$161.3 million for the same period in 2010. License revenues grew by 20% to \$83.7 million in the third quarter of 2011 compared to \$69.8 million for the same period in 2010. In the nine-month period ended September 30, 2011, we grew our total revenues by 23% to \$556.6 million from \$452.0 million in the comparable period a year ago, and license revenues grew by 24% to \$241.6 million from \$194.9 million on a year-over-year basis. Our growth in license revenues reflects the continued market acceptance of our products for broader data integration projects, growth in our core data warehousing business, and growth in our ongoing compliance program. Services revenues increased by 23% in the third quarter of 2011 from the same period in 2010 due to a 24% growth in maintenance revenues and an 18% increase in consulting, education, and subscription services. Service revenues increased by 23% for the nine months ended September 30, 2011 compared to the same period in 2010 due to a 24% growth in maintenance revenues and an 18% increase in consulting, education, and subscription services. The maintenance revenue growth was attributable to the increased size of our installed customer base, and the increase in consulting, education, and subscription services was due to

higher customer demand and increased subscriptions. Our operating income as a percentage of revenues was 19% in the third quarter of 2011 and the nine-month period ended September 30, 2011 compared to 20% and 16% in the third quarter of 2010 and the nine-month period ended September 30, 2010, respectively.

## Table of Contents

Due to our dynamic market, we face both significant opportunities and challenges, and as such, we focus on the following key factors:

**Macroeconomic Conditions:** The United States and many foreign economies continue to experience uncertainty driven by varying macroeconomic conditions. Although some of these economies have shown signs of improvement, macroeconomic recovery remains uneven. Uncertainty in the macroeconomic environment and associated global economic conditions have resulted in extreme volatility in credit, equity, and foreign currency markets, particularly with respect to the European sovereign debt markets and potential ramifications of the recent U.S. debt issues, budget concerns, and potential delays in approving the U.S. budget. Such uncertainty and associated conditions have also resulted in volatility in various vertical markets, particularly the financial services and public sectors, which are typically two of the larger vertical segments that we serve. Furthermore, we have made incremental investments in Asia-Pacific and Latin America, and have maintained a high level of investments in Europe, the Middle East, and Africa ("EMEA"). There are significant risks with overseas investments, and our growth prospects in these regions are uncertain.

**Competition:** Inherent in our industry are risks arising from competition with existing software solutions, including solutions from IBM, Oracle, and SAP, technological advances from other vendors, and the perception of cost savings by solving data integration challenges through customer hand-coding development resources. Our prospective customers may view these alternative solutions as more attractive than our offerings. Additionally, the consolidation activity in our industry (including Oracle's acquisition of BEA Systems, GoldenGate, Hyperion Solutions, Siebel, SilverCreek, Sun Microsystems, Sunopsis, and its proposed acquisition of Endeca; IBM's acquisition of Ascential Software, Cast Iron Systems, Cognos, DataMirror, Initiate Systems, and SPSS; and SAP's acquisition of Business Objects, which had previously acquired FirstLogic, and Sybase; and Tibco Software's acquisition of Netrics) pose challenges as competitors market a broader suite of software products or solutions to our existing or prospective customers.

**Product Introductions and Enhancements:** To address the expanding data integration and data quality needs of our customers and prospective customers, we introduce new products and technology enhancements on a regular basis, including products we acquire. For example, in July 2011, we extended our data masking offerings through the acquisition of ActiveBase. The introduction of new products, integration of acquired products and enhancement of existing products, is a complex process involving inherent risks, and to which we devote significant resources. We cannot predict the impact of new or enhanced products on our overall sales and we may not generate sufficient revenues to justify their costs.

**Quarterly and Seasonal Fluctuations:** Historically, purchasing patterns in the software industry have followed quarterly and seasonal trends and are likely to do so in the future. Specifically, it is normal for us to recognize a substantial portion of our new license orders in the last month of each quarter and sometimes in the last few weeks or days of each quarter, though such fluctuations are mitigated somewhat by recognition of backlog orders. In recent years, the fourth quarter has had the highest level of license revenues and order backlog, and we generally have weaker demand for our software products and services in the first and third quarters of the year. The first three quarters of 2011 and the first, second, and fourth quarters of 2010 followed these seasonal trends. However, license revenues in the third quarter of 2010 were essentially flat with the second quarter. The continued uncertain macroeconomic conditions make our historical seasonal trends more difficult to predict.

To address these potential risks, we have focused on a number of key initiatives, including certain cost containment measures, the strengthening of our partnerships, the broadening of our distribution capability worldwide, the targeting of our sales force and distribution channel on new products, and strategic acquisitions of complementary businesses, products, and technologies. If we are unable to execute these key initiatives successfully, we may not be able to sustain the growth rates we have experienced recently. As a result of improvements in our business prospects and with the expectation of uneven yet continued progress towards macroeconomic recovery, we have increased our hiring and expect to continue hiring through the remainder of 2011.

We concentrate on maintaining and strengthening our relationships with our existing strategic partners and building relationships with additional strategic partners. These partners include systems integrators, resellers and distributors, and strategic technology partners, including enterprise application providers, database vendors, and enterprise

information integration vendors, in the United States and internationally. For example, we are partners with Cloudera, Dun & Bradstreet, EMC, Hewlett-Packard, Intel, Microsoft, NetSuite, Oracle, salesforce.com, SAP, and Symantec, among others. See “Risk Factors — 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 expenses could be adversely affected, which could cause a decline in the price of our common stock” in Part II, Item 1A of this Report.

We have broadened our distribution efforts, and we have continued to expand our sales both in terms of selling data warehouse products to the enterprise level and of selling more strategic data integration solutions beyond data warehousing, including enterprise data integration, data quality, master data management, B2B data exchange, application information lifecycle management,

Table of Contents

complex event processing, ultra messaging, and cloud data integration to our customers' enterprise architects and chief information officers. We also operate the Informatica Marketplace, which allows buyers and sellers to share and leverage data integration solutions. Additionally, we have expanded our international sales presence in recent years by opening new offices, increasing headcount, and through acquisitions. As a result of this international expansion, as well as the increase in our direct sales headcount in the United States, our sales and marketing expenses have increased. In the long term, we expect these investments to result in increased revenues and productivity and ultimately higher profitability. If we experience an increase in sales personnel turnover, do not achieve expected increases in our sales pipeline, experience a decline in our sales pipeline conversion ratio, or do not achieve increases in sales productivity and efficiencies from our new sales personnel as they gain more experience, then it is unlikely that we will achieve our expected increases in revenue, sales productivity, or profitability from our international operations. We experienced a continued increase in sales productivity in the United States in the nine months ended September 30, 2011. While we have not yet achieved the same level of sales productivity internationally as we have in the United States, we did experience a slight increase in international sales productivity in 2010 and the nine-month period ended September 30, 2011.

To address the risks of introducing new products, we have continued to invest in programs to help train our internal sales force and our external distribution channel on new product functionalities, key differentiations, and key business values. These programs include user conferences for customers and partners, our annual sales kickoff conference for all sales and key marketing personnel, "webinars" for our direct sales force and indirect distribution channel, in-person technical seminars for our pre-sales consultants, the building of product demonstrations, and creation and distribution of targeted marketing collateral.

#### Critical Accounting Policies and Estimates

Our consolidated financial statements are prepared in accordance with generally accepted accounting principles ("GAAP") in the United States, which require us to make 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 assumptions, judgments, and estimates are made. These estimates, judgments, and assumptions can affect the reported amounts of assets and liabilities as of the date of the financial statements as well as the reported amounts of revenues and expenses during the periods presented. Any material differences between these estimates and actual results will impact our consolidated financial statements. On a regular basis, we evaluate our estimates, judgments, and assumptions and make changes accordingly. We also discuss our critical accounting estimates with the Audit Committee of the Board of Directors. We believe that the estimates, judgments, and assumptions involved in the accounting for revenue recognition, facilities restructuring charges, income taxes, impairment of goodwill and intangible assets, business combinations, stock-based compensation, and allowance for doubtful accounts have the greatest potential impact on our consolidated financial statements, so we consider these to be our critical accounting policies. The critical accounting estimates associated with these policies are discussed in Part II, Item 7.

Management's Discussion and Analysis of Financial Condition and Results of Operations, of our Annual Report on Form 10-K for the fiscal year ended December 31, 2010. As discussed below, on January 1, 2011, we adopted an accounting pronouncement on multiple-deliverable revenue arrangements that are outside the scope of industry-specific revenue recognition guidance. There have been no other changes in our critical accounting policies since the end of fiscal year 2010.

#### Revenue Recognition

We recognize revenue in accordance with GAAP prescribed for the software industry. The accounting rules related to revenue recognition are complex and are affected by interpretations of such rules. These rules and their interpretations are often subject to change. Consequently, the revenue recognition process requires management to make significant judgments; for example, to determine if collectability is probable.

We derive revenues from software license fees, maintenance fees (which entitle the customer to receive product support and unspecified software updates), professional services, consisting of consulting and education services, and other revenues, primarily consisting of subscriptions for address validation and cloud services. We follow the appropriate revenue recognition rules for each type of revenue. The basis for recognizing software license revenue is determined by Software Revenue Recognition (ASC 985-605), Revenue Recognition for Construction-Type and

Production-Type Contracts (ASC 605-35), and the Securities and Exchange Commission's Staff Accounting Bulletin ("SAB") 104, Revenue Recognition, which is discussed in the subsection Revenue Recognition in Note 2. Summary of Significant Accounting Policies of Notes to Consolidated Financial Statements in Part II, Item 8 of this Report.

Substantially all of our software licenses are perpetual licenses under which the customer acquires the perpetual right to use the software as provided and subject to the conditions of the license agreement. We recognize revenue when persuasive evidence of an arrangement exists, delivery has occurred, the fee is fixed or determinable, and collection is probable. In applying these criteria to revenue transactions, we must exercise judgment and use estimates to determine the amount of software, maintenance, and professional services revenue to be recognized at each period.

We assess whether fees are fixed or determinable prior to recognizing revenue. We must make interpretations of our customer contracts and exercise judgments in determining if the fees associated with a license arrangement are fixed or determinable. We

Table of Contents

consider factors including extended payment terms, financing arrangements, the category of customer (end-user customer or reseller), rights of return or refund, and our history of enforcing the terms and conditions of customer contracts. If the fee due from a customer is not fixed or determinable due to extended payment terms, revenue is recognized when payment becomes due or upon cash receipt, whichever is earlier. We require evidence of sell-through from resellers and distributors for order acceptance. We then recognize revenue from resellers and distributors upon shipment if all other revenue recognition criteria are met, which in substantially all cases is when cash is collected or when the reseller or distributor is deemed credit-worthy based on their payment history and credit profile to conclude that collectability is probable. Further, we make judgments in determining the collectability of the amounts due from our customers that could possibly impact the timing of revenue recognition. We assess credit worthiness and collectability, and when a customer is not deemed credit worthy, revenue is recognized when payment is received.

Our software license arrangements include the following multiple elements: license fees from our core software products and/or product upgrades that are not part of post-contract services, maintenance fees, consulting, and/or education services. We use the residual method to recognize license revenue upon delivery when the arrangement includes elements to be delivered at a future date and vendor-specific objective evidence (“VSOE”) of fair value exists to allocate the fee to the undelivered elements of the arrangement. VSOE is based on the price charged when an element is sold separately. If VSOE does not exist for any undelivered software product element of the arrangement, all revenue is deferred until all elements have been delivered, or VSOE is established. If VSOE does not exist for any undelivered services elements of the arrangement, all revenue is recognized ratably over the period that the services are expected to be performed. We are required to exercise judgment in determining if VSOE exists for each undelivered element.

Consulting services, if included as part of the software arrangement, generally do not require significant modification or customization of the software. If, in our judgment, the software arrangement includes significant modification or customization of the software, then software license revenue is recognized as the consulting services revenue is recognized.

Consulting revenues are primarily related to implementation of services and product configurations. These services are performed on a time-and-materials basis and, occasionally, on a fixed-fee basis. Revenue is generally recognized as these services are performed. If uncertainty exists about our ability to complete the project, our ability to collect the amounts due, or in the case of fixed-fee consulting arrangements, our ability to estimate the remaining costs to be incurred to complete the project, revenue is deferred until the uncertainty is resolved.

Other revenues, primarily consisting of subscriptions for address validation and cloud services, are recognized as the services are delivered.

Multiple contracts with a single counterparty executed within close proximity of each other are evaluated to determine if the contracts should be combined and accounted for as a single arrangement.

We recognize revenues net of applicable sales taxes, financing charges that we have absorbed, and amounts retained by our resellers and distributors, if any. Our agreements do not permit returns, and historically we have not had any significant returns or refunds; therefore, we have not established a sales return reserve at this time.

Multiple Element Arrangements - Nonsoftware Arrangements or Arrangements with Software and Nonsoftware Elements

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



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

Our multiple-element arrangements are primarily software or software-related, which are excluded from the new guidance. Multiple-element arrangements that include non-software related elements and software or software-related elements, which are included in the new guidance, are not material to date.

For multiple element arrangements that include software and non-software related elements, for example, on-site software licenses sold together with subscriptions for our cloud and hosted address validation services, we allocate revenue to each software

Table of Contents

and non-software element as a group based upon the relative selling price of each in accordance with the selling price hierarchy, which includes (i) VSOE if available, (ii) TPE if VSOE is not available, and (iii) ESP if neither VSOE nor TPE is available. Revenue allocated to each element is then recognized when the basic revenue recognition criteria are met for each element. The manner in which we account for multiple element arrangements that contain only software and software-related elements remains unchanged.

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

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

Given the nature of our transactions, which are primarily software or software-related, the adoption of this new accounting guidance did not have a significant impact on the timing and pattern of revenue recognition when applied to multiple-element arrangements. Total net revenue as reported during the nine months ended September 30, 2011 is materially consistent with total net revenue that would have been reported if the transaction entered into or materially modified after December 31, 2010 were subject to previous accounting guidance. The new accounting guidance for revenue recognition, if applied in the same manner to the year ended December 31, 2010, would not have had a material impact on total net revenues for the fiscal year 2010.

**Recent Accounting Pronouncements**

For recent accounting pronouncements, see Note 14. Recent Accounting Pronouncements of Notes to Condensed Consolidated Financial Statements in Part I, Item 1 of this Report.

Table of Contents

## Results of Operations

The following table presents certain financial data for the three and nine months ended September 30, 2011 and 2010 as a percentage of total revenues:

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2011	2010	2011	2010
Revenues:				
License	43	% 43	% 43	% 43
Service	57	57	57	57
Total revenues	100	100	100	100
Cost of revenues:				
License	1	1	1	1
Service	16	16	16	16
Amortization of acquired technology	2	2	2	2
Total cost of revenues	19	19	19	19
Gross profit	81	81	81	81
Operating expenses:				
Research and development	18	16	18	17
Sales and marketing	36	38	36	38
General and administrative	7	7	7	8
Amortization of intangible assets	1	1	1	2
Facilities restructuring charges (benefit)	—	—	—	—
Acquisitions and other charges (benefit)	—	(1)	—	—
Total operating expenses	62	61	62	65
Income from operations	19	20	19	16
Interest income	1	1	—	1
Interest expense	—	(1)	—	(1)
Other income (expense), net	—	—	—	—
Income before income taxes	20	20	19	16
Income tax provision	6	6	6	5
Net income	14	% 14	% 13	% 11

## Revenues

Our total revenues increased to \$195.9 million for the three months ended September 30, 2011 compared to \$161.3 million for the three months ended September 30, 2010, representing a growth of \$34.6 million (or 21%). Our total revenues increased to \$556.6 million for the nine months ended September 30, 2011 compared to \$452.0 million for the nine months ended September 30, 2010, representing a growth of \$104.6 million (or 23%). The increases were due to an increase in the number of license transactions, an increase in the average transaction size of license orders, and growth in our customer installed base.

Table of Contents

The following table and discussion compare our revenues by type for the three and nine months ended September 30, 2011 and 2010 (in thousands, except percentages):

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2011	2010	Percentage Change	2011	2010	Percentage Change
License	\$83,736	\$69,829	20 %	\$241,580	\$194,892	24 %
Service revenues:						
Maintenance	81,666	65,671	24 %	229,571	184,781	24 %
Consulting, education, and other	30,485	25,750	18 %	85,495	72,368	18 %
Total service revenues	112,151	91,421	23 %	315,066	257,149	23 %
Total revenues	\$195,887	\$161,250	21 %	\$556,646	\$452,041	23 %

**License Revenues**

Our license revenues increased to \$83.7 million (or 43% of total revenues) and \$241.6 million (or 43% of total revenues) for the three and nine months ended September 30, 2011, respectively, from \$69.8 million (or 43% of total revenues) and \$194.9 million (or 43% of total revenues) for the three and nine months ended September 30, 2010, respectively. The increases in license revenues of \$13.9 million (or 20%) for the three months ended September 30, 2011 and \$46.7 million (or 24%) for the nine months ended September 30, 2011 compared to the same periods in 2010 were primarily due to an increase in both the volume of license transactions and the average transaction size of license orders, resulting in growth of license revenues across all major geographic regions. Our growth in license revenues reflects the continued market acceptance of our products beyond data warehousing and the adoption of new technologies.

The number of transactions greater than \$1.0 million increased to 18 in the third quarter of 2011 compared to 11 in the third quarter of 2010. The number of transactions greater than \$1.0 million increased to 44 in the nine-month period ended September 30, 2011 from 32 in the comparative period in 2010. We added 80 and 244 new customers, including the number of customers added through acquisitions, in the third quarter and the nine-month period ended September 30, 2011, respectively, compared to 68 and 269 in the same periods of 2010. We had license transactions with 325 and 876 existing customers in the third quarter and the nine-month period ended September 30, 2011, respectively, compared to 286 and 863 for the same periods in 2010.

We offer two types of upgrades: (1) upgrades that are not part of the post-contract services for which we charge customers an additional fee, and (2) upgrades that are part of the post-contract services that we provide to our customers at no additional charge, when and if available. The average transaction amount for orders greater than \$100,000 in the third quarter of 2011, including upgrades for which we charge customers an additional fee, increased to \$413,000 from \$393,000 in the third quarter of 2010. The average transaction amount for orders greater than \$100,000 in the nine-month period ended September 30, 2011, including upgrades for which we charge customers an additional fee, increased to \$426,000 from \$385,000 in the same period of 2010.

**Service Revenues****Maintenance Revenues**

Maintenance revenues increased to \$81.7 million (or 42% of total revenues) for the three months ended September 30, 2011 compared to \$65.7 million (or 41% of total revenues) for the three months ended September 30, 2010.

Maintenance revenues increased to \$229.6 million (or 41% of total revenues) for the nine months ended September 30, 2011 compared to \$184.8 million (or 41% of total revenues) for the nine months ended September 30, 2010. The increases of \$16.0 million (or 24%) and \$44.8 million (or 24%) in maintenance revenues for the three and nine months ended September 30, 2011, respectively, compared to the same periods in 2010 were primarily due to the increasing size of our installed customer base, including those acquired through our acquisitions in 2010. See Note 15. Acquisitions of Notes to Condensed Consolidated Financial Statements in Part I, Item 1 of this Report.

For the fourth quarter of 2011, we expect maintenance revenues to increase from the comparable 2010 levels due to our growing installed customer base.

**Consulting and Education, and Other Services Revenues**

Consulting, education, and other services revenues increased to \$30.5 million (or 15% of total revenues) for the three months ended September 30, 2011 compared to \$25.8 million (or 16% of total revenues) for the three months ended September 30, 2010.

Table of Contents

Consulting, education, and other services revenues increased to \$85.5 million (or 16% of total revenues) for the nine months ended September 30, 2011 compared to \$72.4 million (or 16% of total revenues) for the nine months ended September 30, 2010. The increase of \$4.7 million (or 18%) and \$13.1 million (or 18%) in consulting, education, and other services revenues for the three and nine months ended September 30, 2011, respectively compared to the same periods in 2010 was primarily due to an increase in consulting revenues in North America as a result of higher customer demand and increased subscription revenues.

For the fourth quarter of 2011, we expect our revenues from consulting and education, and other services revenues to increase from the comparable 2010 levels due to an increase in demand for consulting services and subscriptions offerings.

**International Revenues**

Our international revenues were \$63.6 million (or 32% of total revenues) and \$44.7 million (or 28% of total revenues) for the three months ended September 30, 2011 and 2010, respectively. Our international revenues were \$186.6 million (or 34% of total revenues) and \$143.4 million (or 32% of total revenues) for the nine months ended September 30, 2011 and 2010, respectively. The increases of \$18.9 million (or 42%) and \$43.2 million (or 30%) in international revenues for the three and nine months ended September 30, 2011, respectively, compared to the same periods in 2010 were primarily due to an increase in license and maintenance revenues in Europe.

For the fourth quarter of 2011, we expect our international revenues as a percentage of total revenues to be relatively consistent with or increase slightly from the comparable 2010 levels.

**Potential Future Revenues (New Orders, Backlog, and Deferred Revenues)**

Our potential future revenues include backlog consisting primarily of (1) product orders (both on a perpetual and subscription basis) that have not shipped as of the end of a given quarter, (2) product orders received from certain distributors, resellers, OEMs, and end users not included in deferred revenues, where revenue is recognized after cash receipt (collectively (1) and (2) above are referred as "aggregate backlog"), and (3) deferred revenues. Our deferred revenues consist primarily of the following: (1) maintenance revenues that we recognize over the term of the contract, typically one year, (2) license product orders that have shipped but where the terms of the license agreement contain acceptance language or other terms that require that the license revenues be deferred until all revenue recognition criteria are met or recognized ratably over an extended period, and (3) consulting and education services revenues that have been prepaid but for which services have not yet been performed.

We typically ship products shortly after the receipt of an order, which is common in the software industry, and historically our backlog of license orders awaiting shipment at the end of any given quarter has varied. However, our backlog historically decreases from the prior quarter at the end of the first and third quarters and increases at the end of the fourth quarter. Aggregate backlog and deferred revenues at September 30, 2011 were approximately \$222.4 million compared to \$181.9 million at September 30, 2010 and \$215.9 million at December 31, 2010. The increase in the third quarter of 2011 from the comparable period of 2010 was primarily due to an increase in deferred license and maintenance revenues and an increase in license backlog. The international portion of aggregate backlog and deferred revenues may fluctuate with changes in foreign currency exchange rates. Aggregate backlog and deferred revenues as of any particular date are not necessarily indicative of future results.

**Cost of Revenues**

The following table sets forth, for the periods indicated, our cost of revenues (in thousands, except percentages):

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2011	2010	Percentage Change	2011	2010	Percentage Change
Cost of license revenues	\$1,011	\$1,124	(10)%	\$3,669	\$3,232	14%
Cost of service revenues	30,432	25,304	20%	87,111	73,402	19%
Amortization of acquired technology	5,156	3,445	50%	14,334	9,833	46%
Total cost of revenues	\$36,599	\$29,873	23%	\$105,114	\$86,467	22%
Cost of license revenues, as a percentage of license	% 2	% 1	(1)%	% 2	% 2	% —

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revenues

Cost of service revenues, as a  
percentage of service  
revenues

27

% 28

% (1

)% 28

% 29

% (1

)%

36

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Table of Contents

## Cost of License Revenues

Our cost of license revenues consists primarily of software royalties, product packaging, documentation, production costs and personnel costs. Cost of license revenues slightly decreased to \$1.0 million (or 1% of license revenues) for the three months ended September 30, 2011 compared to \$1.1 million (or 2% of license revenues) in the same period of 2010. Cost of license revenues increased to \$3.7 million (or 2% of license revenues) for the nine months ended September 30, 2011 compared to \$3.2 million (or 2% of license revenues) in the same period of 2010. The decrease of \$0.1 million (or 10%) and increase of \$0.4 million (or 14%) in cost of license revenues for the three and nine months ended September 30, 2011, respectively, compared to the same periods in 2010, was primarily due to a proportional increase in license revenues and a slightly lower mix of royalty bearing products for the three months and nine months ended September 30, 2011.

For the fourth quarter of 2011, we expect that our cost of license revenues as a percentage of license revenues to be relatively consistent with the first three quarters of 2011.

## Cost of Service Revenues

Our cost of service revenues is a combination of costs of maintenance, consulting, education, and other services revenues. Our cost of maintenance revenues consists primarily of costs associated with customer service personnel expenses and royalty fees for maintenance related 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 services revenues consists primarily of the costs of providing education classes and materials at our headquarters, sales and training offices, and customer locations. Cost of other services revenue consists primarily of fees paid to postal authorities and other third parties for content and hosting costs for our subscription services. Cost of service revenues was \$30.4 million (or 27% of service revenues) in the third quarter of 2011 compared to \$25.3 million (or 28% of service revenues) in the same period of 2010. The \$5.1 million (or 20%) increase in the third quarter of 2011 compared to the same period of 2010 was primarily due to a \$3.5 million increase in personnel related costs, a \$0.3 million increase in subcontractor fees, and a \$0.6 million increase in reimbursable expenses.

Cost of service revenues was \$87.1 million (or 28% of service revenues) for the nine months ended September 30, 2011 compared to \$73.4 million (or 29% of service revenues) in the same period of 2010. The \$13.7 million (or 19%) increase for the nine months ended September 30, 2011 compared to the same period of 2010 was primarily due to a \$8.5 million increase in personnel related costs, a \$1.8 million increase in subcontractor fees, and a \$1.6 million increase in reimbursable expenses. The majority of these increases were driven by increased demand for our consulting and education services in the third quarter and the nine-month period ended September 30, 2011 compared to the same periods of 2010.

For the fourth quarter of 2011, we expect that our cost of service revenues, in absolute dollars, to increase from the 2010 levels, mainly due to headcount increases to support and deliver increased service revenues. We expect, however, the cost of service revenues as a percentage of service revenues in the fourth quarter of 2011 to remain relatively consistent with the first three quarters of 2011 levels.

## Amortization of Acquired Technology

The following table sets forth, for the periods indicated, our amortization of acquired technology (in thousands, except percentages):

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2011	2010	Percentage Change	2011	2010	Percentage Change
Amortization of acquired technology	5,156	3,445	50 %	14,334	9,833	46 %

Amortization of acquired technology is the amortization of technologies acquired through business acquisitions and technology licenses. Amortization of acquired technology increased to \$5.2 million for the three months ended September 30, 2011 compared to \$3.4 million in the same period of 2010. Amortization of acquired technology increased to \$14.3 million for the nine months ended September 30, 2011 compared to \$9.8 million in the same period of 2010. The increases of \$1.7 million (or 50%) and \$4.5 million (or 46%) for the three and nine months ended September 30, 2011, respectively, compared to the same periods of 2010 were primarily due to amortization of certain



technologies from the acquisitions of Siperian and 29West, in 2010 and WisdomForce in 2011.

For the fourth quarter of 2011, we expect the amortization of acquired technology to be approximately \$5.1 million before the effect of any potential future acquisitions subsequent to September 30, 2011.

Table of Contents

## Operating Expenses

## Research and Development

The following table sets forth, for the periods indicated, our research and development expenses (in thousands, except percentages):

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2011	2010	Percentage Change	2011	2010	Percentage Change
Research and development	\$34,577	\$26,269	32 %	\$98,093	\$76,648	28 %

Our research and development expenses consist primarily of salaries and other personnel-related expenses, consulting services, facilities, and related overhead costs associated with the development of new products, enhancement and localization of existing products, quality assurance, and development of documentation for our products. Research and development expenses increased to \$34.6 million (or 18% of total revenues) and \$98.1 million (or 18% of total revenues) for the three and nine months ended September 30, 2011, respectively, from \$26.3 million (or 16% of total revenues) and \$76.6 million (or 17% of total revenues) for the three and nine months ended September 30, 2010, respectively. All software development costs have been expensed in the period incurred since the costs incurred subsequent to the establishment of technological feasibility have not been significant.

The \$8.3 million (or 32%) increase in third quarter of 2011 compared to the same period of 2010 was primarily due to a \$6.5 million increase in personnel-related costs (including stock-based compensation) as a result of increased headcount and a \$1.8 million increase in general overhead costs. The \$21.4 million (or 28%) increase for the nine months ended September 30, 2011 compared to the same period in 2010 was due to a \$17.5 million increase in personnel-related costs (including stock-based compensation) and a \$3.9 million increase in general overhead costs. For the fourth quarter of 2011, we expect research and development expenses as a percentage of total revenues to be relatively consistent with or slightly decrease from the first three quarters of 2011.

## Sales and Marketing

The following table sets forth, for the periods indicated, our sales and marketing expenses (in thousands, except percentages):

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2011	2010	Percentage Change	2011	2010	Percentage Change
Sales and marketing	\$70,437	\$60,854	16 %	\$200,962	\$172,326	17 %

Our sales and marketing expenses consist primarily of personnel costs, including commissions and bonuses, as well as costs of public relations, seminars, marketing programs, lead generation, travel, and trade shows. Sales and marketing expenses increased to \$70.4 million (or 36% of total revenues) for the three months ended September 30, 2011 compared to \$60.9 million (or 38% of total revenues) for the three months ended September 30, 2010. Sales and marketing expenses increased to \$201.0 million (or 36% of total revenues) for the nine months ended September 30, 2011 compared to \$172.3 million (or 38% of total revenues) for the nine months ended September 30, 2010. The sales and marketing expenses as percentage of total revenues declined by two percentage points for both the third quarter and nine-month period ended September 30, 2011 compared to the same periods in 2010 mainly due to benefits of scale as our revenues have increased proportionately more than our sales and marketing expenses as well as increased sales productivity.

The \$9.6 million (or 16%) increase for the three months ended September 30, 2011 compared to the same period in 2010 was primarily due to a \$9.7 million increase in personnel-related costs and a \$0.2 million increase in marketing programs, which were offset by a \$0.9 million reduction in outside services. The \$28.6 million (or 17%) increase for the nine months ended September 30, 2011 compared to the same period in 2010 was primarily due to a \$28.9 million increase in personnel-related costs and a \$0.9 million increase in marketing programs, which were offset by a \$2.6 million reduction in outside services. Personnel-related costs include sales commissions, stock-based compensation, and headcount growth. Headcount increased from 714 in September 2010 to 837 in September 2011.

For the fourth quarter of 2011, we expect sales and marketing expenses as a percentage of total revenues to be relatively consistent with or decrease slightly from the first three quarters of 2011. The sales and marketing expenses

as a percentage of total revenues may fluctuate from one period to the next due to the timing of hiring new sales and marketing personnel, our spending on marketing programs, and the level of the commission expenditures, in each period.

38

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Table of Contents

## General and Administrative

The following table sets forth, for the periods indicated, our general and administrative expenses (in thousands, except percentages):

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2011	2010	Percentage Change	2011	2010	Percentage Change
General and administrative	\$14,516	\$11,346	28 %	\$40,507	\$33,619	20 %

Our general and administrative expenses consist primarily of personnel costs for finance, human resources, legal, and general management, as well as professional service expenses associated with recruiting, legal, and accounting services. General and administrative expenses increased to \$14.5 million (or 7% of total revenues) for the three months ended September 30, 2011 compared to \$11.3 million (or 7% of total revenues) for the three months ended September 30, 2010. General and administrative expenses increased to \$40.5 million (or 7% of total revenues) for the nine months ended September 30, 2011 compared to \$33.6 million (or 8% of total revenues) for the nine months ended September 30, 2010. The general and administrative expenses as percentage of total revenues declined by one percentage point in the first nine months of 2011 compared to the same period in 2010 mainly due to benefits of scale as our revenues have increased proportionately more than our general and administrative expenses.

The \$3.2 million (or 28%) increase for the three months ended September 30, 2011 compared to the same period in 2010 was primarily due to a \$2.5 million increase in personnel-related costs (including stock-based compensation) as a result of increased headcount and a \$0.4 million increase in outside services. The \$6.9 million (or 20%) increase for the nine months ended September 30, 2011 compared to the same period in 2010 was primarily due to a \$6.2 million increase in personnel-related costs (including stock-based compensation) and a \$0.6 million increase in outside services.

For the fourth quarter of 2011, we expect general and administrative expenses as a percentage of total revenues to be relatively consistent with the first three quarters of 2011.

## Amortization of Intangible Assets

The following table sets forth, for the periods indicated, our amortization of intangible assets (in thousands, except percentages):

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2011	2010	Percentage Change	2011	2010	Percentage Change
Amortization of intangible assets	\$1,886	\$2,280	(17)%	\$5,959	\$7,345	(19)%

Amortization of intangible assets is the amortization of customer relationships and vendor relationships acquired, trade names, and covenants not to compete through prior business acquisitions. Amortization of intangible assets decreased to \$1.9 million (or 1% of total revenues) for the three months ended September 30, 2011 compared to \$2.3 million (or 1% of total revenues) for the three months ended September 30, 2010. Amortization of intangible assets decreased to \$6.0 million (or 1% of total revenues) for the nine months ended September 30, 2011 compared to \$7.3 million (or 2% of total revenues) for the nine months ended September 30, 2010.

The decreases of \$0.4 million (or 17%) and \$1.4 million (or 19%) in amortization of intangible assets for the three and nine months ended September 30, 2011, respectively, compared to the same periods in 2010 was primarily due to decreasing amortization for customer relationships, which are amortized using a method based on expected cash flows.

For the fourth quarter of 2011, we expect amortization of the remaining intangible assets to be approximately \$1.8 million, before the impact of any amortization for any possible intangible assets acquired as part of any potential future acquisitions subsequent to September 30, 2011.

Table of Contents

## Facilities Restructuring Charges (Benefit)

The following table sets forth, for the periods indicated, our facilities restructuring and excess facilities charges (in thousands, except percentages):

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2011	2010	Percentage Change	2011	2010	Percentage Change
Facilities restructuring charges (benefit)	\$ (282 )	\$ 553	(151 )%	\$ 704	\$ 1,545	(54 )%

For the three and nine months ended September 30, 2011, we recorded a restructuring benefit of \$0.3 million and restructuring charge of \$0.7 million, respectively, for accretion charges related to the 2004 Restructuring Plan offset by a benefit as a result of a sublease renewal through the end of our master lease. Comparatively, for the three and nine months ended September 30, 2010, we recorded restructuring charges of \$0.5 million and \$1.7 million, respectively, for accretion charges related to the 2004 Restructuring Plan.

As of September 30, 2011, \$28.8 million of total lease termination costs, net of actual and expected sublease income, less broker commissions and tenant improvement costs related to facilities to be subleased, was included in accrued restructuring charges and is expected to be paid by 2013.

**2004 Restructuring Plan.** Net cash payments for facilities included in the 2004 Restructuring Plan amounted to \$3.3 million and \$3.5 million for the three months ended September 30, 2011 and 2010, respectively, and \$9.3 million and \$9.9 million for the nine months ended September 30, 2011 and 2010, respectively. Actual future cash requirements may differ from the restructuring liability balances as of September 30, 2011 if there are changes to the time period that facilities are vacant or the actual sublease income is different from current estimates.

**2001 Restructuring Plan.** Net cash payments for facilities included in the 2001 Restructuring Plan amounted to \$0.4 million for both of the three month periods ended September 30, 2011 and 2010, and \$1.4 million and \$1.2 million for the nine months ended September 30, 2011 and 2010, respectively. Actual future cash requirements may differ from the restructuring liability balances as of September 30, 2011 if we are unable to continue subleasing 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.

Our results of operations have been positively affected since 2004 by a significant decrease in rent expense and decreases to non-cash depreciation and amortization expense for the leasehold improvements and equipment written off. These combined savings were approximately \$7 to \$11 million annually compared to 2004, after accretion charges, and we anticipate that they will continue through 2013.

In addition, we will continue to evaluate our current facilities requirements to identify facilities that are in excess of our current and estimated future needs. We will also evaluate the assumptions related to estimated future sublease income for excess facilities. Accordingly, any changes to these estimates of excess facilities costs could result in additional charges that could materially affect our consolidated financial position and results of operations. See Note 9. Facilities Restructuring Charges of Notes to Condensed Consolidated Financial Statements in Part I, Item 1 of this Report.

## Acquisitions and Other Charges (Benefit)

The following table sets forth, for the periods indicated, our acquisitions and other (in thousands, except percentages):

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2011	2010	Percentage Change	2011	2010	Percentage Change
Acquisitions and other charges (benefit)	\$ 917	\$ (2,323 )	(139 )%	\$ (5 )	\$ 1,326	(100 )%

For the three months ended September 30, 2011, acquisition and other primarily consisted of \$0.7 million for legal and accounting fees and \$0.2 million for earn-out accretion. For the nine months ended September 30, 2011, acquisition and other primarily consisted of a \$1.9 million benefit for the difference between estimates of liabilities and assets recorded at the time of acquisition and the actual amounts, which was offset by \$1.6 million for legal and accounting fees, and \$0.2 million for earn-out accretion.



Table of Contents

For the nine months ended September 30, 2010, the \$1.3 million charge for acquisition and other consisted of a \$2.3 million reduction in fair value of an acquisition liability in the third quarter of 2010 offset by \$3.6 million charges in the first quarter of 2010. The \$3.6 million charges included \$2.2 million for legal, accounting, and bankers' fees, \$1.1 million for write-off of certain lease liabilities and leasehold improvements, and \$0.3 million for severance payments to certain employees.

**Interest and Other Income (Expense), Net**

The following table sets forth, for the periods indicated, our interest and other income (expense), net (in thousands, except percentages):

	Three Months Ended September 30,			Nine Months Ended September 30,			
	2011	2010	Percentage Change	2011	2010	Percentage Change	
Interest income	\$1,185	\$1,002	18 %	\$3,374	\$2,802	20 %	
Interest expense	(105 )	(1,575 )	(93 )%	(2,006 )	(4,731 )	(58 )%	
Other income (expense), net	685	(229 )	399 %	(795 )	1,784	(145 )%	
Interest and other income (expense), net	\$1,765	\$(802 )	320 %	\$573	\$(145 )	495 %	

Interest and other income (expense), net consists primarily of interest income earned on our cash, cash equivalents, and short-term investments, as well as foreign exchange transaction gains and losses, and interest expenses. The increase of \$2.6 million in the three months ended September 30, 2011 compared to the same period of 2010 was primarily due to a \$1.5 million decrease in interest expense associated with the Senior Convertible Notes ("Notes") that were redeemed in the first quarter of 2011, a \$0.5 million increase in foreign exchange gains, a \$0.4 million increase in other income primarily related to the gain from the sale of our investment in an equity interest, and a \$0.2 million increase in interest income.

The increase of \$0.7 million in the nine months ended September 30, 2011 compared to the same period of 2010 was primarily due to a \$2.7 million decrease in interest expense associated with the Notes and a \$0.6 million increase in interest income due to higher cash balances, which were offset by a \$1.0 million decrease in foreign exchange gains, a \$1.1 million decrease in gain recognized from the sale of our investment in an equity interest, and a \$0.6 million increase in credit facility expenses.

**Income Tax Provision**

The following table sets forth, for the periods indicated, our provision for income taxes (in thousands, except percentages):

	Three Months Ended September 30,			Nine Months Ended September 30,			
	2011	2010	Percentage Change	2011	2010	Percentage Change	
Income tax provision	\$12,012	\$9,125	32 %	\$30,776	\$20,928	47 %	
Effective tax rate	31 %	29 %	2 %	29 %	29 %	— %	

Our effective tax rates were 31% and 29% for the three months ended September 30, 2011 and 2010, respectively, and 29% for both of the nine-month periods ended September 30, 2011 and 2010. The effective tax rate differed from the federal statutory rate of 35% primarily due to benefits of certain earnings from operations in lower-tax jurisdictions throughout the world, the impact of Section 199 of the Internal Revenue Code, and the recognition of current year research and development credits offset by compensation expense related to non-deductible stock-based compensation, acquisition related costs, and the accrual of reserves related to uncertain tax positions. We have not provided for residual U.S. taxes in almost all of these lower-tax jurisdictions since we intend to indefinitely reinvest these earnings offshore with the exception of Israel.

We are a United States-based multinational company subject to tax in multiple U.S. and foreign tax jurisdictions. A significant portion of our foreign earnings for the current fiscal year were earned by our Netherlands subsidiaries. Our results of operations would be adversely affected to the extent that our geographical mix of income becomes more weighted toward jurisdictions with higher tax rates and would be favorably affected to the extent the relative

geographic mix shifts to lower tax jurisdictions. Any change in our mix of earnings is dependent upon many factors and is therefore difficult to predict.

Our effective tax rate in 2011 will be highly dependent on the result of our international operations, the execution of business combinations, the outcome of various tax audits, and the possibility of changes in tax law.



Table of Contents

ASC 740, Income Taxes, provides for the recognition of deferred tax assets if realization of such assets is more likely than not. In assessing the need for any additional valuation allowance in the quarter ended September 30, 2011, we considered all available evidence both positive and negative, including historical levels of income, legislative developments, expectations and risks associated with estimates of future taxable income, and ongoing prudent and feasible tax planning strategies. As a result of this analysis for the quarter ended September 30, 2011, consistent with prior quarters, it was considered more likely than not that our non-stock-based payments related deferred tax assets would be realized. As a result, the remaining valuation allowance is primarily related to deferred tax assets that were created through the benefit from stock option deductions on a “with” and “without” basis and recorded on the balance sheet with a corresponding valuation allowance prior to our adoption of ASC 718, Stock Compensation. Pursuant to ASC 718-740-25-10, the benefit of these deferred tax assets will be recorded in stockholders’ equity when they are utilized on an income tax return to reduce our taxes payable, and as such, they will not impact our effective tax rate. The unrecognized tax benefits related to ASC 740, if recognized, would impact the income tax provision by \$15.2 million and \$12.7 million as of September 30, 2011 and 2010, respectively. We have elected to include interest and penalties as a component of tax expense. Accrued interest and penalties as of September 30, 2011 and 2010 were approximately \$2.3 million and \$1.7 million, respectively. As of September 30, 2011, the gross uncertain tax position was approximately \$16.1 million.

Liquidity and Capital Resources

We have funded our operations primarily through cash flows from operations and equity and debt offerings in the past. As of September 30, 2011, we had \$553.9 million in available cash and cash equivalents and short-term investments. Our primary sources of cash are the collection of accounts receivable from our customers and proceeds from the exercise of stock options and stock purchased under our employee stock purchase plan. In addition, as of September 30, 2011, we had \$220.0 million available for borrowing under the credit agreement discussed below. Our uses of cash include payroll and payroll-related expenses and operating expenses such as marketing programs, travel, professional services, and facilities and related costs. We have also used cash to purchase property and equipment, repurchase common stock from the open market to reduce the dilutive impact of stock option issuances, repurchase our Convertible Senior Notes (the "Notes"), and acquire businesses and technologies to expand our product offerings. The following table summarizes our cash flows for the nine months ended September 30, 2011 and 2010 (in thousands):

	Nine Months Ended September 30,	
	2011	2010
Cash provided by operating activities	\$130,247	\$87,922
Cash used in investing activities	\$(79,629)	\$(63,058)
Cash provided by (used in) financing activities	\$(10,564)	\$44,951

Operating Activities: Cash provided by operating activities for the nine months ended September 30, 2011 was \$130.2 million, representing an increase of \$42.3 million from the nine months ended September 30, 2010. This increase resulted primarily from a \$23.4 million increase in net income, a \$8.4 million increase in adjustments for non-cash expenses, a \$7.2 million increase in deferred revenues, and a \$17.1 million increase in income taxes payable, which were offset by a \$4.3 million increase in accounts receivable, an \$8.3 million increase in prepaid expenses and other assets and a \$1.1 million decrease in accounts payable and accrued liabilities. We recognized excess tax benefits from stock-based compensation of \$19.8 million during the nine months ended September 30, 2011. This amount is recorded as a use of operating activities and an offsetting amount is recorded as a provision by financing activities. We made net cash payments for taxes in different jurisdictions of \$6.3 million during the nine months ended September 30, 2011. Our “days sales outstanding” in accounts receivable increased from 55 days at September 30, 2010 to 60 days at September 30, 2011 due to higher amount of billings which occurred toward the end of the third quarter of 2011 compared to end of the third quarter of 2010. Deferred revenues increased primarily due to an increase in deferred maintenance revenues resulting from a larger customer base.

Investing Activities: Net cash used in investing activities was \$79.6 million and \$63.1 million for the nine months ended September 30, 2011 and 2010. We acquire property and equipment in our normal course of business. The

amount and timing of these purchases and the related cash outflows in future periods depend on a number of factors, including the hiring of employees, the rate of upgrade of computer hardware and software used in our business, as well as our business outlook.

We have identified our investment portfolio as “available for sale,” and our investment objectives are to preserve principal and provide liquidity while maximizing yields without significantly increasing risk. We may sell an investment at any time if the credit rating of the investment declines, the yield on the investment is no longer attractive, or we need additional cash. We invest only in money market funds and marketable debt securities. We believe that the purchase, maturity, or sale of our investments has no material impact on our overall liquidity.

Table of Contents

We have used cash to acquire businesses and technologies that enhance and expand our product offerings, and we anticipate that we will continue to do so in the future. Due to the nature of these transactions, it is difficult to predict the amount and timing of such cash requirements to complete such transactions. We may be required to raise additional funds to complete future acquisitions.

In July 2011, we acquired all of the outstanding securities of ActiveBase Ltd. ("ActiveBase"), a privately-held company, for approximately \$6.0 million in cash. ActiveBase provides dynamic data masking technology. Approximately \$1.2 million of the consideration otherwise payable to former ActiveBase stockholders was placed into an escrow fund and held as partial security for the indemnification obligations of the former ActiveBase stockholders. The escrow fund will remain in place until July 14, 2013. We are obligated to pay up to an additional \$4.0 million for certain variable and deferred earn-out payments based upon the achievement of certain performance targets.

In June 2011, we acquired all of the outstanding securities of WisdomForce Technologies, Inc. ("WisdomForce"), a privately-held company, and certain assets of its two affiliated companies for approximately \$25.0 million in cash. WisdomForce develops and markets software that helps improve the quality, availability and continuity of data within information technology systems. Approximately \$5.0 million of the consideration otherwise payable to former WisdomForce stockholders was placed into an escrow fund and held as partial security for the indemnification obligations of the former WisdomForce stockholders. The escrow fund will remain in place until December 28, 2012. We are obligated to pay up to an additional \$10.0 million for certain variable and deferred earn-out payments based upon the achievement of certain performance targets.

**Financing Activities:** We receive cash from the exercise of common stock options and the sale of common stock under our employee stock purchase plan ("ESPP"). Net cash provided by financing activities for the nine months ended September 30, 2011 was \$10.6 million due to \$45.5 million of proceeds received from the issuance of common stock to option holders and participants of our ESPP program and \$19.8 million of excess tax benefits from stock-based compensation. These amounts were offset by repurchases and retirement of our common stock of \$70.1 million and withholding taxes for restricted stock units net share settlement of \$5.7 million.

Net cash provided by financing activities for the nine months ended September 30, 2010 was \$45.0 million due to \$44.8 million of proceeds we received from the issuance of common stock to option holders and participants of our ESPP program and \$14.4 million of excess tax benefits from stock-based compensation. These amounts were partially offset by the repurchases and retirement of our common stock of \$10.7 million, withholding taxes for restricted stock units net share settlement of \$1.7 million, and payment of issuance costs on the credit facility of \$1.9 million.

Although we expect to continue to receive some proceeds from the issuance of common stock to option holders and participants of ESPP in future periods, the timing and amount of such proceeds are difficult to predict and are contingent on a number of factors, including the price of our common stock, the number of employees participating in our stock option plans and our employee stock purchase plan, and overall market conditions.

Our Board of Directors has approved a stock repurchase program for the repurchase of our common stock. Purchases can be made from time to time in the open market and will be funded from our available cash. The primary purpose of this program is to enhance shareholder value, including to partially offset the dilutive impact of stock based incentive plans. The number of shares to be purchased and the timing of purchases are based on several factors, including the price of our common stock, our liquidity and working capital needs, general business and market conditions, and other investment opportunities. The repurchased shares are retired and reclassified as authorized and unissued shares of common stock. We may continue to repurchase shares from time to time, as determined by management as authorized by the Board of Directors.

From April 2007 to September 30, 2011, we repurchased approximately 8,707,000 shares of our common stock at a cost of \$191.3 million and \$29.0 million of our outstanding Notes at a cost of \$27.3 million. We have \$6.4 million available to repurchase additional shares of our common stock under this program as of September 30, 2011. In October 2011, our Board of Directors authorized the repurchase of up to an additional \$75.0 million of our outstanding common stock under the repurchase program. See Part II, Item 2 of this Report for information regarding the number of shares purchased under the stock repurchase program.

On February 14, 2011, we notified the holders of the Notes that we would exercise our option to redeem the principal amount outstanding on March 18, 2011. On or prior to the close of business on March 17, 2011, the holders had the

option to convert their Notes into shares of our common stock at a price of approximately \$20 per share, or 50 shares of our common stock per \$1,000 principal amount of notes. Holders of approximately \$200.7 million in aggregate principal amount of the Notes converted their notes into approximately 10.0 million shares of our common stock prior to the close of business on March 17, 2011. On March 18, 2011, we redeemed \$4,000 principal amount of Notes not surrendered for conversion prior to the redemption date. As of March 31, 2011, none of the Notes were outstanding.

Table of Contents

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, we may be required to raise or desire additional funds for selective purposes, such as acquisitions or other investments in complementary businesses, products, or technologies, and may raise such additional funds through public or private equity or debt financing or from other sources. In addition, our business has grown in recent years through internal expansion and acquisitions, and we expect such growth to continue. As a result, we are at or near capacity in certain of our facilities, and we may need to enter into additional lease commitments, expand existing facilities, or purchase new facilities or undeveloped real estate within the next 12 months.

Less than 30% of our cash, cash equivalents, and short-term investments are held by our foreign subsidiaries. Our intent is to permanently reinvest our earnings from foreign operations, and current plans do not anticipate that we will need funds generated from foreign operations to fund our domestic operations. In the event funds from foreign operations are needed to fund operations in the United States and if U.S. tax has not already been previously provided, we would be required to accrue and pay additional U.S. taxes in order to repatriate these funds.

Credit Agreement

In September 2010, we entered into a Credit Agreement (the "Credit Agreement") that matures in September 2014. The Credit Agreement provides for an unsecured revolving credit facility in an amount of up to \$220.0 million, with an option for us to request to increase the revolving loan commitments by an aggregate amount of up to \$30.0 million with new or additional commitments, for a total credit facility of up to \$250.0 million. No amounts were borrowed during the nine months ended September 30, 2011. No amounts were outstanding under the Credit Agreement as of September 30, 2011, and a total of \$220.0 million remained available for borrowing. The Credit Agreement contains customary representations and warranties, covenants and events of default, including the requirement to maintain a maximum consolidated leverage ratio of 2.75 to 1.00 and a minimum consolidated interest coverage ratio of 3.50 to 1.00. We were in compliance with all covenants under the Credit Agreement as of September 30, 2011. For further information, see Note 4. Borrowings of Notes to Condensed Consolidated Financial Statements in Part I, Item 1 of this Report.

Contractual Obligations and Operating Leases

The following table summarizes our significant contractual obligations, including future minimum lease payments at September 30, 2011, under non-cancelable operating leases with original terms in excess of one year, and the effect of such obligations on our liquidity and cash flows in the future periods (in thousands):

	Payment Due by Period				
	Total	Remaining 2011	2012 and 2013	2014 and 2015	2016 and Beyond
Operating lease obligations:					
Operating lease payments	\$70,790	\$7,169	\$51,422	\$9,810	\$2,389
Future sublease income	(6,108)	(858)	(5,250)	—	—
Net operating lease obligations	64,682	6,311	46,172	9,810	2,389
Other obligations*	1,075	221	854	—	—
Total	\$65,757	\$6,532	\$47,026	\$9,810	\$2,389

\* Other purchase obligations and commitments include minimum royalty payments under license agreements and do not include purchase obligations discussed below.

The above commitment table does not include approximately \$16.7 million of long-term income tax liabilities recorded in accordance with ASC 740, Income Taxes. We are unable to make a reasonably reliable estimate of the timing of these potential future payments in individual years beyond 12 months due to uncertainties in the timing of tax audit outcomes. As a result, this amount is not included in the table above. For further information, see Note 10. Income Taxes of Notes to Condensed Consolidated Financial Statements in Part I, Item 1 of this Report.



Table of Contents**Contractual Obligations**

Purchase orders or contracts for the purchase of certain goods and services are not included in the preceding table. We cannot determine the aggregate amount of such purchase orders that represent contractual obligations because purchase orders may represent authorizations to purchase rather than binding agreements. For the purposes of this table, contractual obligations for purchase of goods or services are defined as agreements that are enforceable and legally binding and that specify all significant terms, including fixed or minimum quantities to be purchased; fixed, minimum, or variable price provisions; and the approximate timing of the transaction. Our purchase orders are based on our current needs and are fulfilled by our vendors within short time horizons. We also enter into contracts for outsourced services; however, the obligations under these contracts were not significant and the contracts generally contain clauses allowing for cancellation without significant penalty. Contractual obligations that are contingent upon the achievement of certain milestones are not included in the table above.

We estimate the expected timing of payment of the obligations discussed above based on current information. Timing of payments and actual amounts paid may be different depending on the time of receipt of goods or services or changes to agreed-upon amounts for some obligations.

**Operating Leases**

We lease certain office facilities and equipment under non-cancelable operating leases. Our contractual obligations at September 30, 2011 include the lease for our headquarters office in Redwood City, California, which is from December 15, 2004 to December 31, 2013. Minimum contractual lease payments are \$0.9 million for the remainder of 2011, and \$3.5 million and \$3.6 million for the years ending December 31, 2012 and 2013, respectively.

During 2004, we recorded facilities restructuring charges related to the consolidation of excess leased facilities in Redwood City, California. Operating lease payments in the table above include approximately \$32.5 million, net of actual sublease income, for operating lease commitments for those facilities that are included in accrued facilities restructuring charges. See Note 9. Facilities Restructuring Charges and Note 12. Commitments and Contingencies of Notes to Condensed Consolidated Financial Statements in Part I, Item 1 of this Report.

Of these future minimum lease payments, we have \$28.8 million recorded in accrued facilities restructuring charges at September 30, 2011. This accrual, in addition to minimum lease payments of \$32.5 million, includes estimated operating expenses of \$8.2 million, is net of estimated sublease income of \$10.3 million, and is net of the present value impact of \$1.6 million recorded in accordance with ASC 420-10, Accounting for Costs Associated with Exit or Disposal Activities. We estimated sublease income and the related timing thereof based on existing sublease agreements and current market conditions, among other factors. Our estimates of sublease income may vary significantly from actual amounts realized depending, in part, on factors that 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.

In relation to our excess facilities, we may decide to negotiate and enter into lease termination agreements, if and when the circumstances are appropriate. These lease termination agreements would likely require that a significant amount of the remaining future lease payments be paid at the time of execution of the agreement, but would release us from future lease payment obligations for the abandoned facility. The timing of a lease termination agreement and the corresponding payment could materially affect our cash flows in the period of payment.

The expected timing of payment of the obligations discussed above is estimated based on current information. Timing of payments and actual amounts paid may be different.

We have sublease agreements for leased office space at the Pacific Shores Center in Redwood City, California. In the event the sublessees are unable to fulfill their obligations, we would be responsible for rent due under the leases. We expect at this time that the sublessees will fulfill their obligations under the terms of the current lease agreements. In February 2000, we entered into two lease agreements for two buildings at the Pacific Shores Center in Redwood City, California (our former corporate headquarters), which we occupied from August 2001 through December 2004. These two lease agreements will expire in July 2013.

**Off-Balance Sheet Arrangements**

We do not have any off-balance sheet financing arrangements, transactions, or relationships with “special purpose entities.”





Table of Contents

## ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

## Foreign Currency Exchange Rate Risk

We market and sell our software and services through our direct sales force and indirect channel partners in North America, Europe and Middle East, Asia-Pacific, Latin America, and Russia. Accordingly, we are subject to exposure from adverse movements in foreign currency exchange rates. The functional currency of our foreign subsidiaries is their local currencies, except for Informatica Cayman Ltd., which uses euros as its functional currency. Our exposure to foreign exchange risk is related to the magnitude of foreign net profits and losses denominated in foreign currencies, in particular the euro and British pound sterling, as well as our net position of monetary assets and monetary liabilities held by our foreign subsidiaries in their non-functional currencies. These exposures have the potential to produce either gains or losses within our consolidated results. Our foreign operations, however, in most instances act as a natural hedge since both operating expenses as well as revenues are generally denominated in their respective local currency. In these instances, although an unfavorable change in the exchange rate of foreign currencies against the U.S. dollar will result in lower revenues when translated into U.S. dollars, the operating expenses will be lower as well.

Our earnings and cash flows are subject to fluctuations due to changes in foreign currency exchange rates. We use derivative instruments to manage our exposure to fluctuations in certain foreign currency exchange rates which exist as part of ongoing business operations.

## Cash Flow Hedge Activities

We have attempted to minimize the impact of certain foreign currency fluctuations through certain cash flow hedge programs. The purpose of these programs is to reduce volatility in cash flows and expenses caused by movement in certain foreign currency exchange rates, in particular the euro, Indian rupee, and Israeli shekel. Under these programs, the effective portion of the gain or loss on the derivative instrument is reported as a component of other comprehensive income (loss) and is reclassified into earnings in the same period or periods during which the hedged forecasted transaction affects earnings.

The foreign exchange forward contracts initiated in December 2010 under our hedging programs have monthly expiration dates through January 2012.

The table below presents the notional amounts of the foreign exchange forward contracts that we committed to purchase in the fourth quarter of 2010 for euros, Indian rupees, and Israeli shekels, which were outstanding as of September 30, 2011 (in thousands):

Functional currency	Foreign	USD		
	Amount	Notional	Notional	Equivalent
	Notional	Notional	Notional	Notional
	Amount	Amount	Amount	Amount
	Sold	Purchased	Sold	Purchased
Euro	8,400	—	\$10,953	\$—
Indian rupee	—	364,800	—	7,743
Israeli shekel	—	6,100	—	1,669
			\$10,953	\$9,412

We record the effective portion of changes in fair value of these cash flow hedges in accumulated other comprehensive income (loss). When the forecasted transaction occurs, we reclassify the effective portion related gain or loss on the cash flow hedge to operating expenditures. If the hedge program becomes ineffective or if the underlying forecasted transaction does not occur for any reason, or it becomes probable that it will not occur, we reclassify the gain or loss on the related cash flow hedge from accumulated other comprehensive income (loss) to other income (expense) in the condensed consolidated statements of income.

## Balance Sheet Hedge Activities

In the second quarter of 2011, we also entered into foreign exchange contracts to hedge monetary assets and liabilities that are denominated in currencies other than the functional currency of our subsidiaries. These foreign exchange contracts are carried at fair value and do not qualify for hedge accounting treatment and are not designated as hedging instruments. Changes in the value of the foreign exchange contracts are recognized in other income (expense) and

offset the foreign currency gain or loss on the underlying monetary assets or liabilities.

46

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Table of Contents

The table below presents the notional amount of the foreign currency contracts as of September 30, 2011 (in thousands):

Functional currency	Foreign	Notional Amount	USD	Notional Amount
	Amount		Equivalent	
	Notional Amount	Notional Amount	Notional Amount	Notional Amount
	Sold	Purchased	Sold	Purchased
Indian rupee	235,150	—	\$5,000	\$—

See Note 1. Summary of Significant Accounting Policies, Note 5. Other Comprehensive Income, and Note 6.

Derivative Financial Instruments of Notes to Condensed Consolidated Financial Statements in Part I, Item 1 of this Report for a further discussion.

**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 of certificates of deposit, commercial paper, corporate notes and bonds, municipal securities, and U.S. government and agency notes and bonds. All investments are carried at market value, which approximates cost. See Note 2. Cash, Cash Equivalents, and Short-Term Investments of Notes to Condensed Consolidated Financial Statements in Part I, Item 1 of this Report.

For the nine months ended September 30, 2011, the average annual rate of return on our investments was approximately 0.7%. Our cash equivalents and short-term investments are subject to interest rate risk and will decline in value if market interest rates increase. As of September 30, 2011, we had net unrealized loss of \$0.3 million associated with these securities. If market interest rates were to change immediately and uniformly by 100 basis points from levels as of September 30, 2011, the fair market value of the portfolio would change by approximately \$3.3 million. Additionally, we have the ability to hold our investments until maturity and, therefore, we would not necessarily expect to realize an adverse impact on income or cash flows. At this time, we do not expect a significant change in our average rate of return for the fourth quarter of 2011.

**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 Report. Based on this evaluation, our Chief Executive Officer and our Chief Financial Officer have concluded that our disclosure controls and procedures are effective at the reasonable assurance level to ensure that information we are required to disclose in reports that we file or submit under the Securities Exchange Act of 1934 (1) is recorded, processed, summarized, and reported within the time periods specified in Securities and Exchange Commission rules and forms, and (2) is accumulated and communicated to Informatica's management, including our Chief Executive Officer and our Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure. Our disclosure controls and procedures are designed to provide reasonable assurance that such information is accumulated and communicated to our management. Our disclosure controls and procedures include components of our internal control over financial reporting. Management's assessment of the effectiveness of our internal control over financial reporting is expressed at the level of reasonable assurance because a control system, no matter how well designed and operated, can provide only reasonable, but not absolute, assurance that the control system's objectives will be met.

**Change in internal control over financial reporting.** There were no changes in our internal controls over financial reporting that occurred during the three months ended September 30, 2011 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.



Table of Contents

PART II: OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The information set forth under the "Litigation" subheading in Note 12. Commitments and Contingencies of Notes to Condensed Consolidated Financial Statements in Part I, Item 1 of this Report is incorporated herein by reference.

ITEM 1A. 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 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 information contained in our other SEC filings, including our Form 10-K for the year ended December 31, 2010.

Uncertainty in the U.S. or global economies could negatively affect sales of our products and services and could harm our operating results, which could result in a decline in the price of our common stock.

As our business has grown, we have become increasingly subject to the risks arising from adverse changes in the domestic and global economies. We have experienced the adverse effect of economic slowdowns in the past, 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.

Uncertainty in the macroeconomic environment and associated global economic conditions have resulted in extreme volatility in credit, equity, and foreign currency markets, particularly with respect to the European sovereign debt markets and potential ramifications of the recent U.S. debt issues, budget concerns, and potential delays in approving the U.S. budget. Such uncertainty and associated conditions have also resulted in volatility in various vertical markets, particularly the financial services and public sectors, which are typically two of the larger vertical segments that we serve. For example, in 2010, we experienced a decline in European public sector transactions, and we continue to expect uncertainty in European public sector spending. These conditions affected the buying patterns of our customers and prospective customers and adversely affected our overall pipeline conversion rate as well as our revenue growth expectations. Though the economic conditions appear to be improving, although unevenly, if such conditions deteriorate or if the pace of economic recovery is slower or more uneven, our results of operations could be adversely affected, we may not be able to sustain the growth rates we have experienced recently, and we could fail to meet the expectations of stock analysts and investors, which could cause the price of our common stock to decline.

We have made incremental investments in Asia-Pacific and Latin America, and have maintained a high level of investments in Europe, the Middle East, and Africa ("EMEA"). There are significant risks with overseas investments, and our growth prospects in these regions are uncertain. Increased volatility or further declines in the European credit, equity and foreign currency markets could cause delays in or cancellations of European orders. In addition, we could experience delays in the payment obligations of our worldwide reseller customers if they experience weakness in the end-user market, which would increase our credit risk exposure and harm our financial condition.

If we do not compete effectively, 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-coding, 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 IBM (which acquired Ascential Software, Cast Iron Systems, Cognos, DataMirror, Initiate Systems, and SPSS), Microsoft, Oracle (which acquired BEA Systems, GoldenGate Software, Hyperion Solutions, Siebel, SilverCreek, Sun Microsystems, and Sunopsis), SAP (which acquired Business Objects, which had previously acquired FirstLogic, and Sybase), and certain privately held companies. In the past, we have competed with business intelligence vendors that currently offer, or may develop, products with functionalities that compete with our products, such as Business Objects, and to a lesser degree Cognos, and certain privately-held companies. With regard to data quality software and services, we also compete against SAP, Trillium (which is part of Harte-Hanks), and SAS Institute, as well as various other privately-held companies.

Many of our competitors have longer operating histories, substantially greater financial, technical, marketing, and other resources, greater name recognition, broader product portfolios and stronger customer relationships than we do and may be able to exert greater influence on customer purchase decisions. Our competitors may be able to respond more quickly than we can to new or emerging technologies and changes in customer requirements. 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 on the basis of the breadth and depth of our products' functionality, as well as on the basis of price. We may

Table of Contents

have difficulty competing on the basis of price in circumstances where our competitors develop and market products with similar or superior functionality and pursue an aggressive pricing strategy or bundle data integration technology and data quality at no cost to the customer or at deeply discounted prices. These difficulties may increase as larger companies target the data integration and data quality markets. As a result, increased competition and bundling strategies could seriously impede our ability to sell additional products and services on terms favorable to us.

In addition, consolidation among vendors in the software industry is continuing at a rapid pace. For example, Oracle's acquisition of Sun Microsystems, creating a large integrated supplier of enterprise software on hardware optimized for its software products, could accelerate further consolidation in the industry. Our current and potential competitors may make additional 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. Such acquisitions could cause customers to defer their purchasing decisions. Our current and potential competitors may also 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.

Our success depends upon the introduction of new products, the integration of acquired products, and the enhancement of existing products.

Rapid technological changes, including changes in customer requirements and preferences, are characteristic in the software industry. In order to address the expanding enterprise data integration needs of our customers and prospective customers, we introduce new products and technology enhancements on a regular basis, including products we acquire. For example, in the past few years, we delivered a version upgrade to our entire data integration platform by delivering the generally available version of Informatica 9, we extended our existing MDM offering through the acquisition of Siperian, and we introduced various solutions for the cloud market, among others. The introduction of new products, integration of acquired products and enhancement of existing products, is a complex and costly process involving inherent risks, such as:

- the failure to accurately anticipate changes in technological trends or customer requirements and preferences;
- delays in completion, launch, delivery, or availability;
- delays in customer adoption or market acceptance;
- delays in customer purchases in anticipation of products not yet released;
- product quality issues, including the possibility of defects and the costs of remediating any such defects;
- market confusion based on changes to the product packaging and pricing as a result of a new product release;
- interoperability and integration issues between our existing products and newly acquired products or technologies, and the costs of remediating any such issues;
- interoperability and integration issues with third-party technologies and the costs of remediating any such issues;
- customer issues with migrating or upgrading from previous product versions and the costs of remediating any such issues;
- loss of existing customers that choose a competitor's product instead of upgrading or migrating to the new or enhanced product; and
- loss of maintenance revenues from existing customers that do not upgrade or migrate.

We devote significant resources to the development of new products, the acquisition of products, and the enhancement of existing products, as well as to the integration of these products with each other. As a result of the risks involved, we cannot predict the impact on our overall sales from new or enhanced products, and we may not generate sufficient revenues from these products to justify their costs, which would adversely affect our competitive position and results of operations.

We may experience fluctuations in our quarterly operating results, especially in the amount of license revenues we recognize, which could cause our stock price to decline.

Our quarterly operating results, particularly our license revenues, have fluctuated in the past and may do so in the future. These fluctuations have caused our stock price to decline and could cause our stock price to significantly

fluctuate or decline in the future. Our license revenues, which are primarily sold on a perpetual license basis, may not be forecasted accurately and are vulnerable to short-term shifts in customer demand. Also, we may experience order deferrals by customers in anticipation of future new product introductions or product enhancements, as well as a result of their particular budgeting and purchase cycles. The continued global economic uncertainty is also likely to cause customer order deferrals and adversely affect budgeting and purchase cycles. By comparison, our short-term expenses are relatively fixed and based in part on our expectations of future revenues. In



Table of Contents

addition, our backlog of license orders at the end of a given fiscal period has tended to vary. Historically, our backlog typically decreases from the prior quarter at the end of the first and third quarters and increases from the prior quarter at the end of the fourth quarter. Furthermore, we generally recognize a substantial portion of our license revenues in the last month of each quarter and, sometimes, in the last few weeks or days of each quarter. As a result, we cannot predict the adverse impact caused by cancellations or delays in prospective orders until the end of each quarter. Moreover, the expansion of our product portfolio through the introduction of new product and enhancements has increased the complexity and size of our transactions. The likelihood of an adverse impact may be greater if we experience increased average transaction sizes due to a mix of relatively larger deals in our sales pipeline. 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 necessarily a good indication of our future performance. In addition, a number of the other factors discussed in this section may cause fluctuations in our quarterly operating results. Our future operating results or forecasts of future operating results could fail to meet the expectations of stock analysts and investors. If any of these happen, the price of our common stock would likely fall.

Our international operations expose us to greater risks, including risks related to intellectual property, collections, exchange rate fluctuations, and regulations, which could limit our future growth. We have significant operations outside the United States, including sales and professional services operations, software development centers and customer support centers. We have recently expanded our presence and capabilities in a number of major geographic regions, including North and Latin America, Europe and the Middle East and Asia-Pacific, and we plan to continue such expansion. Our international operations are subject to numerous risks, including:

- fluctuations in exchange rates between the U.S. dollar and foreign currencies;
- increased operating costs and wage inflation, particularly in India and Brazil;
- 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;
- higher risk of unexpected changes in regulatory practices, tariffs, and tax laws and treaties;
- greater risk of a failure of our employees to comply with both U.S. and foreign laws, including antitrust regulations, the U.S. Foreign Corrupt Practices Act, and any trade regulations ensuring fair trade practices;
- increased expenses, delays and our limited experience in developing, testing and marketing localized versions of our products;
- potential conflicts with our established distributors in countries in which we elect to establish a direct sales presence, or the inability to enter into or maintain strategic distributor relationships with companies in certain international markets where we do not have a local presence;
- our limited experience in establishing a sales, marketing and support presence and the appropriate internal systems, processes, and controls, particularly in Brazil, Russia, and Asia-Pacific (especially China, Japan, South Korea, and Taiwan);
- difficulties in recruiting, training, managing, and retaining our international staff, particularly our international sales management and sales personnel, which have adversely affected our ability to increase sales productivity, and the costs and expenses associated with such activities;
- differing business practices, which may require us to enter into software license agreements that include non-standard terms related to payment, maintenance rates, warranties, or performance obligations that may affect our ability to recognize revenue ratably;
- communication delays between our main development center in California and our international development centers, which may delay the development, testing or release of new products, and communication delays between our operations in the U.S. and India; 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. The expansion of our existing international operations and entry into additional international markets will require significant management attention and financial resources. Our failure to manage our international operations and the associated risks effectively could

limit the future growth of our business.

We may experience fluctuations in foreign currency exchange rates that could adversely impact our results of operations.

Our international sales and operations expose us to fluctuations in foreign currency exchange rates. An unfavorable change in the exchange rate of foreign currencies against the U.S. dollar would result in lower revenues when translated into U.S. dollars,

50

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Table of Contents

although operating expenditures would be lower as well. Historically, the effect of changes in foreign currency exchange rates on our revenues and operating expenses has been immaterial, although in the fourth quarter of 2008 and the first half of 2009, the decline in the U.S. dollar and the increased volatility in currency markets caused a greater than historical impact. The sequential impact of the foreign currency exchange rate fluctuation diminished near the end of 2009 and increased in the second and third quarters of 2010. We have attempted to reduce the impact of certain foreign currency fluctuations through hedging programs for the foreign subsidiaries where we do not have a natural hedge. However, as our international operations grow, or if the current dramatic fluctuations in foreign currency exchange rates continue or increase or if our hedging programs become ineffective, the effect of changes in the foreign currency exchange rates could become material to revenue, operating expenses, and income. If we are unable to accurately forecast sales and trends in our business, we may fail to meet expectations and our stock price could 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 and estimate when 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 assess 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, particularly in the recent weak global macroeconomic environment. Additionally, because we have historically recognized a substantial portion of our license revenues in the last month of each quarter and sometimes 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 rate 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.

A reduction in our sales pipeline and pipeline conversion rate could adversely affect the growth of our company and the price of our common stock.

In the past, we have experienced a reduced conversion rate of our overall license pipeline, primarily as a result of general economic slowdowns, which caused the amount of customer purchases to be reduced, deferred, or cancelled. Although the size of our sales pipeline and our pipeline conversion rate generally have increased since 2005 as a result of our additional investments in sales personnel and a gradually improving IT spending environment, it is not consistent on a quarter-to-quarter basis. The recent global economic recession has had and will likely continue to have an adverse effect on our conversion rate in the near future. Our conversion rate declined in 2008, remained depressed in certain geographies in 2009, and increased in 2010. If we are unable to continue 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.

Furthermore, we have expanded our international operations and opened new sales offices in other countries. As a result of this international expansion, as well as the increase in our direct sales headcount in the United States, our sales and marketing expenses have increased. We expect these investments to increase our revenues, sales productivity, and eventually our profitability. However, if we experience an increase in sales personnel turnover, do not achieve expected increases in our sales pipeline, experience a decline in our sales pipeline conversion ratio, or do not achieve increases in productivity and efficiencies from our new sales personnel as they gain more experience, then we may not achieve our expected increases in revenue, sales productivity, and profitability.

As a result of our lengthy sales cycles, our expected revenues are susceptible to fluctuations, which could cause us to fail to meet 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' decisions to purchase our products typically require 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. This trend toward greater customer executive level involvement and customer education is likely to increase as we expand our market focus to broader data integration initiatives. Further, our sales cycle may lengthen, particularly in

the current economic environment, 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;

Table of Contents

our customers' concerns about the introduction of our products or new products from our competitors; or potential downturns in general economic or political conditions or potential tightening of credit markets that could occur during the sales cycle.

If our sales cycles lengthen unexpectedly, they could adversely affect the timing of our revenues or increase costs, which may independently cause fluctuations in our revenues 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, 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 expenses 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 current 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, data quality vendors, and enterprise integrator vendors, for the promotion and implementation of our products. Among others, we are partners with Cloudera, Dun & Bradstreet, EMC, Hewlett Packard, Intel, Microsoft, NetSuite, Oracle, salesforce.com, SAP, and Symantec.

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.

Although our strategic partnership with IBM's Business Consulting Services group has been successful in the past, IBM's acquisition of Ascential Software, Cast Iron Systems, Cognos, DataMirror, Initiate Systems, and SPSS has made it critical that we strengthen our relationships with our other strategic partners. Business Objects' acquisition of FirstLogic, a former strategic partner, and SAP's acquisition of Business Objects and Sybase may also make such strong relationships with other strategic partners more critical. We cannot guarantee that we will be able to strengthen our relationships with our strategic partners or that such relationships will be successful in generating additional revenue.

In addition, we may not be able to maintain 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 implement solutions for our customers in a timely manner. 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 revenues, our revenues and the price of our common stock could decline.

Acquisitions and investments present many risks, which could adversely affect our business, operating results and financial condition.

From time to time, we evaluate potential acquisitions or investments in complementary businesses, products, or technologies. For example, we acquired several companies in 2010 and 2011, including ActiveBase in July 2011, WisdomForce in June 2011, 29West in March 2010, and Siperian in January 2010. Acquisitions and investments involve 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, including strategic partnerships, or the failure of the transaction to advance our business strategy as anticipated;
- the difficulties in and costs associated with successfully integrating or incorporating the acquired company's products, technologies, services, employees, customers, partners, business operations and administrative systems with ours;
- the disruption of our ongoing business and the diversion of management's attention by transition or integration issues;

- the failure to accurately predict how the acquired company's pipeline will convert into sales or revenues following the acquisition, as conversion rates post-acquisition may be quite different from the acquired company's historical conversion rates and can be affected by changes in business practices that we implement;

Table of Contents

any inability to generate revenue from the acquired company's products in an amount sufficient to offset the associated acquisition and maintenance costs, including addressing issues related to the availability of offerings on multiple platforms and from cross-selling and up-selling our products to the acquired company's installed customer base or the acquired company's products to our installed customer base;

the failure to adequately identify or assess significant problems, liabilities or other issues, including issues with the acquired company's technology or intellectual property, product quality, data security, privacy practices, accounting practices, employees, customers or partners, regulatory compliance, or legal or financial contingencies.

We may not be successful in overcoming these risks or any other problems encountered in connection with our acquisitions or investments. 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. The consideration paid in connection with an investment or acquisition also affects our financial results. If we should proceed with one or more significant acquisitions in which the consideration includes cash, we could be required to use a substantial portion of our available cash to consummate any such acquisition. To the extent that we issue shares of stock or other rights to purchase stock, existing stockholders may be diluted and earnings per share may decrease. In addition, acquisitions may result in our incurring debt, material one-time write-offs, or purchase accounting adjustments and restructuring charges. They may also result in recording goodwill and other intangible assets in our financial statements which may be subject to future impairment charges or ongoing amortization costs, thereby reducing future earnings. In addition, from time to time, we may enter into negotiations for acquisitions or investments that are not ultimately consummated. Such negotiations could result in significant diversion of management time, as well as incurring expenses that may impact operating results.

If our products are unable to interoperate with hardware and software technologies 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, particularly certain third-party developers of database and application software products, 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. The continued consolidation in the enterprise software market may heighten these risks. Furthermore, our expanding product line, including our combination of products delivered on a comprehensive, unified and open data integration platform makes maintaining interoperability more difficult as various products may have different levels of interoperability and compatibility, which may change from version to version. If any of the situations described above were to 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. The loss of our key personnel, an increase in our sales force personnel turnover rate or decrease in sales force productivity, or the inability to attract and retain additional personnel could adversely affect our ability to grow our company successfully and may negatively impact our results of operations.

We believe our success depends upon our ability to attract and retain highly skilled personnel and key members of our management team. Historically, there has been a significant level of competition to attract these individuals, and we have experienced changes in members of our senior management team. As new senior personnel join our company and become familiar with our business strategy and systems, their integration could result in some disruption to our ongoing operations.

The market for talent has become increasingly competitive and hiring has become more difficult and costly, and our personnel-related costs are likely to increase as we compete to attract and retain employees. Our employees are increasingly becoming more attractive to other companies. Many of our competitors have greater financial and other resources than us for attracting experienced personnel. Our plan for continued growth requires us to add personnel to

meet our growth objectives and places increased importance on our ability to attract, train, and retain new personnel, in particular, new sales personnel. If we are unable to effectively attract and train new personnel, or if we experience an increase in the level of turnover, our results of operations may be negatively impacted.

Furthermore, in the past, we also experienced an increased level of turnover in our direct sales force. Such increase in the turnover rate impacted our ability to generate license revenues. Although we have hired replacements in our sales force and are continuing to hire additional sales personnel to grow our business, we typically experience lower productivity from newly hired



Table of Contents

sales personnel for a period of 6 to 12 months. In addition, we periodically make adjustments to our sales organization in response to a variety of internal and external factors, such as market opportunities, competitive threats, management changes, product introductions or enhancements, acquisitions, sales performance, increases in sales headcount and cost levels. Such adjustments may be temporarily disruptive and result in reduced productivity. If we are unable to effectively attract, train and retain new sales personnel, or if we experience an increase in the level of sales force turnover or decrease in sales force productivity, our ability to generate license revenues and our growth rate may be negatively impacted.

We currently do not have any key-man life insurance relating to our key personnel, and the employment of the key personnel in the United States is at will and not subject to employment contracts. We have relied on our ability to grant equity awards as one mechanism for recruiting and retaining highly skilled talent. If we are unable to grant such awards, we may not be able to attract and retain outstanding and highly skilled individuals in the extremely competitive labor markets in which we compete.

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 continues to change. While we believe that the traditional use of our technology in data warehousing applications is still growing, we expect most of our growth to come from the emerging market for broader data integration, which includes data migration, data consolidation, data synchronization, master data management, B2B data exchange, information lifecycle management, cloud data integration, and data quality projects. The use of packaged software solutions to address the needs of the broader data integration and data quality markets is relatively new and is still emerging. Our customers or prospective customers may:

- not fully value the benefits of using our products;
- not achieve favorable results using our products;
- defer product purchases due to the current global economic downturn;
- 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 and/or maintain broad market acceptance, our revenues would be adversely affected.

Historically, a significant portion of our revenues have been derived from our data integration products such as PowerCenter and PowerExchange and related services. We expect sales of our data integration software and related services to comprise a significant portion of our revenues for the foreseeable future. If any of these products does not maintain market acceptance, our revenues and stock price could decrease. More recently, we have broadened our platform with additional products in the areas of MDM, B2B data exchange, application information lifecycle management, complex event processing, ultra messaging, and cloud data integration. If these products do not achieve market acceptance, our revenues and stock price could decrease. Market acceptance of our products could be affected if, among other things, competition substantially increases in the enterprise data integration market 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.

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, the emergence of new technologies, evolving industry standards, changing customer needs, and frequent new product introductions and enhancements. The introduction of products by our direct competitors or others incorporating new technologies, the emergence of new industry standards, or changes in customer requirements could render our existing products obsolete, unmarketable, or less competitive. In addition, industry-wide adoption or increased use of hand-coding, open source standards or other 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. Furthermore, the standards on which we choose to develop new products or enhancements may not allow us to compete effectively for business opportunities.

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

Table of Contents

the next upgrade was released. Future delays or problems in the installation or implementation of our new releases may cause customers to forgo 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 ensure that they will achieve market acceptance.

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 of market acceptance of our products. As the use of our products, including products recently acquired or developed, expands to more sensitive, secure, or mission critical uses by our customers, we may be subject to increased scrutiny, potential reputational risk, or potential liability should our products fail to perform as contemplated in such deployments. 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, which could require us 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 entail 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. We are currently facing and may face future 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 receive notices from third parties claiming infringement by our products of third-party patent and 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. In addition, there is a growing occurrence of patent suits being brought by organizations that use patents to generate revenue without manufacturing, promoting, or marketing products or investing in research and development in bringing products to market. These organizations have been increasingly active in the enterprise software market and have targeted whole industries as defendants. For example, in 2007, JuxtaComm Technologies filed a complaint alleging patent infringement against us and various defendants, and in 2008, Data Retrieval Technologies LLC filed a complaint alleging patent infringement against us and Sybase. While we have settled both these matters we continue to defend ourselves against additional claims of patent infringement.

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 believe that we are currently infringing any proprietary rights of others, additional legal action claiming patent infringement could be commenced against us. 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 third-party infringement claims include the following:

- we could be and have been obligated to incur significant legal costs and expenses defending the patent infringement suit;
- we may be forced to enter into royalty or licensing agreements, which may not be available on terms favorable to us;
- 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.

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 development, 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.

55

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Table of Contents

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 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. We may be forced to initiate litigation to protect our proprietary rights. Litigating claims related to the enforcement of proprietary rights is very expensive and can be burdensome in terms of management time and resources, which could adversely affect our business and operating results.

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, which was subsequently acquired by IBM, in which a number of former Informatica employees recruited and hired by Ascential misappropriated our trade secrets, including sensitive product 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: there is a bankruptcy proceeding by or against us; we cease to do business; or 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 parties' 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.

A portion of our revenue is generated by sales to government entities, which are subject to a number of challenges and risks.

Sales to U.S. and foreign federal, state, and local governmental agency end-customers have accounted for a portion of our revenue, and we may in the future increase sales to government entities. However, government entities have recently announced reductions in, or experienced increased pressure to reduce, government spending. In particular, such measures have adversely affected European public sector transactions, and the recent U.S. debt issues, budget concerns, and potential delays in approving the U.S. budget may adversely impact future U.S. public sector transactions. Such budgetary constraints or shifts in spending priorities of government entities may adversely affect sales of our products and services to such entities. In addition, sales to government entities are subject to a number of risks. Selling to government entities can be highly competitive, expensive and time consuming, often requiring significant upfront time and expense without any assurance that we will successfully sell our products to such governmental entity. Government entities may require contract terms that differ from our standard arrangements. Government contracts may require the maintenance of certain security clearances for facilities and employees which can entail administrative time and effort possibly resulting in additional costs and delays. In addition, government demand and payment for our products may be more volatile as they are affected by public sector budgetary cycles, funding authorizations, and the potential for funding reductions or delays, making the time to close such transactions more difficult to predict. This risk is enhanced as the size of such sales to the government entities increases. As the use of our products, including products recently acquired or developed, expands to more sensitive, secure or mission critical uses by our government customers, we may be subject to increased scrutiny, potential reputational risk, or potential liability should our products fail to perform as contemplated in such deployments or should we not comply with the terms of our government contracts or government contracting requirements.

Most of our sales to government entities have been made indirectly through providers that sell our products. Government entities may have contractual or other legal rights to terminate contracts with our providers for

convenience or due to a default, and any such termination may adversely impact our future results of operations. For example, if the provider receives a significant portion of its revenue from sales to such governmental entity, the financial health of the provider could be substantially harmed, which could negatively affect our future sales to such provider. Governments routinely audit and investigate government contractors, and we may be subject to such audits and investigations. If an audit or investigation uncovers improper or illegal activities, including any misuse of confidential or classified information by our employees, we may be subject to civil or criminal penalties and administrative sanctions, including termination of contracts, forfeiture of profits, suspension of payments, fines, and suspension or prohibition from doing business with such government entity. In addition, we could suffer serious reputational harm if allegations of impropriety were made against us or our employees or should our products not perform as contemplated in government deployments.

Table of Contents

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 that have not been deemed creditworthy when we receive payment for our products and when all other criteria for revenue recognition have been met, rather than at the time of sale. We have seen certain customers lengthen their payment cycles as a result of the continued difficult macroeconomic environment. As our business grows, if these customers and partners 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 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 that 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.

Our effective tax rate is difficult to project, and changes in such tax rate or adverse results of tax examinations could adversely affect our operating results.

We are a United States-based multinational company subject to tax in multiple U.S. and foreign tax jurisdictions. A significant portion of our foreign earnings for the current fiscal year have been earned by our Netherlands subsidiaries. Our results of operations would be adversely affected to the extent that our geographical mix of income becomes more weighted toward jurisdictions with higher tax rates and would be favorably affected to the extent the relative geographic mix shifts to lower tax jurisdictions. Any change in our mix of earnings is dependent upon many factors and is therefore difficult to predict.

The process of determining our anticipated tax liabilities involves many calculations and estimates that are inherently complex and make the ultimate tax obligation determination uncertain. As part of the process of preparing our consolidated financial statements, we are required to estimate our income taxes in each of the jurisdictions in which we operate prior to the completion and filing of tax returns for such periods. This process requires estimating both our geographic mix of income and our current tax exposures in each jurisdiction where we operate. These estimates involve complex issues, require extended periods of time to resolve, and require us to make judgments, such as anticipating the outcomes of audits with tax authorities and the positions that we will take on tax returns prior to our actually preparing the returns. We also determine the need to record deferred tax liabilities and the recoverability of deferred tax assets. A valuation allowance is established to the extent recovery of deferred tax assets is not likely based on our estimation of future taxable income and other factors in each jurisdiction.

Furthermore, our overall effective income tax rate and tax expenses may be affected by various factors in our business, including acquisitions, changes in our legal structure, changes in the geographic mix of income and expenses, changes in valuation allowances, changes in tax laws and applicable accounting pronouncements and variations in the estimated and actual level of annual profits before income tax. Further, the geographic mix of income and expense is impacted by the fluctuation in exchange rates between the U.S. dollar and the functional currencies of our subsidiaries.

We are under examination by various state and foreign taxing authorities covering the past several years. We may receive additional assessments from domestic and foreign tax authorities that might exceed amounts reserved by us. In the event we are unsuccessful in reducing the amount of such assessment, our business, financial condition, or results of operations could be adversely affected. Specifically, if additional taxes and/or penalties are assessed as a result of these audits, there could be a material effect on our income tax provision, operating expenses, and net income in the period or periods for which that determination is made.

Although we believe we currently have adequate internal control over financial reporting, we are required to assess our internal control over financial reporting on an annual basis, and any future adverse results from such assessment 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 ("SOX 404"), and the rules and regulations promulgated by the SEC to implement SOX 404, we are required to furnish a report in our Form 10-K regarding the effectiveness of our internal control over financial reporting. The report's assessment of our internal control over financial reporting as of the end of our fiscal year must include disclosure of any material weaknesses in our internal control over financial reporting identified by management. Management's assessment of internal control over financial reporting requires management to make subjective judgments and some of our judgments will be in areas that may be open to interpretation.



Table of Contents

Although we currently believe our internal control over financial reporting is effective, the effectiveness of our internal controls in future periods is subject to the risk that our controls may become inadequate or may not operate effectively. If we are unable to assert that our internal control over financial reporting is effective in any future period (or if our auditors are unable to provide an attestation report regarding the effectiveness of our internal controls, or qualify such report or fail to provide such report in a timely manner), we could lose investor confidence in the accuracy and completeness of our financial reports, which would have an adverse effect on our stock price.

During the past few years, our organizational structure has increased in complexity due to compliance with tax regulations and tax accounting requirements, acquisitions, and other regulatory and compliance requirements, including compliance with anti-corruption and anti-bribery laws such as the U.S. Foreign Corrupt Practices Act (the "FCPA") and the recently effective UK Bribery Act of 2010 (the "UK Bribery Act"). Further, we have expanded our presence in the Asia-Pacific region, where business practices can differ from those in other regions of the world and can create internal control risks. To address potential risks, we recognize revenue on transactions derived in this region (except for direct sales in Japan and Australia) only when the cash has been received and all other revenue recognition criteria have been met. We also have provided business practices training to our sales teams. Overall, the combination of increased structural complexity and the ever-increasing regulatory complexity make it more critical for us to attract and retain qualified and technically competent finance employees.

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, including our international growth into new geographies, particularly the Asia-Pacific and Latin American markets, and realign resources from time to time to more efficiently address market or product requirements. To the extent any realignment requires changes to our internal systems, processes, and controls or organizational structure, we could experience disruption in customer relationships, increases in cost, and increased employee turnover.

Furthermore, as we expand our geographic presence and capabilities, we may also need to implement additional or enhance our existing systems, processes and controls to ensure compliance with U.S. and international laws, including anti-corruption and anti-bribery laws such as the FCPA and the UK Bribery Act, which is broader in scope than the FCPA. We are continually investing resources to upgrade and improve our internal systems, processes and controls in order to meet the growing requirements of our business. For example, we are currently upgrading our human resources information systems. For our systems, processes and controls, we use both on-premise and cloud resources, and any security or other flaws in such resources could have a negative impact on such systems, processes, or controls. In addition, we may not be able to successfully implement upgrades and improvements to our 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. The support services available for such third-party technology may be negatively affected by mergers and consolidation in the software industry, and support services for such technology may not be available to us in the future. We may experience difficulties in managing upgrades and 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.

Changes in existing financial accounting standards or practices may adversely affect our results of operations.

Changes in existing accounting rules or practices, including the possible conversion to unified international accounting standards, new accounting pronouncements, or varying interpretations of current accounting pronouncements could have a significant adverse effect on our results of operations or the manner in which we conduct our business. For example, the adoption of Financial Accounting Standards Board's ("FASB") Accounting Standards Codification ("ASC") 718, Stock Compensation, has had a significant adverse impact on our consolidated results of operations as it has increased our operating expenses and the number of diluted shares outstanding and reduced our operating income and diluted earnings per share. Further, we may not be able to accurately forecast the effect of stock-based compensation on our operating income, net income, and earnings per share because the underlying assumptions, including volatility, interest rate, and expected life, of the Black-Scholes-Merton option pricing model could vary over time. In addition, the FASB is currently working together with the International

Accounting Standards Board ("IASB") to converge certain accounting principles and facilitate more comparable financial reporting between companies who are required to follow generally accepted accounting principles ("GAAP") and those who are required to follow International Financial Reporting Standards ("IFRS"). These projects may result in different accounting principles under GAAP, which may have a material impact on the way in which we report financial results in areas including, but not limited to, principles for recognizing revenue, lease accounting, and financial statement presentation. The SEC has also stated that it expects to make a determination in 2011 as to whether, when, and how IFRS should be incorporated into the financial reporting system for U.S. companies. A change in accounting principles from GAAP to IFRS may have a material impact on our financial statements. A change in existing financial accounting standards or practices may even retroactively adversely affect previously reported transactions.

## Table of Contents

The price of our common stock fluctuates as a result of factors other than our operating results, such as volatility in the capital markets and 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:

- volatility in the capital markets;
- 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.

After periods of volatility in the market price of a particular company's securities, securities class action litigation has often been brought against that particular company. For example, Informatica and certain of our former officers 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.

We have substantial real estate lease commitments, some of which are currently subleased to third parties, and if subleases for this space are terminated or cancelled, our operating results and financial condition could be adversely affected.

We have substantial real estate lease commitments in the United States and internationally. Our business has grown in recent years through internal expansion and through acquisitions, and we expect such growth to continue. As a result, we may need to enter into additional lease commitments, expand existing facilities, or purchase new facilities or undeveloped real estate, which may adversely affect our cash flows and results of operations. We currently do not occupy some of our lease commitments, and the most significant portion of our unoccupied leases are located in Silicon Valley. We have substantially subleased these unoccupied properties to third parties. The terms of most of these sublease agreements comprise a majority of the remaining lease terms through 2013. In addition, the recent economic downturn has negatively impacted commercial lease rates and terms in the Silicon Valley area and has made it more difficult to enter into agreements with existing subtenants on sublease renewals or prospective subtenants with sublease rates or terms comparable to those contracted for in the past. To the extent that our subtenants do not renew their subleases at the end of the initial term and we are unable to enter into new subleases with other parties at comparable rates, or our subtenants are unable to pay the sublease rent amounts in a timely manner, our cash flow would be negatively impacted and our operating results and financial condition could be adversely affected. See Note 9. Facilities Restructuring Charges of Notes to Condensed Consolidated Financial Statements in Part I, Item 1 of this Report.

Our credit agreement contains certain restrictions that may limit our ability to operate our business.

In September 2010, we entered into a credit agreement for an unsecured revolving credit facility in an amount of up to \$220.0 million, with an option for us to request to increase the revolving loan commitments by an aggregate amount of up to \$30.0 million with new or additional commitments, for a total credit facility of up to \$250.0 million. No amounts were outstanding under the credit agreement as of September 30, 2011. The credit agreement contains affirmative and negative covenants, including covenants that may limit or restrict our ability to, among other things, incur indebtedness, grant liens, merge or consolidate, dispose of assets, make investments, make acquisitions, enter into hedging agreements, enter into certain transactions with affiliates, pay dividends or make distributions, repurchase stock, enter into restrictive agreements and enter into sale and leaseback transactions, in each case subject to certain exceptions. We are also required to maintain compliance with a consolidated leverage ratio and a consolidated interest coverage ratio. Our ability to comply with these covenants is dependent on our future performance, which will be subject to many factors, some of which are beyond our control, including prevailing economic conditions. The breach of any of these covenants for any reason could result in an event of default under our credit facility. If such a default occurs, all of our outstanding debt thereunder, if any, could become immediately due

and payable, which could result in a default under any other outstanding debt that we may have incurred and could lead to an acceleration of the obligations related to such other outstanding debt. The existence of such a default could preclude us from borrowing funds under our credit facility. Any such default under our credit facility, if not cured or waived, could have a material adverse effect on us. If our cash is utilized to repay any outstanding debt, depending on the amount of debt outstanding, we could experience an immediate and significant reduction in working capital available to operate our business. Even if we are able to comply with all of the applicable covenants under our credit facility, the restrictions on our ability to operate our business could adversely affect our business by, among other things, limiting our ability to take advantage of financings, mergers, acquisitions, investments and other corporate opportunities that may be beneficial to the business.

Table of Contents

Business interruptions could adversely affect our business.

Our operations are vulnerable to interruption by fire, earthquake, power loss, telecommunications or network failure, and other events beyond our control. We have prepared a detailed disaster recovery plan which includes the use of internal and external resources and will continue to expand the scope over time. Disasters or disruptions, such as the March 2011 earthquake and tsunami off the coast of Japan and the December 2006 earthquake off the coast of Taiwan, can negatively affect our operations given necessary interaction among our international facilities. For example, the December 2006 Taiwan earthquake resulted in a major fiber outage, which affected network connectivity in some of our facilities in Asia. In the event such an earthquake or any other natural disaster or man-made failure occurs, it could disrupt the operations of our affected facilities and recovery of our resources. 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.

Delaware law and our certificate of incorporation and bylaws contain 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. For example, 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 elect 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 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.

Table of Contents

## ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

## Repurchases of Equity Securities

The following table provides information about the repurchase of our common stock for the quarter ended September 30, 2011.

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	Approximate Dollar Value of Shares That May Yet Be Purchased Under the Plans or Programs (in thousands)
July 1 — July 31				
From employees (1)	—	—	—	—
Repurchase program (2)	40,000	\$51.33	40,000	\$54,852
August 1 — August 31				
From employees (1)	8,711	\$51.06	—	—
Repurchase program (2)	970,000	\$46.06	970,000	\$10,177
September 1 — September 30				
From employees (1)	—	—	—	—
Repurchase program (2)	100,000	\$37.45	100,000	\$6,431
Total	1,118,711	\$45.52	1,110,000	

(1) The repurchases from employees represent shares canceled in settlement of employee tax withholding obligations due upon the vesting of restricted stock units.

(2) Informatica repurchased shares in the third quarter of fiscal 2011 under its ongoing stock repurchase program. This program does not have a specific expiration date and authorizes repurchases in the open market and in private transactions. In January 2011, our Board authorized an additional \$50 million increase to the program. All stock repurchased pursuant to the repurchase program in the quarter ended September 30, 2011 were purchased in open market transactions. As of September 30, 2011, Informatica had remaining authorization of \$6.4 million for future share repurchases. There is no expiration for Informatica's stock repurchase program. In October 2011, the Board authorized an additional \$75 million increase to the program. For further information about our stock repurchase program, see the subsection "Convertible Senior Notes" in Note 4. Borrowings and Note 7. Stock Repurchase Program of Notes to Condensed Consolidated Financial Statements in Part I, Item 1 of this Report.

ITEMS 3, 4 and 5 are not applicable and have been omitted.

Table of Contents

ITEM 6. EXHIBITS

Exhibit Number	Document
10.1	Form of 2009 Equity Incentive Plan RSU Award Agreement and Notice of RSU Award for Executive Officers.
31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a)/15d-15(a).
31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a)/15d-15(a).
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.
101.INS **	XBRL Instance.
101.SCH**	XBRL Taxonomy Extension Schema.
101.CAL**	XBRL Taxonomy Extension Calculation Linkbase.
101.LAB**	XBRL Taxonomy Extension Label Linkbase.
101.PRE **	XBRL Taxonomy Extension Presentation Linkbase.
101.DEF **	XBRL Taxonomy Extension Definition Linkbase.

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\* Furnished, not filed.

XBRL (Extensible Business Reporting Language) information is furnished and not filed or a part of a registration statement or prospectus for purposes of sections 11 or 12 of the Securities Act of 1933, is deemed not filed for purposes of section 18 of the Securities Exchange Act of 1934, and is otherwise not subject to liability under these sections.

Table of Contents

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

November 7, 2011

INFORMATICA CORPORATION

/s/ EARL FRY

Earl Fry

Chief Financial Officer, Chief  
Administration Officer and EVP, Global  
Customer Support (Duly Authorized Officer  
and Principal Financial and Accounting  
Officer)



Table of Contents

INFORMATICA CORPORATION  
 EXHIBITS TO FORM 10-Q QUARTERLY REPORT  
 For the Quarter Ended September 30, 2011

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