

INFORMATICA CORP  
Form 10-Q  
November 07, 2012  
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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, 2012

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 Securities Exchange Act of 1934 (the "Exchange Act") during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. 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, 2012, there were approximately 107,907,000 shares of the registrant's Common Stock outstanding.

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## PART I: FINANCIAL INFORMATION

## ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## INFORMATICA CORPORATION

## CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except par value)

	September 30, 2012 (Unaudited)	December 31, 2011
Assets		
Current assets:		
Cash and cash equivalents	\$237,391	\$316,835
Short-term investments	346,891	285,579
Accounts receivable, net of allowances of \$4,551 and \$4,001, respectively	122,128	176,066
Deferred tax assets	20,542	21,591
Prepaid expenses and other current assets	28,657	23,206
Total current assets	755,609	823,277
Property and equipment, net	144,805	16,025
Goodwill	447,240	432,269
Other intangible assets, net	47,792	64,789
Long-term deferred tax assets	24,421	23,037
Other assets	5,373	21,351
Total assets	\$1,425,240	\$1,380,748
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$7,671	\$9,459
Accrued liabilities	56,063	58,947
Accrued compensation and related expenses	38,258	58,042
Income taxes payable	—	1,178
Accrued facilities restructuring charges	—	17,751
Deferred revenues	217,793	208,039
Total current liabilities	319,785	353,416
Accrued facilities restructuring charges, less current portion	—	5,543
Long-term deferred revenues	9,157	6,573
Long-term income taxes payable	19,596	16,709
Other liabilities	3,118	6,304
Total liabilities	351,656	388,545
Commitments and contingencies (Note 13)		
Stockholders' equity:		
Common stock, \$0.001 par value; 200,000 shares authorized; 107,901 shares and 106,946		
shares issued and outstanding at September 30, 2012 and December 31, 2011, respectively	108	107
Additional paid-in capital	769,111	751,350
Accumulated other comprehensive loss	(11,299	) (12,802
Retained earnings	315,664	253,548
Total stockholders' equity	1,073,584	992,203
Total liabilities and stockholders' equity	\$1,425,240	\$1,380,748
See accompanying notes to condensed consolidated financial statements.		



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CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(In thousands, except per share data)

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Revenues:				
License	\$65,891	\$83,736	\$216,935	\$241,580
Service	124,427	112,151	359,895	315,066
Total revenues	190,318	195,887	576,830	556,646
Cost of revenues:				
License	925	1,011	3,210	3,669
Service	30,655	30,432	92,764	87,111
Amortization of acquired technology	5,172	5,156	16,164	14,334
Total cost of revenues	36,752	36,599	112,138	105,114
Gross profit	153,566	159,288	464,692	451,532
Operating expenses:				
Research and development	35,998	34,577	105,561	98,093
Sales and marketing	73,239	70,437	213,615	200,962
General and administrative	15,692	14,516	46,369	40,507
Amortization of intangible assets	1,462	1,886	4,690	5,959
Facilities restructuring and facility lease termination costs (benefit), net	—	(282	) 710	704
Acquisitions and other charges (benefit)	2,036	917	2,389	(5
Total operating expenses	128,427	122,051	373,334	346,220
Income from operations	25,139	37,237	91,358	105,312
Interest income	987	1,185	3,342	3,374
Interest expense	(126	) (105	) (379	) (2,006
Other income (expense), net	(533	) 685	(1,257	) (795
Income before income taxes	25,467	39,002	93,064	105,885
Income tax provision	9,966	12,012	30,948	30,776
Net income	\$15,501	\$26,990	\$62,116	\$75,109
Basic net income per common share	\$0.14	\$0.25	\$0.58	\$0.73
Diluted net income per common share	\$0.14	\$0.24	\$0.55	\$0.67
Shares used in computing basic net income per common share	108,091	106,274	107,957	103,080
Shares used in computing diluted net income per common share	111,776	112,406	112,518	112,655

See accompanying notes to condensed consolidated financial statements.

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CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In thousands)

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Net income	\$ 15,501	\$ 26,990	\$ 62,116	\$ 75,109
Other comprehensive income:				
Change in foreign currency translation adjustment, net of tax benefit (expense) of \$(50), \$233, \$23 and \$(7)	3,378	(9,805)	(1)	(961)
Available-for-sale investments:				
Change in net unrealized gain (loss), net of tax benefit (expense) of \$(117), \$269, \$(322) and \$201	191	(439)	526	(327)
Less: reclassification adjustment for net (gain) loss included in net income, net of tax benefit (expense) of \$1, \$(4), \$ - and \$(18)	2	(6)	—	(30)
Net change, net of tax benefit (expense) of \$(118), \$273, \$(322) and \$219	193	(445)	526	(357)
Cash flow hedges:				
Change in unrealized gain (loss), net of tax benefit (expense) of \$(135), \$(4), \$24 and \$666	218	11	(41)	(1,084)
Less: reclassification adjustment for loss included in net income, net of tax benefit of \$328, \$249, \$624 and \$612	536	405	1,019	998
Net change, net of tax benefit (expense) of \$(463), \$(253), \$(600) and \$54	754	416	978	(86)
Total other comprehensive income, net of tax effect	4,325	(9,834)	1,503	(1,404)
Total comprehensive income, net of tax effect	\$ 19,826	\$ 17,156	\$ 63,619	\$ 73,705
See accompanying notes to condensed consolidated financial statements.				

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CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	Nine Months Ended September 30,	
	2012	2011
Operating activities:		
Net income	\$62,116	\$75,109
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	8,709	4,303
Share-based compensation	31,583	24,300
Deferred income taxes	(1,830)	) 633
Tax benefits from share-based compensation	12,577	20,088
Excess tax benefits from share-based compensation	(12,470)	) (19,795)
Amortization of intangible assets and acquired technology	20,854	20,293
Other operating activities, net	939	(1,704)
Changes in operating assets and liabilities:		
Accounts receivable	54,083	18,422
Prepaid expenses and other assets	12,626	(10,615)
Accounts payable and accrued liabilities	(35,056)	) (14,104)
Income taxes payable	(1,894)	) 3,793
Accrued facilities restructuring charges	(23,977)	) (10,723)
Deferred revenues	12,152	20,247
Net cash provided by operating activities	140,412	130,247
Investing activities:		
Purchases of property and equipment	(137,599)	) (8,502)
Purchases of investments	(204,515)	) (304,871)
Investment in equity interest, net	(257)	) 542
Maturities of investments	47,051	102,524
Sales of investments	98,558	158,647
Business acquisitions, net of cash acquired	(8,438)	) (27,969)
Net cash used in investing activities	(205,200)	) (79,629)
Financing activities:		
Net proceeds from issuance of common stock	38,555	45,457
Repurchases and retirement of common stock	(58,709)	) (70,115)
Withholding taxes related to restricted stock units net share settlement	(6,243)	) (5,701)
Excess tax benefits from share-based compensation	12,470	19,795
Net cash used in financing activities	(13,927)	) (10,564)
Effect of foreign exchange rate changes on cash and cash equivalents	(729)	) (239)
Net increase (decrease) in cash and cash equivalents	(79,444)	) 39,815
Cash and cash equivalents at beginning of period	316,835	208,899
Cash and cash equivalents at end of period	\$237,391	\$248,714
See accompanying notes to condensed consolidated financial statements.		

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INFORMATICA CORPORATION  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying condensed consolidated financial statements of Informatica Corporation (“Informatica,” or the “Company”) have been prepared in conformity with generally accepted accounting principles (“GAAP”) in the United States of America. However, certain information and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been condensed, or omitted, pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”). In the opinion of management, the financial statements include all normal and recurring adjustments that are necessary to fairly present the results of the interim periods presented. All of the amounts included in this Quarterly Report on Form 10-Q related to the condensed consolidated financial statements and notes thereto as of and for the three and nine months ended September 30, 2012 and 2011 are unaudited. The interim results presented are not necessarily indicative of results for any subsequent interim period, the year ending December 31, 2012, 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, 2011 included in the Company's Annual Report on Form 10-K filed with the SEC. The consolidated balance sheet as of December 31, 2011 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, 2011.

As discussed below, on January 1, 2012, the Company adopted 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, which clarifies the application of certain existing fair value measurement guidance and expands the disclosure for fair value measurements that are estimated using significant unobservable (Level 3) inputs.

The Company also adopted Accounting Standards Update No. 2011-05 Comprehensive Income (Topic 220): Presentation of Comprehensive Income (“ASU 2011-05”). In June 2011, the FASB issued ASU 2011-05 which requires companies to present net income and other comprehensive income in one continuous statement or in two separate, but consecutive, statements. In addition, in December 2011, the FASB issued an amendment to an existing accounting standard which defers the requirement to present components of reclassifications of other comprehensive income on the face of the financial statements. The Company adopted both standards in the first quarter of 2012. There have been no other changes in our critical accounting policies since the end of fiscal year 2011.



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## INFORMATICA CORPORATION

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

## 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, 2012 (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)	\$28,143	\$28,143	\$—	\$—
Time deposits (ii)	30,964	30,964	—	—
Marketable debt securities (ii)	318,581	—	318,581	—
Total money market funds, time deposits, and marketable debt securities	377,688	59,107	318,581	—
Foreign currency derivatives (iii)	6	—	6	—
Total assets	\$377,694	\$59,107	\$318,587	\$—
Liabilities:				
Foreign currency derivatives (iv)	\$435	\$—	\$435	\$—
Acquisition-related contingent consideration (v)	13,928	—	—	13,928
Total liabilities	\$14,363	\$—	\$435	\$13,928

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

	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Money market funds (i)	\$147,635	\$147,635	\$—	\$—
Time deposits (ii)	38,683	38,683	—	—
Marketable debt securities (ii)	246,896	—	246,896	—
Total money market funds, time deposits, and marketable debt securities	433,214	186,318	246,896	—
Foreign currency derivatives (iii)	702	—	702	—
Total assets	\$433,916	\$186,318	\$247,598	\$—
Liabilities:				
Foreign currency derivatives (iv)	\$2,496	\$—	\$2,496	\$—
Acquisition-related contingent consideration (v)	12,872	—	—	12,872
Total liabilities	\$15,368	\$—	\$2,496	\$12,872

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

(ii) Included in 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.
- (v) Included in accrued and other liabilities on the condensed consolidated balance sheets.

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INFORMATICA CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Money Market Funds, Time Deposits, and Marketable Securities

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

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

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

To determine the fair value of its corporate notes and bonds, municipal securities, and U.S. government and agency notes and bonds, the Company uses a "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. Our fair value processes include controls that are designed to ensure that we record appropriate fair values for our Level 2 investments. These controls include comparison to pricing provided by another pricing service, validation of pricing sources and models, and independent recalculation of prices where appropriate.

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 include spot and forward rates, interest rates, and credit derivative market rates. 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. Credit default swap spread curves identified per counterparty at month end in Bloomberg are used to discount derivative assets for counterparty non-performance risk, all of which have terms of four months or less. The Company discounts derivative liabilities to reflect the Company's own potential non-performance risk to its counterparties and has used its credit spread over LIBOR on its most recent corporate borrowing rate.

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

There were no transfers between Level 1 and Level 2 categories during the three and nine months ended September 30, 2011 and 2012.

See Note 6. Accumulated Other Comprehensive Loss, Note 7. Derivative Financial Instruments, and Note 13.

Commitments and Contingencies of Notes to Condensed Consolidated Financial Statements for a further discussion.

Acquisition-related Contingent Consideration

We estimated the fair value of the acquisition-related contingent consideration using a probability-weighted discounted cash flow model. This fair value measure was based on significant inputs not observed in the market and

thus represented a Level 3 instrument. Level 3 instruments are valued based on unobservable inputs that are supported by little or no market activity and reflect our own assumptions in measuring fair value.

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## INFORMATICA CORPORATION

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

The changes in the acquisition-related contingent consideration liability for the nine months ended September 30, 2012 consisted of the following (in thousands):

	September 30, 2012
Beginning balance as of December 31, 2011	\$12,872
Additions from new acquisitions	4,973
Change in fair value of contingent consideration	523
Payment of contingent consideration	(4,440 )
Ending balance as of September 30, 2012	\$13,928

See Note 16. Acquisitions 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 and nine months ended September 30, 2012, and three months ended September 30, 2011 were negligible. Realized gain recognized for the nine months ended September 30, 2011 was approximately \$0.3 million. The cost of securities sold was determined based on the specific identification method.

The following table summarizes the Company's cash, cash equivalents, and short-term investments as of September 30, 2012 (in thousands):

	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Cash	\$206,594	\$—	\$—	\$206,594
Cash equivalents:				
Money market funds	28,143	—	—	28,143
Commercial paper	2,250	—	—	2,250
Corporate notes and bonds	404	—	—	404
Total cash equivalents	30,797	—	—	30,797
Total cash and cash equivalents	237,391	—	—	237,391
Short-term investments:				
Certificates of deposit	2,733	5	—	2,738
Commercial paper	6,288	—	—	6,288
Corporate notes and bonds	152,651	479	(19 )	153,111
Federal agency notes and bonds	103,311	145	(5 )	103,451
Time deposits	30,964	—	—	30,964
U.S. government notes and bonds	7,123	21	—	7,144
Municipal notes and bonds	43,174	30	(9 )	43,195
Total short-term investments	346,244	680	(33 )	346,891
Total cash, cash equivalents, and short-term investments <sup>(i)</sup>	\$583,635	\$680	\$(33 )	\$584,282

(i) Total estimated fair value above included \$377.7 million comprised of cash equivalents and short-term investments at September 30, 2012.



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## INFORMATICA CORPORATION

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

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

	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Cash	\$ 169,200	\$—	\$—	\$ 169,200
Cash equivalents:				
Money market funds	147,635	—	—	147,635
Total cash equivalents	147,635	—	—	147,635
Total cash and cash equivalents	316,835	—	—	316,835
Short-term investments:				
Certificates of deposit	2,755	—	—	2,755
Commercial paper	2,998	—	—	2,998
Corporate notes and bonds	122,803	209	(596)	) 122,416
Federal agency notes and bonds	103,932	149	(26)	) 104,055
Time deposits	38,683	—	—	38,683
U.S. government notes and bonds	2,892	21	—	2,913
Municipal notes and bonds	11,718	41	—	11,759
Total short-term investments	285,781	420	(622)	) 285,579
Total cash, cash equivalents, and short-term investments <sup>(i)</sup>	\$ 602,616	\$ 420	\$(622)	) \$ 602,414

(i) Total estimated fair value above included \$433.2 million comprised of cash equivalents and short-term investments at December 31, 2011.

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 the Company's short-term investments, aggregated by investment category that have been in a continuous unrealized loss position for less than twelve months, at September 30, 2012 (in thousands):

	Less Than 12 months	
	Fair Value	Gross Unrealized Losses
Corporate notes and bonds	\$ 15,054	\$(19)
Federal agency notes and bonds	16,542	(5)
Municipal notes and bonds	16,159	(9)
Total	\$ 47,755	\$(33)

As of September 30, 2012, 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.

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## 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, 2012 (in thousands):

	Cost	Fair Value
Due within one year	\$221,317	\$221,599
Due in one year to two years	96,617	96,904
Due after two years	28,310	28,388
Total	\$346,244	\$346,891

## Note 3. Property and Equipment

The following table summarizes the cost of property and equipment and related accumulated depreciation at September 30, 2012 and December 31, 2011 (in thousands):

	Estimated Useful Lives	September 30, 2012	December 31, 2011
Land	N/A	\$20,637	\$—
Buildings	25 years	105,727	—
Site improvements	15 years	1,162	—
Total land and buildings		127,526	—
Computer and equipment	1-5 years	53,933	51,907
Furniture and fixtures	3-5 years	6,634	5,391
Leasehold improvements	1-9 years	24,139	22,039
Capital work-in-progress		—	471
Total property and equipment		212,232	79,808
Less: Accumulated depreciation and amortization		(67,427)	(63,783)
Total property and equipment, net		\$144,805	\$16,025

On February 15, 2012, the Company purchased the property associated with its former corporate headquarters at 2000 and 2100 Seaport Boulevard in Redwood City, California. The property consists of two office buildings totaling an aggregate of 290,305 square feet and the associated 11.6 acres of land. The transaction has been accounted for as a purchase of an asset that was previously subject to an operating lease during the lease term in accordance with ASC 840 Leases. The purchase of the property totaled approximately \$148.6 million in cash, which reflects a purchase price of \$153.2 million less a rent credit of \$4.6 million. The Company recorded a charge of approximately \$21.2 million representing the cost to terminate the operating lease in the Condensed Consolidated Statement of Income during the three months ended March 31, 2012 and nine months ended September 30, 2012. The net purchase price of the land and buildings was \$127.5 million, which represents the fair value at date of purchase. The net purchase price was allocated as \$105.7 million to buildings, \$20.6 million to land, and \$1.2 million to site improvements. The building and site improvements are depreciated on a straight-line basis over the estimated useful life of 25 years and 15 years, respectively. See Note 10. Facilities Restructuring Charges of Notes to Condensed Consolidated Financial Statements for a further discussion.

Capital work-in-progress consisted of capitalized costs related to software acquired, developed or modified solely to meet the Company's internal requirements, pursuant to ASC 350-40 Internal-Use Software. For the nine months ended September 30, 2012, the Company capitalized a total of \$2.4 million in costs associated with internal use software, and \$2.8 million was placed in service in August 2012, resulting in a reclassification from work in progress to computer and equipment and began amortization.



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## INFORMATICA CORPORATION

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

## Note 4. Intangible Assets and Goodwill

The carrying amounts of the intangible assets other than goodwill as of September 30, 2012 and December 31, 2011 are as follows (in thousands, except years):

	Intangible Assets, Gross		Accumulated Amortization			Intangible Assets, Net		Weighted Average Useful Life (Years)	
	December 31, 2011	Additions and Adjustments	September 30, 2012	December 31, 2011	Expense	September 30, 2012	December 31, 2011		September 2012
Developed and core technology	\$102,492	\$3,150	\$105,642	\$(54,742)	\$(16,164)	\$(70,906)	\$47,750	\$34,736	6
Other Intangible Assets:									
Customer relationships	34,385	1,128	35,513	(25,871)	(2,908)	(28,779)	8,514	6,734	6
All other <sup>(i)</sup>	16,844	60	16,904	(8,800)	(1,782)	(10,582)	8,044	6,322	5 - 11
Total other intangible assets	51,229	1,188	52,417	(34,671)	(4,690)	(39,361)	16,558	13,056	
Total intangible assets subject to amortization	153,721	4,338	158,059	(89,413)	(20,854)	(110,267)	64,308	47,792	
In-process research and development	481	(481)	—	—	—	—	481	—	N.A.
Total intangible assets, net	\$154,202	\$3,857	\$158,059	\$(89,413)	\$(20,854)	\$(110,267)	\$64,789	\$47,792	

(i) All other includes vendor relationships, trade names, covenants not to compete, and patents.

Total amortization expense related to intangible assets was \$6.6 million and \$7.0 million for the three months ended September 30, 2012 and 2011, respectively, and \$20.9 million and \$20.3 million for the nine months ended September 30, 2012 and 2011, 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.

As of September 30, 2012, 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 2012	\$5,442	\$1,856	\$7,298
2013	17,296	5,588	22,884
2014	7,063	2,779	9,842

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2015	2,931	865	3,796
2016	1,637	1,559	3,196
Thereafter	367	409	776
Total intangible assets subject to amortization	\$34,736	\$13,056	\$47,792

In the fourth quarter of 2011, in conjunction with our acquisition of certain assets of Sand Technology, the Company recorded in-process research and development (IPR&D) of \$0.5 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 during the second quarter of 2012 for the IPR&D from the Sand Technology acquisition, which was reclassified to developed technology and will be amortized over the expected useful life of the technology.

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## INFORMATICA CORPORATION

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

The changes in the carrying amount of goodwill for the nine months ended September 30, 2012 are as follows (in thousands):

	September 30, 2012
Beginning balance as of December 31, 2011	\$432,269
Goodwill from acquisitions	15,009
Subsequent goodwill adjustments	(38 )
Ending balance as of September 30, 2012	\$447,240

Subsequent goodwill adjustments of \$38,000 for the nine months ended September 30, 2012 consist primarily of foreign currency translation adjustments. The goodwill is partially deductible for tax purposes. See Note 16.

Acquisitions for a further discussion of goodwill from acquisitions.

## Note 5. 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.

## 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, 2012, 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.

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## INFORMATICA CORPORATION

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

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, 2012.

## Note 6. Accumulated Other Comprehensive Loss

Accumulated other comprehensive loss, net of taxes, as of September 30, 2012 and December 31, 2011 consisted of the following (in thousands):

	September 30, 2012	December 31, 2011	
Net unrealized gain (loss) on available-for-sale investments	\$401	\$(125	)
Cumulative translation adjustments	(11,376	)	(11,375 )
Derivative loss	(324	)	(1,302 )
Accumulated other comprehensive loss, net of taxes	\$(11,299	)	\$(12,802 )

The Company did not have any other-than-temporary gain or loss reflected in accumulated other comprehensive loss as of September 30, 2012 and December 31, 2011.

Informatica determines the basis of the cost of a security sold and the amount reclassified out of other comprehensive income into statement of income based on specific identification.

See Note 1. Summary of Significant Accounting Policies, Note 7. Derivative Financial Instruments, and Note 13.

Commitments and Contingencies of Notes to Condensed Consolidated Financial Statements for a further discussion.

## Note 7. 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 Indian rupee. 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 subsidiary in India. In December 2010, the Company entered into foreign exchange forward contracts with monthly expiration dates through January 2012. In October and December 2011, the Company entered into additional foreign exchange forward contracts with monthly expiration dates through January 2013.

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 2012 financial plan. As of September 30, 2012, the remaining open foreign exchange contracts, carried at fair value, are hedging Indian rupee expenses and have a maturity of four months or less. These foreign exchange contracts mature monthly as the foreign currency denominated expenses are paid and

any gain or loss is offset against operating expense. Once the hedged item is recognized, the cash flow hedge is de-designated and subsequent changes in value are recognized in other income (expense) to offset changes in the value of the resulting non-functional currency monetary liabilities.

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## INFORMATICA CORPORATION

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

The notional amount of these foreign exchange forward contracts was \$7.5 million and \$39.3 million as of September 30, 2012 and December 31, 2011, respectively.

**Balance Sheet Hedges**

Beginning 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 open at period end in US dollar equivalents were \$2.7 million to buy at September 30, 2012 and \$5.0 million to sell at December 31, 2011.

The following table reflects the fair value amounts for the foreign exchange contracts designated and not designated as hedging instruments at September 30, 2012 and December 31, 2011 (in thousands):

	September 30, 2012		December 31, 2011	
	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	\$2	\$333	\$—	\$2,480
Derivatives not designated as hedging instruments	4	102	702	16
Total fair value of derivative instruments	\$6	\$435	\$702	\$2,496

(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, 2012, a derivative loss of \$0.3 million was included in accumulated other comprehensive loss, net of applicable taxes. The Company expects to reflect this amount in its condensed consolidated statements of income during the next twelve months.

The Company evaluates prospectively as well as retrospectively the effectiveness of its hedge programs using statistical analysis. Prospective testing is performed at the inception of the hedge relationship and quarterly thereafter. Retrospective testing is performed on a quarterly basis. Informatica uses a change in 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 loss and condensed consolidated statements of income for the three and nine months ended September 30, 2012 and 2011 are as follows (in thousands):

	Three Months Ended September 30, 2012		Nine Months Ended September 30, 2011	
	2012	2011	2012	2011
Amount of gain (loss) recognized in other comprehensive income (effective portion)	\$353	\$15	\$(65)	\$(1,750)
Amount of loss reclassified from accumulated other comprehensive income to operating expenses (effective portion)	\$(864)	\$(654)	\$(1,643)	\$(1,610)
Amount of gain recognized in income on derivatives for the amount excluded from effectiveness testing located in operating expenses	\$213	\$20	\$1,018	\$483

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





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## INFORMATICA CORPORATION

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

The gain (loss) recognized in other income (expense), net for non-designated foreign currency forward contracts for the three and nine months ended September 30, 2012 and 2011 is as follows (in thousands):

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2012	2011	2012	2011
Gain (loss) recognized in interest and other income (expense), net	\$80	\$928	\$(663)	\$1,728

See Note 1. Summary of Significant Accounting Policies and Note 6. Accumulated Other Comprehensive Loss of Notes to Condensed Consolidated Financial Statements for a further discussion.

## Note 8. 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 partially offsetting 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. On July 3, 2012, the Company's Board of Directors approved the repurchase of up to an additional \$100.0 million of its outstanding common stock.

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, 2012 and 2011, the Company repurchased approximately 915,000 shares of its common stock at a cost of \$29.1 million and approximately 1,110,000 shares of its common stock at a cost of \$50.5 million, respectively. During the nine months ended September 30, 2012 and 2011, the Company repurchased approximately 1,603,000 shares of its common stock at a cost of \$58.7 million and approximately 1,475,000 shares of its common stock at a cost of \$70.1 million, respectively.

As of September 30, 2012, \$118.3 million remained available for share repurchases under this program.

## Note 9. Share-Based Compensation

The Company grants restricted stock units ("RSUs") and stock options under its 2009 Equity 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 share-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.

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

The fair value of the Company's share-based awards was estimated based on the following assumptions:

	Three Months Ended		Nine Months Ended		
	September 30,		September 30,		
	2012	2011	2012	2011	
Option grants:					
Expected volatility	47	% 38	% 39 - 47%	35 - 38%	
Weighted-average volatility	47	% 38	% 43	% 36	%
Expected dividends	—	—	—	—	
Expected term of options (in years)	3.3	3.8	3.3	3.8	
Risk-free interest rate	0.5	% 0.9	% 0.5	% 1.5	%
ESPP:*					
Expected volatility	53	% 38	% 43 - 53%	35 - 38%	
Weighted-average volatility	53	% 38	% 49	% 36	%
Expected dividends	—	—	—	—	
Expected term of ESPP (in years)	0.5	0.5	0.5	0.5	
Risk-free interest rate	0.1	% 0.2	% 0.1	% 0.2	%

\* ESPP purchases are made on the last day of January and July of each year.

The allocations of the share-based compensation, net of income tax benefit, for the three and nine months ended September 30, 2012 and 2011 are as follows (in thousands):

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2012	2011	2012	2011
Cost of service revenues	\$1,061	\$874	\$3,171	\$2,599
Research and development	3,861	2,825	10,824	7,878
Sales and marketing	3,599	2,616	10,078	7,503
General and administrative	2,435	2,318	7,510	6,320
Total share-based compensation	10,956	8,633	31,583	24,300
Tax benefit of share-based compensation	(2,815)	(2,219)	(8,066)	(6,169)
Total share-based compensation, net of tax benefit	\$8,141	\$6,414	\$23,517	\$18,131

#### Note 10. Facilities Restructuring Charges

In February 2000, the Company entered into lease agreements for two office buildings located at 2000 and 2100 Seaport Boulevard in Redwood City, California, which the Company occupied from August 2001 through December 2004 as its former corporate headquarters. These lease agreements had an original expiration date in July 2013. As a result of the 2004 Restructuring Plan, the Company relocated the corporate headquarters and subsequently entered into a series of sublease agreements with tenants to occupy a portion of the vacated space. These subleases expire in June and July 2013.

In February 2012, the Company purchased the property associated with its former corporate headquarters in Redwood City, California for approximately \$148.6 million in cash, which reflects a purchase price of \$153.2 million less a rent credit of \$4.6 million. As a result of the transaction, the Company no longer has any further commitments relating to the original lease agreements. The purchase of the buildings discharges the Company's future lease obligations that were previously accounted for under the 2001 and 2004 Restructuring Plans. The transaction has been accounted for as a purchase of an asset that was previously subject to an operating lease in accordance with ASC 840 Leases. The Company was the sole lessee of both of these buildings. During the first quarter of 2012 the Company reversed the existing accrued facilities restructuring liability of \$20.6 million and recorded a corresponding facilities restructuring

benefit on the Condensed Consolidated Statement of Income in accordance with ASC 420, Exit or Disposal Cost Obligations. The Company also recorded a charge of approximately \$21.2 million representing the cost to terminate the operating lease included in facility lease termination costs, net in the Condensed Consolidated Statements of Income. See Note 3. Property and Equipment of Notes to Condensed Consolidated Financial Statements for a further discussion.

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## INFORMATICA CORPORATION

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

## 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.

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.

## 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.

A summary of the activity of the accrued restructuring charges for the nine months ended September 30, 2012 is as follows (in thousands):

	Accrued Restructuring Charges at December 31, 2011	Restructuring Charges	Restructuring Adjustments	Net Cash Payment	Non-Cash Reclass	Reversal on Purchase of Land and Buildings	Accrued Restructuring Charges at September 30, 2012
2004 Restructuring Plan							
Excess lease facilities	\$20,810	\$97	\$28	\$(2,422)	\$(28)	\$(18,485)	\$—
2001 Restructuring Plan							
Excess lease facilities	2,484	—	—	(327)	—	(2,157)	—
Total restructuring plans	\$23,294	\$97	\$28	\$(2,749)	\$(28)	\$(20,642)	\$—

For the three months ended March 31, 2012, prior to the acquisition the Company recorded \$0.1 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 three months ended March 31, 2012 for facilities included in the 2004 and 2001 Restructuring Plans amounted to \$2.4 million and \$0.3 million, respectively. There were no further activities after the close of the first quarter of 2012.

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## INFORMATICA CORPORATION

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

## Note 11. Income Taxes

The Company's effective tax rates were 39% and 31% for the three months ended September 30, 2012 and 2011, respectively, and 33% and 29% for the nine months ended September 30, 2012 and 2011, respectively. The effective tax rate for the three and nine months ended September 30, 2012 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 the domestic manufacturing deduction pursuant to Section 199 of the Internal Revenue Code, and the benefit of foreign tax credits partially offset by compensation expense related to non-deductible share-based compensation, state income taxes, non-deductible acquisition related costs, and the accrual of reserves related to uncertain tax positions. During the three months ended September 30, 2012, the change in the geographic mix of earnings caused an increase in the Company's estimated annual effective tax rate, resulting in the Company recording a 39% tax rate for the third quarter to bring its year-to-date tax rate in line with the estimated annual effective tax rate for 2012. The Company's effective annual tax rate will continue to be very sensitive to the geographic mix of earnings. The effective tax rates for the three and nine months ended September 30, 2011 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 recognition of current year research and development credits, and the impact of the domestic manufacturing deduction pursuant to Section 199 of the Internal Revenue Code partially offset by compensation expense related to non-deductible share-based compensation, state income taxes, the revaluation of deferred taxes previously recorded in acquisition accounting, and the accrual of reserves related to uncertain tax positions. With the exception of our subsidiaries in the Israel and Canada, net undistributed earnings of our foreign subsidiaries are considered to be indefinitely reinvested, and accordingly, no provision for U.S. income taxes has been provided thereon.

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, 2012, 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, 2012, it was considered more likely than not that the Company's non-share-based payments related deferred tax assets would be realized with the exception of the deferred tax asset related to the California research and development credit generated in 2012. Even though this attribute has an indefinite life, it is unlikely that the Company will utilize any of this currently generated credit in the foreseeable future. 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 \$17.9 million and \$15.2 million as of September 30, 2012 and 2011, respectively. The Company has elected to include interest and penalties as a component of tax expense. Accrued interest and penalties as of September 30, 2012 and 2011 were approximately \$2.6 million and \$2.3 million, respectively. As of September 30, 2012, the gross uncertain tax position was approximately \$18.9 million.

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 federal, state, and foreign jurisdictions have anywhere from three to six 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, 2012.

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.

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## INFORMATICA CORPORATION

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

## Note 12. 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, 2012 and 2011 (in thousands, except per share amounts):

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2012	2011	2012	2011
Net income	\$15,501	\$26,990	\$62,116	\$75,109
Effect of convertible senior notes, net of related tax effects	—	—	—	811
Net income adjusted	\$15,501	\$26,990	\$62,116	\$75,920
Weighted-average shares of common stock used to compute basic net income per share (excluding unvested restricted stock)	108,091	106,274	107,957	103,080
Effect of dilutive common stock equivalents:				
Dilutive effect of unvested restricted stock units	273	458	384	545
Dilutive effect of employee stock options	3,412	5,674	4,178	6,283
Dilutive effect of convertible senior notes	—	—	—	2,747
Shares used in computing diluted net income per common share	111,776	112,406	112,518	112,655
Basic net income per common share	\$0.14	\$0.25	\$0.58	\$0.73
Diluted net income per common share	\$0.14	\$0.24	\$0.55	\$0.67
Weighted average stock options and restricted stock units excluded from calculation due to anti-dilutive effect	4,790	1,730	3,412	1,213

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. As such, the Company had an add-back of \$0.8 million for the nine months ended September 30, 2011, in interest and issuance cost amortization, net of income taxes, to net income for the diluted net income per share calculation. The Notes were redeemed on March 18, 2011; therefore, there was no dilutive effect of the notes for the three and nine months ended September 30, 2012 and three months ended September 30, 2011. See Note 5. Borrowings - Convertible Senior Notes of Notes to Condensed Consolidated Financial Statements for a further discussion.

## Note 13. 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 for two buildings at 100 and 200 Cardinal Way. 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 three years to December 31, 2013. The future minimum contractual lease payments are \$0.9 million for the remainder of 2012 and \$3.6 million for the year ending December 31, 2013.

In February 2000, the Company entered into lease agreements for two office buildings located at 2000 and 2100 Seaport Boulevard in Redwood City, California, which the Company occupied from August 2001 through December 2004 as its former corporate headquarters. These lease agreements expire in July 2013. As a result of the 2004 Restructuring Plan, the Company relocated the corporate headquarters and subsequently entered into a series of sublease agreements with tenants to occupy a majority of the vacated space. These subleases expire in June and July



2013.

In February 2012, the Company purchased the property associated with its former corporate headquarters in Redwood City, California for approximately \$148.6 million in cash, which reflects a purchase price of \$153.2 million less a rent credit of \$4.6 million. As a result of the transaction, the Company no longer has any further commitments relating to the original lease agreements. The Company expects to receive payments from the tenants of approximately \$4.9 million as the owner of the buildings, which include rental income of \$2.1 million and reimbursement of certain property costs such as common area maintenance, insurance,

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## INFORMATICA CORPORATION

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

and property taxes, through the remainder of their respective lease terms of \$2.8 million. The estimates of lease income may vary significantly depending, in part, on factors that may be beyond the Company's control, such as the global economic downturn, time periods required to locate and contract suitable leases, and market rates at the time of leases. Currently, the Company has leased its former corporate headquarters through July 2013. Future adjustments to the expected lease income could result from any default by a lessor, which could impact the time period that the buildings will be vacant, expected lease rates, and expected lease terms.

The Company leases certain office facilities under various non-cancelable operating leases, which expire at various dates through 2021 and require the Company to pay operating costs, including property taxes, insurance, and maintenance.

Future minimum lease payments as of September 30, 2012 under non-cancelable operating leases with original terms in excess of one year are summarized as follows (in thousands):

	Operating Leases
Remaining 2012	\$3,207
2013	12,746
2014	7,904
2015	7,109
2016	4,060
Thereafter	5,817
Total future minimum operating lease payments	\$40,843

## 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, 2012 and December 31, 2011 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 claims against the Company are outstanding as of September 30, 2012. 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.

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## INFORMATICA CORPORATION

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

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 6. Accumulated Other Comprehensive Loss, and Note 7. Derivative Financial Instruments of Notes to Condensed Consolidated Financial Statements for a further discussion.

**Litigation**

The Company is 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 14. 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, 2012 and 2011. At September 30, 2012 and December 31, 2011, 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 29% and 32% of total revenues in the third quarter of 2012 and 2011, respectively, and 32% and 34% of total revenues for the nine months ended September 30, 2012 and 2011, respectively.

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

	Three Months Ended		Nine Months Ended	
	September 30, 2012	2011	September 30, 2012	2011
Revenues:				
North America	\$ 134,613	\$ 132,282	\$ 389,587	\$ 370,076
Europe	37,705	46,663	125,456	136,113
Other	18,000	16,942	61,787	50,457
Total revenues	\$ 190,318	\$ 195,887	\$ 576,830	\$ 556,646

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## INFORMATICA CORPORATION

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

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

	September 30, 2012	December 31, 2011
Long-lived assets, net (excluding assets not allocated):		
North America	\$ 179,895	\$ 69,867
Europe	4,884	3,224
Other	7,818	7,723
Total long-lived assets	\$ 192,597	\$ 80,814

## Note 15. Recent Accounting Pronouncements

In July 2012, the FASB issued Accounting Standards Update 2012-02 Testing Indefinite-Lived Intangible Assets, to simplify how entities test indefinite-lived intangible assets other than goodwill for impairment. These amended standards permit an assessment of qualitative factors to determine whether it is more likely than not that the fair value of an indefinite-lived intangible asset is less than its carrying value. For assets in which this assessment concludes it is more likely than not that the fair value is more than its carrying value, these amended standards eliminate the requirement to perform quantitative impairment testing as outlined in the previously issued standards. The new guidance is effective for annual and interim impairment tests performed for fiscal years beginning after December 15, 2012, with early adoption permitted. The Company does not expect its adoption of ASU 2012-02 to have an impact to the condensed 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 October 2012 and early adoption is permitted. The Company does not expect its adoption of ASU 2011-08 to have an impact to the condensed consolidated financial statements.

In December 2011, the Financial Accounting Standards Board issued Accounting Standard Update (ASU) No. 2011-11, Balance Sheet (Topic 210) - Disclosures about Offsetting Assets and Liabilities (ASU 2011-11), that requires an entity to disclose additional information about offsetting and related arrangements to enable users of the financial statements to understand the effect of those arrangements on the financial position. ASU 2011-11 will be effective for us in fiscal 2013 and any related disclosures required will be applied retrospectively. The adoption of ASU 2011-11 may impact future disclosures but will not impact the consolidated financial statements.

## Note 16. Acquisitions

## Data Scout Solutions Group Limited

On September 10, 2012, the Company acquired all of the outstanding securities of Data Scout Solutions Group Limited. ("Data Scout"), a privately-held company, for approximately \$6.0 million. Data Scout designs, markets, and supports a cloud based master data management application for salesforce.com customers. As a result of this acquisition, the Company also assumed certain liabilities and commitments. Approximately \$1.4 million of the consideration otherwise payable to former Data Scout shareholders was held as partial security for certain indemnification obligations, and will be held back for payment until March 2014.

Informatica is obligated to pay up to an additional \$3.5 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 \$2.7 million and \$3.5 million, respectively. The fair value measurement is based on significant inputs not observed in the market and thus represents a Level 3 measurement. Level 3 instruments are

valued based on unobservable inputs that are supported by little or no market activity and reflect our own assumptions in measuring fair value.

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## INFORMATICA CORPORATION

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

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 \$0.4 million (in thousands):

Goodwill	\$9,088	
Developed and core technology	690	
Customer relationships	700	
Assumed liabilities, net of assets	(2,173	)
Total purchase price allocation	8,305	
Acquiree's transaction related costs and debt settlement	354	
Total	\$8,659	

The acquiree's transaction related costs consist of legal, accounting, and consulting fees as of the date of this acquisition. The goodwill is partially deductible for tax purposes.

## TierData, Inc.

On September 10, 2012, the Company acquired all of the outstanding securities of TierData, Inc. ("TierData"), a privately-held company, for approximately \$6.0 million. TierData develops and markets software that improves database application performance. As a result of this acquisition, the Company also assumed certain liabilities and commitments. Approximately \$1.4 million of the consideration otherwise payable to former TierData stockholders was held as partial security for certain indemnification obligations, and will be held back for payment until March 2014.

Informatica is obligated to pay up to an additional \$2.5 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 \$2.2 million and \$2.5 million, respectively. The fair value measurement is based on significant inputs not observed in the market and thus represents a Level 3 measurement. Level 3 instruments are valued based on unobservable inputs that are supported by little or no market activity and reflect our own assumptions in measuring fair value.

The following table summarizes the fair value of assets acquired and liabilities assumed of \$6.7 million and the acquiree's transaction related costs and accrued liabilities of \$1.5 million (in thousands):

Goodwill	\$5,921	
Developed and core technology	2,010	
Customer relationships	420	
Non-compete agreements	60	
Assumed liabilities, net of assets	(1,684	)
Total purchase price allocation	6,727	
Acquiree's transaction related costs and accrued liabilities	1,516	
Total	\$8,243	

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.

## Sand Technology

On October 4, 2011, the Company acquired certain assets of Sand Technology Inc., ("Sand"), a publicly-held company, relating to Sand's Information Lifecycle Management for SAP product line for approximately \$6.0 million. Of the \$6.0 million consideration paid to Sand, \$0.8 million was placed into an escrow fund and held as partial security for indemnification obligations and \$1.0 million was held back and payable upon the achievement of certain customer-related conditions. The Company paid approximately \$0.8 million of the \$1.0 million hold back in December 2011 and paid the remaining \$0.2 million in the first quarter of 2012. The escrow fund will remain in place until October 4, 2013.

The Company was obligated to pay up to an additional \$2.0 million in 2012 for certain 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

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## INFORMATICA CORPORATION

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

probability analysis. At the time of acquisition, the fair market value and gross amount of these earn-out payments were approximately \$1.9 million and \$2.0 million, respectively. The fair value measurement is based on significant inputs not observed in the market and thus represents a Level 3 measurement. Level 3 instruments are valued based on unobservable inputs that are supported by little or no market activity and reflect our own assumptions in measuring fair value. The Company paid \$2.0 million in earn-out payments during the nine months ended September 30, 2012. The following table summarizes the fair value of assets acquired and liabilities assumed of \$7.9 million (in thousands):

Goodwill	\$5,144	
Developed and core technology	1,510	
Customer relationships	250	
Patents and applications	690	
In-process research and development	460	
Assumed liabilities, net of assets	(187	)
Total	\$7,867	

The assumed liabilities consisted of certain employee related compensation as of the date of the acquisition. The goodwill is partially deductible for tax purposes.

## 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, although a portion of the funds is expected be paid to former stockholders in the fourth quarter of 2012.

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 fair value measurement is based on significant inputs not observed in the market and thus represents a Level 3 measurement. Level 3 instruments are valued based on unobservable inputs that are supported by little or no market activity and reflect our own assumptions in measuring fair value. The Company paid \$0.4 million in earn-out payments during the nine months ended September 30, 2012.

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	
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.

## 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.

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## INFORMATICA CORPORATION

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

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 fair value measurement is based on significant inputs not observed in the market and thus represents a Level 3 measurement. Level 3 instruments are valued based on unobservable inputs that are supported by little or no market activity and reflect our own assumptions in measuring fair value. The Company paid \$2.0 million in earn-out payments during the nine months ended September 30, 2012.

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.

## Note 17. Subsequent Event

On October 1, 2012, Informatica Deutschland AG, an indirect wholly-owned subsidiary of the Company, announced its decision to make a voluntary public takeover offer (the "Offer") to acquire all the outstanding shares of Heiler Software AG for 7.04 Euro per share in cash, or approximately 80.8 million Euro for the total number of outstanding shares (excluding treasury shares). Heiler Software provides enterprise product information management, master data management and procurement solutions that enable retailers, distributors and manufacturers to manage product information across channels and data sources. Based on the exchange rate in effect on October 1, 2012, the total consideration to be offered is expected to be approximately \$103.8 million US dollars. On October 22, 2012, the Company published the offer document for the Offer. The initial acceptance period for the Offer commenced with the publication of the offer document and is expected to end on November 21, 2012. If the Offer is successful and the Company achieves a certain minimum ownership threshold, the Company will begin consolidating Heiler Software's financial results with its financial results in the fourth quarter of 2012 based on the Company's relative ownership percentage, excluding the non-controlling interest owned by Heiler Software's continuing stockholders.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This Quarterly Report on Form 10-Q includes "forward-looking statements" within the meaning of the federal securities laws, particularly statements referencing our expectations relating to the productivity of our sales force, license revenues, service revenues, international revenues, deferred revenues, cost of license revenues, cost of service revenues, operating expenses, amortization of acquired technology, share-based compensation, and provision for income taxes; the growth of our customer base and customer demand for our products and services; 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," or "continue," or the 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 license 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 an increasing amount of service 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. Revenues outside of Europe and North America have comprised less than 10% of total consolidated revenues during the past three years, except in the first half of 2012 when revenues outside of North America and Europe comprised approximately 10%.

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

In the third quarter of 2012, continued changes in our sales organization to address recent challenges in sales execution adversely affected our pipeline conversion rate, as well as our pipeline management capabilities and the reliability of our pipeline estimates, particularly in Europe. In addition, macroeconomic uncertainty in portions of North America and Europe and increased competition for the allocation of our customers' IT budget dollars contributed to a delay in customer purchasing decisions and stricter customer purchasing controls and approval processes. As a result, our total revenues in the third quarter of 2012 slightly decreased by 3% to \$190.3 million compared to \$195.9 million for the same period in 2011. License revenues decreased by 21% to \$65.9 million in the third quarter of 2012 compared to \$83.7 million for the same period in 2011. The decline in license revenues reflected a reduced number of license transactions in the quarter ended September 30, 2012 compared to the same period in 2011. Services revenues increased by 11% in the third quarter of 2012 from the same period in 2011 due to a 12% growth in maintenance revenues and a 7% 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 decreased to 13% in the third quarter of 2012 from 19% in the third quarter of 2011.

In the first nine months of 2012, we grew our total revenues by 4% to \$576.8 million from \$556.6 million in the comparable period a year ago, and license revenues decreased by 10% to \$216.9 million from \$241.6 million on a year-over-year basis. The decline in license revenues for the nine months ended September 30, 2012 compared to the prior year was primarily due to a decrease in the number of license transactions as a result of lower pipeline conversion rate in certain geographies and vertical sectors, partially offset by an increase in the average size of license transactions. Service revenues increased by 14% in the first

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nine months of 2012 compared to the same period in 2011 due to a 16% growth in maintenance revenues and a 9% 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 decreased to 16% in the nine-month period ended September 30, 2012 from 19% in the nine-month period ended September 30, 2011.

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, particularly Europe, continue to experience uncertainty driven by varying macroeconomic conditions. Although some of these economies have shown signs of improvement, macroeconomic recovery remains uncertain and 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 U.S. debt issues, income tax and budget concerns, and future 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. These conditions have also adversely affected the buying patterns of customers and our overall pipeline conversion rate, as well as our revenue growth expectations. Furthermore, we have made incremental investments in Asia-Pacific and Latin America, and have continued investing 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 pose challenges as competitors market a broader suite of software products or solutions and bundled pricing arrangements to our existing or prospective customers. Moreover, because of current macroeconomic uncertainty, there is increased competition for the allocation of customers' IT budget dollars.

**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. 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 license orders, and we generally have weaker demand for our software products and services in the first and third quarters of the year. Each quarter of 2011 and the first quarter of 2012 followed these seasonal trends. However, license revenues for the second and third quarters of 2012 were lower as compared to the first quarter of 2012 and the second and third quarters of 2011. The uncertain macroeconomic conditions and continued changes in our sales organization make our future results more difficult to predict based on historical seasonal trends.

We focus on a number of key initiatives to address these factors and other opportunities and challenges. These key initiatives include certain cost containment measures, the strengthening of our partnerships, the broadening of our distribution capability worldwide, the enablement of our sales force and distribution channel to sell both our existing products and technologies as well as new products and technologies, the alignment of our worldwide sales and field operations with company-wide initiatives and the implementation of a more rigorous sales process, 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 continue to grow our business at our historic growth rates.

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, MicroStrategy, 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

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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 traditional data warehousing products and more strategic data integration solutions beyond data warehousing, including enterprise data integration, data quality, master data management, B2B data exchange, application information lifecycle management, complex event processing, ultra messaging, and cloud data integration. We also operate the Informatica Marketplace, which allows buyers and sellers to share and leverage data integration solutions. To address the risks of introducing new products or enhancements to our existing 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 differentiators, 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” and other informational seminars and materials 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. We continue to implement changes in our worldwide sales and field operations to address recent sales execution challenges and improve performance, particularly with respect to our pipeline management capabilities, the reliability of our pipeline estimates and our pipeline conversion rates. In addition to the sales leadership transitions, we are also implementing more rigorous sales planning and processes. 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. As we continue to implement further changes, we may experience increased sales force turnover and additional disruption to our ongoing operations. These changes may also take longer to implement than expected, which may adversely affect our sales force productivity. 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.

In the third quarter of 2012, we extended our master data management offerings through our acquisition of Data Scout Solutions Group Limited. Data Scout designs, markets and supports a cloud based master data management application for salesforce.com customers. Also in the third quarter of 2012, we extended our application information lifecycle management offerings with our acquisition of TierData, Inc. TierData develops and markets software that improves database application performance.

For further discussion regarding these and related risks, see Risk Factors in Part II, Item 1A of this Report.

### Recent Developments

On October 1, 2012, we announced our decision to make a voluntary public takeover offer to acquire all the outstanding shares of Heiler Software AG, through an indirect wholly-owned subsidiary. Heiler Software provides enterprise product information management, master data management and procurement solutions that enable retailers, distributors and manufacturers to manage product information across channels and data sources. The consideration offered to all shareholders of Heiler Software is 7.04 Euro per share in cash, or approximately 80.8 million Euro for the total number of outstanding shares (excluding treasury shares). Based on the exchange rate in effect on October 1, 2012, the total consideration to be offered is approximately \$103.8 million US dollars. The acceptance period for the takeover offer commenced on October 22, 2012 and is expected to end on November 21, 2012. If the takeover offer is successful and we achieve a certain minimum ownership threshold, we will begin consolidating Heiler Software's financial results with our financial results in the fourth quarter of 2012 based on our relative ownership percentage, excluding the non-controlling interest owned by Heiler Software's continuing stockholders.

### 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, income taxes, impairment of goodwill and intangible assets, business combinations, share-based compensation, and allowance for doubtful accounts have the greatest potential impact on our

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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, 2011.

On January 1, 2012, we adopted an accounting pronouncement on fair value measurements that are estimated using significant unobservable (Level 3) inputs. As discussed below, on January 1, 2012, we also adopted an accounting pronouncement on the presentation of other comprehensive income. There have been no other changes in our critical accounting policies since the end of fiscal year 2011.

**Recent Accounting Pronouncements**

For recent accounting pronouncements, see Note 15. Recent Accounting Pronouncements of Notes to Condensed Consolidated Financial Statements in Part I, Item 1 of this Report.

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## Results of Operations

The following table presents certain financial data for the three and nine months ended September 30, 2012 and 2011 as a percentage of total revenues:

	Three Months Ended		Nine Months Ended		
	September 30,		September 30,		
	2012	2011	2012	2011	
Revenues:					
License	35	% 43	% 38	% 43	%
Service	65	57	62	57	
Total revenues	100	100	100	100	
Cost of revenues:					
License	—	1	1	1	
Service	16	16	16	16	
Amortization of acquired technology	3	2	2	2	
Total cost of revenues	19	19	19	19	
Gross profit	81	81	81	81	
Operating expenses:					
Research and development	19	18	18	18	
Sales and marketing	39	36	37	36	
General and administrative	8	7	8	7	
Amortization of intangible assets	1	1	1	1	
Facilities restructuring and facility lease termination costs (benefit), net	—	—	—	—	
Acquisitions and other charges (benefit)	1	—	1	—	
Total operating expenses	68	62	65	62	
Income from operations	13	19	16	19	
Interest income	—	1	—	—	
Interest expense	—	—	—	—	
Other income (expense), net	—	—	—	—	
Income before income taxes	13	20	16	19	
Income tax provision	5	6	5	6	
Net income	8	% 14	% 11	% 13	%

## Revenues

Our total revenues decreased to \$190.3 million for the three months ended September 30, 2012 compared to \$195.9 million for the three months ended September 30, 2011, representing a decline of \$5.6 million (or 3%), primarily as a result of a decrease in license revenues due to a reduced number of license transactions offset by increased maintenance revenues as a result of growth in our customer installed base. Our total revenues increased to \$576.8 million for the nine months ended September 30, 2012 compared to \$556.6 million for the nine months ended September 30, 2011, representing a growth of \$20.1 million (or 4%). The increase for the first nine months of 2012 was due to increased maintenance revenues driven by the growth in our customer installed base which is partially offset by a decrease in license revenues due to a lower volume of license transactions as a result of a decline in our pipeline conversion rate.

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The following table and discussion compare our revenues by type for the three and nine months ended September 30, 2012 and 2011 (in thousands, except percentages):

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2012	2011	Percentage Change	2012	2011	Percentage Change
License	\$65,891	\$83,736	(21)%	\$216,935	\$241,580	(10)%
Service revenues:						
Maintenance	91,872	81,666	12%	266,345	229,571	16%
Consulting, education, and other	32,555	30,485	7%	93,550	85,495	9%
Total service revenues	124,427	112,151	11%	359,895	315,066	14%
Total revenues	\$190,318	\$195,887	(3)%	\$576,830	\$556,646	4%

**License Revenues**

Our license revenues decreased to \$65.9 million (or 35% of total revenues) and \$216.9 million (or 38% of total revenues) for the three and nine months ended September 30, 2012, respectively, from \$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. The decreases in license revenues of \$17.8 million (or 21%) for the three months ended September 30, 2012 compared to the same period in 2011 and \$24.6 million (or 10%) for the nine months ended September 30, 2012 compared to the same period in 2011 were primarily due to a decrease in the number of license transactions as a result of a decline in our pipeline conversion rate, particularly in Europe, due to the factors discussed above in the "Overview" section. However, in both the three and nine month periods ended September 30, 2012, we experienced an increase in the average transaction size of license orders.

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 2012, including upgrades for which we charge customers an additional fee, increased to \$443,000 from \$413,000 in the third quarter of 2011. The average transaction amount for orders greater than \$100,000 in the nine-month period ended September 30, 2012, including upgrades for which we charge customers an additional fee, increased to \$448,000 from \$426,000 in the same period of 2011.

The number of transactions greater than \$1.0 million decreased to 13 in the third quarter of 2012 compared to 18 in the third quarter of 2011. The number of transactions greater than \$1.0 million was 39 in the nine-month period ended September 30, 2012 compared to 44 in the comparative period in 2011.

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

Maintenance revenues increased to \$91.9 million (or 48% of total revenues) for the three months ended September 30, 2012 compared to \$81.7 million (or 42% of total revenues) for the three months ended September 30, 2011.

Maintenance revenues increased to \$266.3 million (or 46% of total revenues) for the nine months ended September 30, 2012 compared to \$229.6 million (or 41% of total revenues) for the nine months ended September 30, 2011. The increase of \$10.2 million (or 12%) and \$36.8 million (or 16%) in maintenance revenues for the three and nine months ended September 30, 2012, respectively, compared to the same periods in 2011 was primarily due to the increasing size of our installed customer base.

For the remainder of 2012, we expect maintenance revenues to increase from the comparable 2011 levels due to our growing installed customer base.

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

Consulting, education, and other services revenues increased to \$32.6 million (or 17% of total revenues) for the three months ended September 30, 2012 compared to \$30.5 million (or 15% of total revenues) for the three months ended September 30, 2011. Consulting, education, and other services revenues increased to \$93.6 million (or 16% of total revenues) for the nine months ended September 30, 2012 compared to \$85.5 million (or 16% of total revenues) for the nine months ended September 30, 2011. The increases of \$2.1 million (or 7%) and \$8.1 million (or 9%) in consulting,

education, and other services revenues for the three and nine months ended September 30, 2012, respectively, compared to the same periods in 2011 was primarily due to an increase in subscription revenues.

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For the remainder of 2012, we expect our revenues from consulting and education, and other services revenues to increase from the comparable 2011 levels primarily due to an anticipated increase in demand for subscriptions offerings.

**International Revenues**

Our international revenues were \$55.7 million (or 29% of total revenues) and \$63.6 million (or 32% of total revenues) for the three months ended September 30, 2012 and 2011, respectively. Our international revenues were \$187.2 million (or 32% of total revenues) and \$186.6 million (or 34% of total revenues) for the nine months ended September 30, 2012 and 2011, respectively. The decrease of \$7.9 million (or 12%) in international revenues for the three months ended September 30, 2012 compared to the same period in 2011 was primarily due to a decline in license revenues in Europe, partially offset by an increase in maintenance revenues in Asia and an increase in consulting revenues in Asia and Latin America. The increase of \$0.7 million in international revenues for the nine months ended September 30, 2012 compared to the same period in 2011 was primarily due to increases in maintenance and consulting revenues, offset by a decrease in license revenue. The increase in maintenance revenues was due to increases in Europe, Latin America and Asia and the increase in consulting revenues was due to increases in Europe and Asia. The decrease in license revenue was primarily due to a decrease in Europe.

For the remainder of 2012, we expect our international revenues as a percentage of total revenues to be relatively consistent with the comparable 2011 levels, subject to the continued macroeconomic uncertainty in Europe.

**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, (3) subscription offerings that are recognized over the period of performance as services are provided, and (4) 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, 2012 were approximately \$251.5 million compared to \$222.4 million at September 30, 2011 and \$251.3 million at December 31, 2011. The change in the third quarter of 2012 from the comparable period of 2011 was primarily due to an increase in deferred maintenance revenues, deferred subscription license revenues, and license backlog, partially offset by a decrease in deferred perpetual license revenues. 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,		
	2012	2011	Percentage Change	2012	2011	Percentage Change
Cost of license revenues	\$925	\$1,011	(9)%	\$3,210	\$3,669	(13)%
Cost of service revenues	30,655	30,432	1%	92,764	87,111	6%
Amortization of acquired technology	5,172	5,156	—%	16,164	14,334	13%
Total cost of revenues	\$36,752	\$36,599	—%	\$112,138	\$105,114	7%
	1	% 1	% —	% 1	% 2	% (1)

Cost of license revenues, as a percentage of license revenues

Cost of service revenues, as a

percentage of service revenues      25      % 27      % (2      )% 26      % 28      % (2      )%

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## Cost of License Revenues

Our cost of license revenues consists primarily of software royalties, product packaging, documentation, and production costs. Cost of license revenues slightly decreased to \$0.9 million (or 1% of license revenues) for the three months ended September 30, 2012 compared to \$1.0 million (or 1% of license revenues) in the same period of 2011. Cost of license revenues decreased to \$3.2 million (or 1% of license revenues) for the nine months ended September 30, 2012 compared to \$3.7 million (or 2% of license revenues) in the same period of 2011. The decrease of \$0.5 million (or 13%) in cost of license revenues for the nine months ended September 30, 2012, compared to the same period in 2011, was primarily due to lower license orders for the nine months ended September 30, 2012.

For the remainder of 2012, we expect that our cost of license revenues as a percentage of license revenues to be relatively consistent with the first three quarters of 2012.

## 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 third party vendors for hosting services related to our subscription services and royalties paid to postal authorities.

Cost of service revenues was \$30.7 million (or 25% of service revenues) in the third quarter of 2012 compared to \$30.4 million (or 27% of service revenues) in the same period of 2011. The \$0.3 million (or 1%) increase in the third quarter of 2012 compared to the same period of 2011 was primarily due to a \$0.8 million increase in personnel related costs (including share-based compensation) and a \$0.4 million increase in general overhead costs, which were offset by a \$0.2 million decrease in reimbursable expenses and a \$0.7 million decrease in subcontractor fees.

Cost of service revenues was \$92.8 million (or 26% of service revenues) for the nine months ended September 30, 2012 compared to \$87.1 million (or 28% of service revenues) in the same period of 2011. The \$5.7 million (or 6%) increase for the nine months ended September 30, 2012 compared to the same period of 2011 was primarily due to a \$4.0 million increase in personnel related costs (including share-based compensation), a \$0.7 million increase in reimbursable expenses, and a \$1.4 million increase in general overhead costs, which were offset by a \$0.4 million decrease in subcontractor fees.

For the remainder of 2012, we expect that our cost of service revenues, in absolute dollars, to increase from the 2011 levels, mainly due to headcount increases to support and deliver increased service revenues. We expect the cost of service revenues as a percentage of service revenues for the remainder of 2012 to remain relatively consistent with the first three quarters of 2012.

## 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,			
	2012	2011	Percentage Change	2012	2011	Percentage Change	
Amortization of acquired technology	\$5,172	\$5,156	—	% \$16,164	\$14,334	13	%

Amortization of acquired technology is the amortization of technologies acquired through business acquisitions and technology licenses. Amortization of acquired technology remained flat at \$5.2 million for both of the three-month periods ended September 30, 2012 and 2011. Amortization of acquired technology increased to \$16.2 million for the nine months ended September 30, 2012 compared to \$14.3 million in the same period of 2011. The increase of \$1.9 million (or 13%) for the nine months ended September 30, 2012, compared to the same period of 2011 was primarily due to amortization of certain technologies from the acquisitions of WisdomForce, ActiveBase, and Sand Technology in 2011.



For the remainder of 2012, we expect the amortization of acquired technology to be approximately \$5.4 million before the effect of any potential future acquisitions subsequent to September 30, 2012.

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## 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,		
	2012	2011	Percentage Change	2012	2011	Percentage Change
Research and development	\$35,998	\$34,577	4 %	\$105,561	\$98,093	8 %

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 \$36.0 million (or 19% of total revenues) and \$105.6 million (or 18% of total revenues) for the three and nine months ended September 30, 2012, respectively, from \$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. All software development costs for software intended to be marketed to customers have been expensed in the period incurred since the costs incurred subsequent to the establishment of technological feasibility have not been significant.

The \$1.4 million (or 4%) increase in third quarter of 2012 compared to the same period of 2011 was primarily due to a \$1.0 million increase in personnel-related costs (including share-based compensation) as a result of increased headcount and a \$0.4 million increase in general overhead costs. The \$7.5 million (or 8%) increase for the nine months ended September 30, 2012 compared to the same period of 2011 was primarily due to a \$6.3 million increase in personnel-related costs (including share-based compensation) as a result of increased headcount and a \$1.2 million increase in general overhead costs.

For the remainder of 2012, 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 2012.

## 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,		
	2012	2011	Percentage Change	2012	2011	Percentage Change
Sales and marketing	\$73,239	\$70,437	4 %	\$213,615	\$200,962	6 %

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 were \$73.2 million (or 39% of total revenues) and \$213.6 million (or 37% of total revenues) for the three and nine months ended September 30, 2012, respectively, compared to \$70.4 million (or 36% of total revenues) and \$201.0 million (or 36% of total revenues) for the three and nine months ended September 30, 2011, respectively.

The \$2.8 million (or 4%) increase for the three months ended September 30, 2012 compared to the same period in 2011 was primarily due to a \$2.5 million increase in personnel-related costs. The \$12.6 million (or 6%) increase for the nine months ended September 30, 2012 compared to the same period in 2011 was primarily due to a \$9.3 million increase in personnel-related costs, a \$1.5 million increase in outside services, a \$1.2 million increase in general overhead costs, and a \$0.6 million increase in marketing programs. Personnel-related costs include salaries, employee benefits, sales commissions, and share-based compensation. Sales and marketing headcount increased from 837 in September 2011 to 982 in September 2012.

For the remainder of 2012, we expect sales and marketing expenses as a percentage of total revenues to be relatively consistent with the first three quarters of 2012. 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.



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## 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,			
	2012	2011	Percentage Change	2012	2011	Percentage Change	
General and administrative	\$15,692	\$14,516	8	% \$46,369	\$40,507	14	%

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, tax and accounting services. General and administrative expenses increased to \$15.7 million (or 8% of total revenues) for the three months ended September 30, 2012 compared to \$14.5 million (or 7% of total revenues) for the three months ended September 30, 2011. General and administrative expenses increased to \$46.4 million (or 8% of total revenues) for the nine months ended September 30, 2012 compared to \$40.5 million (or 7% of total revenues) for the nine months ended September 30, 2011.

The \$1.2 million (or 8%) increase for the three months ended September 30, 2012 compared to the same period in 2011 was primarily due to a \$0.6 million increase in personnel-related costs (including share-based compensation), a \$0.5 million increase in the provision for doubtful accounts, and a \$0.1 million increase in general overhead costs. The \$5.9 million (or 14%) increase for the nine months ended September 30, 2012 compared to the same period in 2011 was primarily due to a \$3.9 million increase in personnel-related costs (including share-based compensation) as a result of increased headcount, a \$0.9 million increase in the provision for doubtful accounts, and a \$1.1 million increase in general overhead costs.

For the remainder of 2012, we expect general and administrative expenses as a percentage of total revenues to be relatively consistent with or a slight decrease from the first three quarters of 2012.

## 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,			
	2012	2011	Percentage Change	2012	2011	Percentage Change	
Amortization of intangible assets	\$1,462	\$1,886	(22)	)% \$4,690	\$5,959	(21)	)%

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 \$1.5 million (or 1% of total revenues) for the three months ended September 30, 2012 compared to \$1.9 million (or 1% of total revenues) for the three months ended September 30, 2011. Amortization of intangible assets decreased to \$4.7 million (or 1% of total revenues) for the nine months ended September 30, 2012 compared to \$6.0 million (or 1% of total revenues) for the nine months ended September 30, 2011.

The decreases of \$0.4 million (or 22%) and \$1.3 million (or 21%) in amortization of intangible assets for the three and nine months ended September 30, 2012, respectively, compared to the same periods in 2011 were primarily due to decreasing amortization for customer relationships, which are amortized using a method based on expected cash flows.

For the remainder of 2012, we expect amortization of the remaining intangible assets to be approximately \$1.9 million, before the impact of any amortization for any possible intangible assets acquired as part of any potential future acquisitions subsequent to September 30, 2012.

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## Facilities Restructuring and Facility Lease Termination Costs (Benefit), Net

The following table sets forth, for the periods indicated, our facilities restructuring and facility lease termination costs (benefit), net (in thousands, except percentages):

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2012	2011	Percentage Change	2012	2011	Percentage Change
Facilities restructuring and facility lease termination costs (benefit), net	\$—	\$(282)	(100)%	\$710	\$704	1%

In February 2012, we purchased the property associated with our former corporate headquarters in Redwood City, California. As a result of the transaction, we no longer have any further commitments relating to the original lease agreements. The purchase of the buildings discharges our future lease obligations that were previously accounted for under the 2001 and 2004 Restructuring Plans. During the first quarter of 2012 we reversed the existing accrued facilities restructuring liability of \$20.6 million and recorded a corresponding facilities restructuring benefit on the Condensed Consolidated Statement of Income in accordance with ASC 420 Exit or Disposal Cost Obligations. We also recorded a charge of approximately \$21.2 million representing the cost to terminate the operating lease included in facility lease termination costs, net in the Condensed Consolidated Statements of Income. See Note 10. Facilities Restructuring Charges of Notes to Condensed Consolidated Financial Statements in Part I, Item 1 of this Report. For the three months ended March 31, 2012, we recorded a net facilities restructuring and facility lease termination costs of \$0.7 million, for accretion charges related to the 2004 Restructuring Plan of \$0.1 million and an expense of \$21.2 million related to the net cost to settle an existing lease obligation, offset by a benefit as a result of the reversal of the existing accrued facilities restructuring liability of \$20.6 million. There were no further activities after the first quarter of 2012. Comparatively, for the three and nine months ended September 30, 2011, we recorded a restructuring benefit of \$0.3 million and a 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. 2004 Restructuring Plan. Net cash payments for facilities included in the 2004 Restructuring Plan amounted to \$3.3 million for the three months ended September 30, 2011, and \$2.4 million and \$9.3 million for the nine months ended September 30, 2012 and 2011, respectively.

2001 Restructuring Plan. Net cash payments for facilities included in the 2001 Restructuring Plan amounted to \$0.4 million for the three months ended September 30, 2011, and \$0.3 million and \$1.4 million for the nine months ended September 30, 2012 and 2011, respectively.

## Acquisitions and Other Charges (Benefit)

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

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2012	2011	Percentage Change	2012	2011	Percentage Change
Acquisitions and other charges (benefit)	\$2,036	\$917	122%	\$2,389	\$(5)	*%

\* Percentage is not meaningful.

For the three and nine months ended September 30, 2012, acquisition and other charges of \$2.0 million and \$2.4 million, respectively, primarily consisted of legal, accounting and tax fees, and earn-out accretion relating to acquisitions. For the three months ended September 30, 2011, acquisition and other charges of \$0.9 million 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 benefit 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 partially offset by \$1.6 million for legal and accounting fees, and \$0.2 million for earn-out accretion.



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## 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,		
	2012	2011	Percentage Change	2012	2011	Percentage Change
Interest income	\$987	\$1,185	(17)%	\$3,342	\$3,374	(1)%
Interest expense	(126)	(105)	20%	(379)	(2,006)	(81)%
Other income (expense), net	(533)	685	(178)%	(1,257)	(795)	(58)%
Interest and other income (expense), net	\$328	\$1,765	(81)%	\$1,706	\$573	198%

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 decrease in income of \$1.4 million (or 81%) in the three months ended September 30, 2012 compared to the same period of 2011 was primarily due to a \$0.5 million increase in foreign exchange losses and a \$0.7 million decrease in other income related to investment in equity interest, as we recognized income of \$0.7 million in the quarter ended September 30, 2011 for cash received when the investment was sold. The increase in income of \$1.1 million (or 198%) in the nine months ended September 30, 2012 compared to the same period of 2011 was primarily due to a \$1.6 million decrease in interest expense associated with the redemption of the convertible notes in the first quarter of 2011 and a \$0.3 million decrease in foreign exchange losses. These amounts were offset by a \$0.3 million decrease in gain on the disposition of securities and a \$0.6 million decrease in other income related to the sale of an investment in equity interest for which we recognized income of \$0.7 million during the nine months ended September 30, 2011 as compared to \$0.1 million recognized during the nine months ended September 30, 2012.

## 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,		
	2012	2011	Percentage Change	2012	2011	Percentage Change
Income tax provision	\$9,966	\$12,012	(17)%	\$30,948	\$30,776	1%
Effective tax rate	39%	31%	8%	33%	29%	4%

Our effective tax rates were 39% and 31% for the three months ended September 30, 2012 and 2011, respectively, and 33% and 29% for the nine months ended September 30, 2012 and 2011, respectively. The effective tax rates for the three and nine months ended September 30, 2012 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 the domestic manufacturing deduction pursuant to Section 199 of the Internal Revenue Code, and the benefit of foreign tax credits offset by compensation expense related to non-deductible share-based compensation, state income taxes, nondeductible acquisition related costs, and the accrual of reserves related to uncertain tax positions. During the three months ended September 30, 2012, the change in the geographic mix of earnings caused an increase in the Company's estimated annual effective tax rate, resulting in the Company recording a 39% tax rate for the third quarter to bring its year-to-date tax rate in line with the estimated annual effective tax rate for 2012. We expect our tax rate will continue to be very sensitive to our quarterly geographic mix of earnings. The effective tax rates for the three and nine months ended September 30, 2011 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 recognition of current year research and development credits, and the impact of the domestic manufacturing deduction pursuant to Section 199 of the Internal Revenue Code offset by compensation expense related to non-deductible share-based compensation, state income taxes, the revaluation of deferred taxes previously recorded in acquisition accountings, and the accrual of reserves related to uncertain tax positions. With the exception of our subsidiaries in the Israel and Canada, net undistributed earnings of our foreign subsidiaries are considered to be indefinitely reinvested, and accordingly, no provision for

U.S. income taxes has been provided thereon.

We are a United States-based multinational company subject to tax in multiple U.S. and foreign tax jurisdictions. This fact causes our tax rate to be very sensitive to the geographic mix of business. A significant portion of our foreign earnings for the current fiscal year were earned by our Netherlands and other European subsidiaries. These earnings were less than in prior quarters and therefore accounted for a smaller percentage of worldwide earnings during the current quarter. This shift in earnings combined



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with incurring significant nondeductible acquisition related costs during the quarter caused our expected effective tax rate to increase. Our results of operations will continue to be adversely affected to the extent that our geographical mix of income becomes more weighted toward jurisdictions with higher tax rates and will be favorably affected to the extent the relative geographic mix shifts to lower tax jurisdictions. Any further change in our mix of earnings is dependent upon many factors and is therefore difficult to predict.

Our effective tax rate in 2012 continues to 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. For example, our effective tax rate has historically benefited from a U.S. research and development tax credit. As of September 30, 2012, the U.S. research and development tax credit has not been renewed, and therefore our effective tax rate for 2012 does not reflect the benefit of this tax credit. If this tax credit is not renewed in the future, we would expect our effective tax rate to be higher than historical rates that reflected the benefit of the tax credit.

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, 2012, 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, 2012, it was considered more likely than not that our non-share-based payments related deferred tax assets would be realized with the exception of the deferred tax asset related to the California research and development credit generated in 2012. Even though this attribute has an indefinite life, it is unlikely that we will utilize any of this currently generated credit in the foreseeable future. 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 \$17.9 million and \$15.2 million as of September 30, 2012 and 2011, respectively. We have elected to include interest and penalties as a component of tax expense. Accrued interest and penalties as of September 30, 2012 and 2011 were approximately \$2.6 million and \$2.3 million, respectively. As of September 30, 2012, the gross uncertain tax position was approximately \$18.9 million.

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## 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, 2012, we had \$584.3 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, 2012, 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, and acquire businesses and technologies to expand our product offerings. In February 2012, we purchased the property associated with our former corporate headquarters located in Redwood City, California, for approximately \$148.6 million in cash.

The following table summarizes our cash flows for the nine months ended September 30, 2012 and 2011 (in thousands):

	Nine Months Ended September 30,	
	2012	2011
Cash provided by operating activities	\$ 140,412	\$ 130,247
Cash used in investing activities	\$(205,200 )	\$(79,629 )
Cash used in financing activities	\$(13,927 )	\$(10,564 )

Operating Activities: Cash provided by operating activities for the nine months ended September 30, 2012 was \$140.4 million, representing an increase of \$10.2 million from the nine months ended September 30, 2011. This increase resulted primarily from a \$13.1 million increase in adjustments for non-cash expenses, a \$34.8 million decrease in accounts receivable, and a \$23.2 million decrease in prepaid expenses and other assets, which were offset by a \$13.0 million decrease in net income, a \$21.0 million decrease in accounts payable and accrued liabilities, a \$5.7 million decrease in income taxes payable, a \$13.3 million decrease in accrued facilities restructuring charges, and an \$8.1 million decrease in deferred revenues. We recognized excess tax benefits from share-based compensation of \$12.5 million during the nine months ended September 30, 2012. This amount is recorded as a use of cash from operating activities and an offsetting amount is recorded as cash provided by financing activities. We made net cash payments for taxes in different jurisdictions of \$22.1 million during the nine months ended September 30, 2012. Our “days sales outstanding” in accounts receivable decreased from 60 days at September 30, 2011 to 58 days at September 30, 2012 due to a lower amount of billings which occurred toward the end of the third quarter of 2012 compared to end of the third quarter of 2011. Deferred revenues decreased primarily due to a decrease in deferred maintenance revenues. While growth of deferred maintenance revenues remains positive, the decline in the growth rate reflects slower growth in the customer base.

Investing Activities: Net cash used in investing activities was \$205.2 million and \$79.6 million for the nine months ended September 30, 2012 and 2011, respectively. In February 2012, we purchased the property associated with our former corporate headquarters located in Redwood City, California, for approximately \$148.6 million in cash, of which \$127.5 million was capitalized under Property and Equipment in the Condensed Consolidated Balance Sheet, and approximately \$21.2 million was recorded in our Condensed Consolidated Statement of Income as the net cost to terminate the facility lease.

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, time deposits, and marketable debt securities. We believe that the purchase, maturity, or sale of our investments has no material impact on our overall

liquidity.

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 September 2012, we acquired all of the outstanding securities of Data Scout Solutions Group Limited (“Data Scout”), a privately-held company, for approximately \$6.0 million. As a result of this acquisition, we also assumed certain liabilities and commitments. Approximately \$1.4 million of the consideration otherwise payable to former Data Scout shareholders was held as partial security for certain indemnification obligations, and will be held back until March 2014. We are obligated to pay up to an

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additional \$3.5 million for certain variable and deferred earn-out payments based upon the achievement of certain performance targets.

Also in September 2012, we acquired all of the outstanding securities of TierData, Inc. ("TierData"), a privately-held company, for approximately \$6.0 million. As a result of this acquisition, we also assumed certain liabilities and commitments. Approximately \$1.4 million of the consideration otherwise payable to former TierData stockholders was held as partial security for certain indemnification obligations, and will be held back until March 2014. We are obligated to pay up to an additional \$2.5 million for certain variable and deferred earn-out payments based upon the achievement of certain performance targets.

In October 2012, we announced our decision to make, through an indirect subsidiary, a voluntary public takeover offer to acquire all of the outstanding shares of Heiler Software AG. The consideration offered to all shareholders of Heiler Software is 7.04 Euro in cash, or approximately 80.8 million Euro for the total number of outstanding shares (excluding treasury shares), which is approximately \$103.8 million US dollars based on the exchange rate on October 1, 2012. The initial acceptance period for the takeover offer commenced in October 2012 and is expected to end in November 2012, with payment for the tendered shares occurring shortly thereafter.

**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 used in financing activities for the nine months ended September 30, 2012 was \$13.9 million due to \$38.6 million of proceeds received from the issuance of common stock to option holders and participants of our ESPP program and \$12.5 million of excess tax benefits from share-based compensation. These amounts were offset by repurchases and retirement of our common stock of \$58.7 million and withholding taxes for restricted stock units net share settlement of \$6.2 million.

Net cash used in financing activities for the nine months ended September 30, 2011 was \$10.6 million due to \$45.5 million of proceeds we 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 share-based compensation. These amounts were partially offset by the 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.

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 partially offsetting 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.

In July 2012, our Board of Directors authorized the repurchase of up to an additional \$100.0 million of our outstanding common stock under the repurchase program. We have \$118.3 million available to repurchase additional shares of our common stock under this program as of September 30, 2012. See Part II, Item 2 of this Report for information regarding the number of shares purchased under the stock repurchase program.

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.

Less than 31% 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, except for Israel and Canada, 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

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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, 2012. No amounts were outstanding under the Credit Agreement as of September 30, 2012, 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, 2012. For further information, see Note 5. 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, 2012, 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 2012	2013 and 2014	2015 and 2016	2017 and Beyond
Operating lease payments	\$40,843	\$3,207	\$20,650	\$11,169	\$5,817
Other obligations*	212	212	—	—	—
Total	\$41,055	\$3,419	\$20,650	\$11,169	\$5,817

\* 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 \$19.6 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 11. Income Taxes of Notes to Condensed Consolidated Financial Statements in Part I, Item 1 of this Report.

**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, 2012 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 2012 and \$3.6 million for the year ending December 31, 2013.

In February 2000, we entered into lease agreements for two office buildings located at 2000 and 2100 Seaport Boulevard in Redwood City, California, which we occupied from August 2001 through December 2004 as our former corporate headquarters. These lease agreements were originally due to expire in July 2013. As a result of the 2004

Restructuring Plan, we relocated the corporate headquarters and subsequently entered into a series of sublease agreements with tenants to occupy a majority of the

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vacated space. These subleases expire in June and July 2013. In February 2012, we purchased the property associated with its former corporate headquarters in Redwood City, California for approximately \$148.6 million in cash. As a result of the transaction, we no longer have any further commitments relating to the original lease agreements. The purchase of the buildings discharges our future lease obligations that were previously accounted for under the 2001 and 2004 Restructuring Plans. See Note 10. Facilities Restructuring Charges and Note 13. Commitments and Contingencies of Notes to Condensed Consolidated Financial Statements in Part I, Item 1 of this Report.

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.

**Off-Balance Sheet Arrangements**

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

**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 the Euro 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 Indian rupee, 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 Indian rupee. 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.

In December 2010, we entered into foreign exchange forward contracts with monthly expiration dates through January 2012. In October and December 2011, we entered into additional foreign exchange forward contracts with monthly expiration dates through January 2013.

The table below presents the notional amounts of the cash flow foreign exchange forward contracts that we committed to purchase in the fourth quarter of 2011 for Indian rupees, which were outstanding as of September 30, 2012 (in thousands):

	Foreign Amount Notional Amount Sold	Notional Amount Purchased	USD Equivalent Notional Amount Sold	Notional Amount Purchased
Foreign currency				
Indian rupee	—	380,000	\$—	\$7,456
			\$—	\$7,456



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

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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 a foreign exchange contract to hedge monetary assets and liabilities that are denominated in currencies other than the functional currency of our subsidiaries. The notional amounts of foreign currency contracts open at period end were \$2.7 million to buy at September 30, 2012, and \$5.0 million to sell at December 31, 2011. 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 table below presents the notional amount of the non-designated foreign currency contracts as of September 30, 2012 (in thousands):

	Foreign		USD	
	Amount	Notional	Equivalent	Notional
Foreign currency	Notional	Notional	Notional	Notional
	Amount	Amount	Amount	Amount
	Sold	Purchased	Sold	Purchased
Indian rupee	—	140,000	\$—	\$2,747
			\$—	\$2,747

See Note 1. Summary of Significant Accounting Policies, Note 6. Accumulated Other Comprehensive Loss, and Note 7. 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, money market funds, time deposits, 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, 2012, the average annual rate of return on our investments was approximately 0.6%. 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, 2012, we had net unrealized gain of \$0.6 million associated with these securities. If market interest rates were to increase immediately and uniformly by 100 basis points from levels as of September 30, 2012, the fair market value of the portfolio would decrease by approximately \$3.0 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 remainder of 2012.

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ITEM 4. CONTROLS AND PROCEDURES

Evaluation of disclosure controls and procedures. Our management evaluated, with the participation of our Chief Executive Officer and our Chief Financial Officer, the effectiveness of our disclosure controls and procedures as of the end of the period covered by this 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, 2012 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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PART II: OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The information set forth under the "Litigation" subheading in Note 13. 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, 2011.

Continued uncertainty in the U.S. and global economies, particularly Europe, 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, particularly Europe. 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 U.S. debt issues, income tax and budget concerns, and future 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 sectors that we serve. For example, in 2010 and in the first nine months of 2012, we experienced a decline in European public sector transactions, and we continue to expect uncertainty in European public sector, European financial services and commercial spending at least until the sovereign debt issues are resolved. These conditions have also adversely affected the buying patterns of our customers and prospective customers and have adversely affected our overall pipeline conversion rate as well as our revenue growth expectations. For example, in the second and third quarters of 2012, the macroeconomic uncertainty in Europe contributed to a delay in customer purchasing decisions, stricter customer purchasing controls and approval processes, and a decline in our pipeline conversion rate. We expect these macroeconomic conditions, together with our recent sales execution challenges and our sales leadership transition in Europe will continue to adversely affect our European results in the near term. If macroeconomic conditions continue to deteriorate or if the pace of economic recovery is slower or more uneven, our overall 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 continued investing 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. Deterioration of economic conditions in the countries in which we do business could also cause slower or impaired collections on accounts receivable. 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, which may expand the alternatives to our current and potential customers for their data integration or data quality

requirements. Our competition consists primarily 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 data integration and data quality software products, including IBM, Microsoft, Oracle, SAP, SAS Institute, Trillium (which is part of Harte-Hanks), certain privately held companies, and open source solutions. In the past, we have competed with business intelligence vendors that currently offer, or may develop, products with functionalities that compete with our products.

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Many of our competitors have longer operating histories, substantially greater financial, technical, marketing, and other resources, greater name recognition, subject matter expertise, 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, technological trends 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. In addition, new products or enhancements of existing products that we introduce may not adequately address or respond to new or emerging technologies, technological trends or changes in customer requirements. Also, new or emerging technologies, technological trends or changes in customer requirements may result in certain of our strategic partners becoming potential competitors in the future.

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 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. For example, some of our competitors may bundle data integration and data quality products at no cost to the customer or at deeply discounted prices for promotional purposes or as a long-term pricing strategy, or provide guarantees of prices and product implementation. These difficulties may increase as larger companies target the data integration and data quality markets. A customer may be unwilling to pay a separate cost for our data integration and data quality products if the customer has a bundled pricing arrangement with a larger company that offers a wider variety of products than us. 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. 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 current and 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. Furthermore, during periods of U.S. and global economic slowdowns or uncertainty, as we are currently experiencing, our customers' capital spending is significantly reduced. As a result, there is significantly increased competition for the allocation of IT budget dollars.

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 master data management ("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;
- the failure to accurately anticipate changes in 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;

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• 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, are difficult to forecast 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 or reductions, stricter customer purchasing controls and approval processes, 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 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 increased risks that 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 Canada, Mexico, 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:

• general economic and political conditions in these foreign markets;

• 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, the U.K. Bribery Act of 2010, 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;



increased competition from companies in the industry segments that we target or other vendors of data integration and data quality software products that are more established in a particular region than us;  
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,

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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; and

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.

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.

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. Our pipeline estimates may not consistently correlate to revenues in a particular quarter or over a longer period of time, particularly in a weak or uncertain global macroeconomic environment. In addition, our pipeline estimates can prove to be unreliable in a particular quarter or over a longer period of time, in part because both the “conversion rate” of the pipeline into contracts and the quality and timing of pipeline generation can be very difficult to estimate. For example, in the second and third quarters of 2012, recent and continued changes in our sales organization and challenges in our sales execution generally, together with the macroeconomic uncertainty in Europe, adversely affected our pipeline management capabilities, the reliability of our pipeline estimates, and our pipeline conversion rate. In particular, in the third quarter of 2012, our pipeline conversion rate was significantly lower as compared to the second quarter of 2012. In addition, further changes to our sales and field operations organizations, including the implementation of more rigorous sales planning and process measures, may decrease the predictive value of our pipeline in assessing near term trends in our business or in comparison to historical trends.

The conversion of the sales pipeline into license revenues may also be affected by the tendency of some of our customers to wait until the end of a fiscal period in the hope of obtaining more favorable terms, which can also impede our ability to negotiate, execute and deliver on these contracts in a timely manner. 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 pipeline conversion rate. In addition, for newly acquired companies, we have limited ability to predict how their pipelines will convert into sales or revenues following acquisition. 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 and recently, we have experienced a reduced conversion rate of our overall license pipeline, primarily as a result of general economic slowdowns and general macroeconomic uncertainty, 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 as a result of our additional investments in sales personnel and a gradually improving IT spending environment, they are not consistent on a quarter-to-quarter basis. The recent global economic recession and continued macroeconomic uncertainty has had and will continue to have an adverse effect on our pipeline conversion rate in the near future. Our pipeline conversion rate declined in 2008, remained depressed in certain geographies in 2009, increased in 2010 and decreased in certain geographies and vertical industry sectors in 2011 and 2012. 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.

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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. Also, macroeconomic uncertainty and global economic conditions can adversely affect the buying patterns of our customers and prospective customers and lengthen our sales cycle. For example, in the second and third quarters of 2012, the macroeconomic uncertainty in Europe contributed to a delay in customer purchasing decisions and stricter customer purchasing controls and approval processes in EMEA. In addition, we frequently must educate our potential customers about the full benefits of our products, which also can require significant time. These trends toward greater customer executive level involvement or stricter customer purchasing controls and approval processes and increased customer education efforts are likely to increase, particularly as we expand our market focus to broader data integration initiatives.

Further, our sales cycle may lengthen as we continue to focus our sales efforts on large corporations. As a result of these factors, the length of time from our initial contact with a customer to the customer's decision to purchase our products typically ranges from three to nine months. We are subject to a number of significant risks as a result of our lengthy sales cycle that could delay, reduce or otherwise adversely affect the purchase of our products, including:

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

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. For example, we recently announced the appointment of a new executive vice president of worldwide field operations. As new senior personnel join our company and become familiar with our business strategy and systems, their integration could result in disruption to our ongoing operations. For example, the continued leadership transition in our EMEA sales organization adversely affected our pipeline management capabilities in the second and third quarters of 2012.

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. For example, recent changes we implemented in customer segmentation and sales territories have adversely affected the quality of our pipeline estimates in 2012. In addition, as we continue to implement further changes to our sales and field operations organizations, including the implementation of more rigorous sales planning and process measures, we may experience increased sales force turnover and additional disruption to our ongoing operations. These changes may also take longer to implement than expected, which may adversely affect our sales force productivity. If we are unable to effectively attract and train new personnel on a timely basis, or if we experience an increase in the level of turnover, our results of operations may be negatively impacted.

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Furthermore, from time to time, we have experienced an increased level of turnover in our direct sales force, particularly in the first quarter of a fiscal year. Such increase in the turnover rate affected 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 sales personnel for a period of six to twelve months. We continue to invest in training for our sales personnel, including updates to cover new, acquired, or enhanced products, as we broaden our product platform. 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.

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, 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 on occasion exchange rates have been particularly volatile and have affected quarterly revenue and profitability. 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.

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, MicroStrategy, 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. Also, new or emerging technologies, technological trends or changes in customer requirements may result in certain of our strategic partners becoming potential competitors in the future.

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

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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, 2011 and 2012, including Data Scout and TierData in September 2012, ActiveBase and WisdomForce Technologies in 2011, and 29West and Siperian in 2010. In addition, in October 2011, we purchased certain assets from Sand Technology relating to their Information Lifecycle Management for SAP product line. Also, in October 2012, we announced our decision to make a voluntary public takeover offer to acquire all the outstanding shares of Heiler Software AG, a publicly-traded German company. The initial acceptance period for the takeover offer commenced in October 2012 and is expected to end in November 2012. Our ability to realize any benefits of the transaction, including any potential synergies, will depend on our ability to fully integrate Heiler Software's business with ours after further integration measures under German laws, which may not occur before mid-to-late 2013.

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, particularly when the acquired company operates in international jurisdictions;

- the disruption of our ongoing business and the diversion of management's attention by transition or integration issues;
- any difficulties in consolidating the acquired company's financial results with ours, in particular as a result of different accounting principles or financial reporting standards, and the adverse consequences to us of any delay in obtaining the necessary financial information for such consolidation or the impact the acquired company's financial performance has on our financial performance as a result of such consolidation;

- 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;

- 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, particularly when the acquired company operations in international jurisdictions.

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 additional taxes, unforeseen or higher than expected costs, debt, material one-time write-offs, or purchase accounting adjustments including the write-down of deferred revenue, 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.

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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. 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;
- use their IT budgets for other products that have priority over our products;
- defer or decrease product purchases due to the macroeconomic uncertainty and global economic conditions;
- 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 or new 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. The introduction of products beyond our traditional data integration products such as PowerCenter and PowerExchange may result in increased competition and may not be successful, and early stage interest and adoption of these new products may not result in long term success or significant revenue. In addition, in order to enable our sales personnel and our external distribution channel to sell these new products effectively, we have continued to invest resources in training programs on new product functionalities, key differentiators, and key business values. Our

efforts to expand beyond our traditional data integration products may not succeed and new products may not achieve market acceptance. If these new products do not achieve market acceptance, our revenues could be adversely affected and our revenue growth rate 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. Market acceptance of our products could be affected if, among other things,

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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 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 and 2010, Data Retrieval Technologies LLC filed complaints alleging patent infringement against us and another company. 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

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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.

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 breach of security in our products or computer systems may compromise the integrity of our products, harm our reputation, create additional liability and adversely impact our financial results.

We make significant efforts to maintain the security and integrity of our product source code and computer systems. There appears to be an increasing number of computer "hackers" developing and deploying a variety of destructive software programs (such as viruses, worms, and other malicious software programs) that could attack our products and computer systems, including our internal network. Despite significant efforts to create security barriers to such programs, it is virtually impossible for us to entirely mitigate this risk. Like all software products, our software is

vulnerable to such attacks. The impact of such an attack could disrupt the proper functioning of our software products, cause errors in the output of our customers' work, allow unauthorized access to sensitive, proprietary or confidential information of ours or our customers and other destructive outcomes. If this were to occur, our reputation may suffer, customers may stop buying our products, we could face lawsuits and potential liability and our financial performance could be negatively affected. In addition, we may need to devote more resources to address security vulnerabilities in our products, and the cost of addressing these vulnerabilities could reduce our operating margins.

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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.

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 and other European 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.

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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. For example, our effective tax rate has historically benefited from the U.S. research and development tax credit. As of September 30, 2012, the U.S. research and development tax credit has not been renewed, and therefore our effective tax rate for 2012 does not reflect the benefit of this tax credit. If this tax credit is not renewed in the future, we would expect our effective tax rate to be higher than historical rates that reflected the benefit of the tax credit. 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 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.

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 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 scale our operations and improve our internal systems, processes, and controls.

We continue to experience growth in our customer base and operations, which may place a strain on our management, administrative, operational and financial infrastructure. We anticipate that additional investments in our infrastructure will be necessary to scale our operations and increase productivity. These additional investments will increase our costs, and may adversely affect our operating margins if we are unable to sufficiently increase revenues to cover these additional costs. If we are unable to

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successfully scale our operations and increase productivity, we may be unable to execute our business strategies. Also, we have substantial real estate commitments, both leased and owned, 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. For example, in February 2012 we purchased the property associated with our former corporate headquarters in Redwood City, California, for approximately \$148.6 million, which reflects a purchase price of \$153.2 million less a rent credit of \$4.6 million.

In addition, 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. 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 have recently upgraded our human resources information systems and our enterprise resource planning systems. Upgrades or improvements to our internal systems, processes, and controls may require us to implement incremental reconciliation or additional reporting measures to evaluate the effectiveness of such upgrade or improvement, or to adopt new processes or procedures in connection with the upgrade or improvement. 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, which could adversely affect our business. We have licensed technology and utilized support services from various third parties to help us implement upgrades and improvements. 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. The support services available for such third-party technology also 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. In addition, we use both on-premise and cloud resources, and any security or other flaws in such resources could have a negative impact on our internal systems, processes, or controls.

We may also need to 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.

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 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 issued a Staff Paper on its IFRS Work Plan in July 2012, but has not yet made a determination

as to whether and, if so, 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.

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;

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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 were 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.

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, 2012. 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.

Our investment portfolio is subject to credit and liquidity risks and fluctuations in the market value of our investments and interest rates, which may result in impairment or loss of value of our investments, an inability to sell our investments or a decline in interest income.

We maintain an investment portfolio, which consists primarily of certificates of deposit, commercial paper, corporate notes and bonds, money market funds, time deposits, municipal securities, U.S. government notes and bonds, agency notes and bonds and equity securities. Although we follow an established investment policy, which specifies credit quality standards for our investments limits the amount of credit exposure to any single issue, issuer, or type of investment, and other criteria in order to help mitigate our exposure to interest rate and credit risk, the assets in our investment portfolio may lose value or become impaired, or our interest income may decline. We may be required to record impairment charges for other-than-temporary declines in fair market value in our investments. Future fluctuations in economic and market conditions could adversely affect the market value of our investments, and we could record additional impairment charges and lose some of the principal value of investments in our portfolio. A total loss of an investment or a significant decline in the value of our investment portfolio could adversely affect our operating results and financial condition. For information regarding interest rate risk, see "Quantitative and Qualitative Disclosures About Market Risk" in Part I, Item 3 of this Report. In addition, from time to time we make investments in private companies. Our investments in private companies are subject to risk of loss of investment capital. Some of these investments may have been made to further our strategic objectives and support our key business initiatives. Our

investments in private companies are inherently risky because the markets for the technologies they have under development are typically in the early stages and may never materialize. We could lose the value of our entire investment in these companies.

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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. A 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. This provision, among others, 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.



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## 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, 2012.

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)	—	—	—	\$ 147,398
August 1 — August 31				
From employees (1)	10,035	\$29.28	—	—
Repurchase program (2)	790,000	\$31.20	790,000	\$ 122,753
September 1 — September 30				
From employees (1)	—	—	—	—
Repurchase program (2)	125,000	\$35.29	125,000	\$ 118,342
Total	925,035	\$31.73	915,000	

- (1) The repurchases from employees represent shares canceled in settlement of employee tax withholding obligations due upon the vesting of restricted stock units.
- Informatica repurchased shares in the third quarter of fiscal 2012 under its ongoing stock repurchase program. This program does not have a specific expiration date and authorizes repurchases in the open market. In January 2011, we announced that our Board authorized an additional \$50 million increase to the program. In October 2011, we announced that the Board authorized an additional \$75 million increase to the program. In July 2012, the Board authorized an additional \$100 million increase to the program. As of September 30, 2012, Informatica
- (2) had remaining authorization of \$118.3 million for future share repurchases. For further information about our stock repurchase program, see the subsection "Convertible Senior Notes" in Note 5. Borrowings and Note 8. 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.

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ITEM 6. EXHIBITS

Exhibit Number	Document
10.1	Offer Letter for John McGee dated July 18, 2012.
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.

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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, 2012

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)

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INFORMATICA CORPORATION  
EXHIBITS TO FORM 10-Q QUARTERLY REPORT  
For the Quarter Ended September 30, 2012

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