INFORMATICA CORP
Form 10-K
February 25, 2011
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

R Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the year ended December 31, 2010
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)
Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of exchange on which registered
Common Stock, par value $0.001 per share	The NASDAQ Stock Market LLC (NASDAQ Global Select Market)

Securities registered pursuant to Section 12(g) of the Act:
Preferred Stock Purchase Rights
Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. R Yes £ No
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act of 1934 (the "Exchange Act"). £ Yes R No
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days.
R Yes £ No
Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the Registrant was required to submit and post such files). Yes R No £
Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. £

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

The aggregate market value of the voting stock held by non-affiliates of the Registrant as of June 30, 2010 was approximately $2,171,724,000 (based on the last reported sale price of $23.88 on June 30, 2010 on the NASDAQ Global Select Market).

As of January 31, 2011, there were approximately 94,882,000 shares of the registrant's Common Stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's Proxy Statement for the registrant's 2011 Annual Meeting of Stockholders are incorporated by reference into Part III of this Form 10-K to the extent stated herein. The Proxy Statement will be filed within 120 days of the registrant's fiscal year ended December 31, 2010.

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PART I

ITEM 1. BUSINESS

Overview

Informatica Corporation ("Informatica") is the leading independent provider of enterprise data integration and data quality software and services. Informatica's mission is to enable organizations to gain a competitive advantage from all their information assets to drive their top business imperatives and information technology ("IT") initiatives. Informatica addresses the growing challenge organizations face with data fragmented across and beyond the enterprise and with data of varying quality.

During the last two decades, companies have made significant investments in process automation resulting in silos of data created by a variety of packaged transactional applications such as: enterprise resource planning ("ERP"), customer relationship management ("CRM"), supply chain management ("SCM"), and in-house custom departmental operational systems. The goal with these systems was to make businesses more efficient through automation. However, these applications have increased data fragmentation and complexity because they generate massive volumes of data in disparate software systems that were not designed to share data and interoperate with one another. Additionally, today, data is being outsourced to cloud computing and business process outsourcing vendors at a faster pace. Furthermore, data is managed by trading partners including suppliers around the globe. As these systems and the locations of data have proliferated, the challenge of data fragmentation has intensified, leaving companies to grapple with multiple data silos, various data formats, numerous data definitions, highly varied data quality, and the need to obtain data in real-time.

Organizations are now finding that the strategic value of IT goes far beyond process automation. Companies of all sizes require accurate, trustworthy information to run their business, and most information is derived from the valuable data that both resides inside and beyond the enterprise with partners and suppliers. Unless the various data streams can be integrated, and the quality of that data is ensured, the amount of real and useful business information derived from such data can be limited. Companies are realizing that they must integrate a wide variety of structured, semi-structured, unstructured data, and exponentially increasing social, cloud and mobile data quickly to support business processes.

Today organizations are looking for a comprehensive view of the customer, migrating away from legacy systems to new technologies, having a clearer view of all the information that resides in multiple databases, or consolidating multiple instances of an ERP system, while understanding what their customers are saying via social media channels. They also realize that it is imperative to implement data quality processes to measure, monitor, track, and improve the quality of data delivered to the business.

With Informatica's comprehensive, unified, open, and economical data integration technology, organizations can access, discover, cleanse, integrate, and deliver this data, while improving its quality, to the extended enterprise to increase operational efficiency and reduce costs. The Informatica Platform is a comprehensive set of technologies to enable a wide variety of complex enterprise-wide data integration initiatives, 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.

Our strategy is to grow at a faster rate than the market by leveraging our success, knowledge, and the strength of our proven products that have helped our customers deploy thousands of large data warehouse and data integration initiatives. Our expansion strategy focuses on growing beyond data warehousing to provide broader enterprise data integration solutions, advancing our product leadership in all product categories, and expanding our geographic presence and capabilities across all major regions.

In 2010, we continued to broaden the applicability of our technology and focused on product innovation by adding or extending key elements of the Informatica Platform. In January 2010, Informatica expanded its existing Master Data Management ("MDM") offering through the acquisition of Siperian, Inc. ("Siperian"), a leader in the MDM infrastructure technology category. Additionally, Informatica added Ultra Messaging to the Informatica Platform through the acquisition of 29West Inc. ("29West") in March 2010, a pioneer in Low Latency Messaging technology.

Also, Informatica continued to introduce solutions designed to meet the data needs of the software-as-a-service ("SaaS") or cloud market in 2010. In December, we announced Informatica Cloud Express, the first cloud data integration service with usage-based pricing. The solution is aimed at organizations looking to integrate databases and files with Salesforce.com in an easy and cost effective manner. Additionally, Informatica announced a partnership with Dun & Bradstreet in July 2010 for Informatica Cloud to enable cloud-based, on-demand access to Dun & Bradstreet's trusted insight, along with other essential business knowledge, through Dun & Bradstreet's recently announced data-as-a-service ("DaaS") solution, D&B360™. For the third year in a row, Informatica Cloud was honored by Salesforce.com customers with the AppExchange Best of `10 Award for Data Integration.
As of December 31, 2010, we have more than 4,200 customers worldwide, representing a variety of industries, ranging from

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aerospace, automotive, energy and utilities, entertainment/media, financial services, healthcare/life sciences, high technology, insurance, manufacturing, public sector, retail, services, telecommunications, and travel/transportation.

Over the past several years, we have expanded our presence and capabilities in a number of geographic regions. We currently have a direct sales presence in over 20 countries and an indirect presence, through distributors and partners, in over 80 countries. We market and sell our software and services through our sales operations in North and Latin America (including Brazil, Canada, Mexico, and the United States), Europe and Middle East (including Austria, Belgium, France, Germany, Ireland, Israel, Italy, the Netherlands, Portugal, Spain, Sweden, Switzerland, United Arab Emirates, the United Kingdom, and Russia), and Asia-Pacific (including Australia, China, Hong Kong, India, Japan, South Korea, Singapore, and Taiwan).

Informatica maintains relationships with a variety of strategic partners to jointly develop, market, sell, recommend, and/or implement our solutions. We also have relationships with distributors in various regions and industries, including the United States, Europe and Middle East, Asia-Pacific, and Latin America, who sublicense our products and provide services and support within their territories. In addition, we have 14 development centers in 10 countries, professional services staff in 19 countries, and technical support centers in 9 countries, including the United States, Brazil, the Netherlands, and India.

We began selling our first products in 1996. Through December 31, 2010, substantially all of our revenues have been derived from the sale of Informatica PowerCenter, Informatica PowerExchange, Informatica Data Services, and Informatica Data Quality, and to a lesser extent, from the sale of Informatica B2B Data Exchange, Informatica Master Data Management, and Informatica Application Information Lifecycle Management.

Informatica is organized and operates in a single segment. See Note 18. Significant Customer Information and Segment Information of Notes to Consolidated Financial Statements in Part II, Item 8 of this Report, which is incorporated herein by reference.

Products

Informatica products enable organizations to gain a competitive advantage in today's global information economy by empowering them to access, integrate, and trust their information assets. These products comprise a comprehensive, unified, open, and economical data integration platform that enables IT executives, architects, and managers to provide trusted, relevant data to the business - when and where it is needed. The Informatica Platform handles most types of data integration and data management projects required to support business goals.

The following products are included in the Informatica Platform:

Informatica PowerCenter integrates data from virtually any business system, in almost any format, and quickly delivers that data throughout the enterprise to improve operational efficiency. Highly available, high-performance, and highly scalable, the software serves as the foundation for all enterprise data integration projects. There are four editions of Informatica PowerCenter:

- Informatica PowerCenter Standard Edition includes a high-performance data integration server, a global metadata infrastructure, visual tools for development and centralized administration, and productivity tools to facilitate collaboration among architects, analysts, and developers.
- Informatica PowerCenter Real Time Edition extends PowerCenter Standard Edition with additional capabilities for integrating and provisioning transactional or operational data in real time. PowerCenter Real Time Edition provides a foundation for developing sophisticated data services and delivering timely information as a service to support business needs. Key features include change data capture for relational data sources, integration with messaging systems, built-in support for Web services, dynamic partitioning with data smart parallelism, and process orchestration and human workflow capabilities.
- Informatica PowerCenter Advanced Edition addresses requirements for organizations that are standardizing data integration at an enterprise level, across a number of projects and departments. It includes all the capabilities of PowerCenter Standard Edition and features additional capabilities that are ideal for data governance and integration competency centers, including dynamic partitioning with data smart parallelism and powerful capabilities in metadata analysis, team-based development, and Web-based data profiling and reporting.
- Informatica PowerCenter Cloud Edition is the first cloud data integration infrastructure that combines the power and scalability of Informatica PowerCenter, with the flexibility, ease of use, and affordability of the latest cloud

computing platform. The result is a comprehensive cloud data integration solution. IT organizations can handle the unique challenges, such as data security and processing speed, associated with integrating data in the cloud, over a public Internet. It is designed to run in true virtual computing environments, such as the Amazon Elastic Compute Cloud (Amazon EC2).

Additionally, many options are available to extend Informatica PowerCenter's core data integration capabilities, including

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the: Data Cleanse and Match, Data Masking, Data Validation, Dual Load for Teradata, Enterprise Grid, High Availability, Metadata Exchange, Partitioning, Pushdown Optimization, Team-Based Development, and Unstructured Data options.

Informatica PowerExchange is a family of data access products that enable IT organizations to access virtually all sources of enterprise data without having to develop custom data access programs. With the ability to access mission-critical operational data and deliver such data in real-time throughout the enterprise, IT organizations can optimize limited resources and the business value of data. Dozens of different data sources and targets are supported, including enterprise applications, databases and data warehouses, mainframes, midrange systems, messaging systems, and technology standards.

Informatica Data Services makes provisioning - finding, integrating, and managing - data across the enterprise fast, easy, and cost-effective. Informatica Data Services extends the existing data services capabilities of the Informatica Platform to provision trusted data to any application, at any latency, using any protocol from a single, unified platform. Informatica Data Services enables IT organizations to rapidly build sophisticated and reusable data services once and deploy them for the many ways data is needed, quickly find and understand data - regardless of its type or location - and easily create, enforce, and centrally manage data services policies to meet service-level agreements across projects.

Informatica Data Quality delivers pervasive data quality to stakeholders, projects, and data domains, on premise or in the cloud, using a comprehensive and unified platform.

- Informatica Data Quality puts control of data quality processes into the hands of business information owners. Combining powerful data analysis, cleansing, matching, reporting, and monitoring capabilities with an easy-to-use-interface, Informatica Data Quality empowers business information owners to implement and manage enterprise-wide data quality initiatives.
- Informatica Data Quality Cloud Edition is a cloud infrastructure that enables seamless data profiling, evaluation of data quality, and scorecarding all data, including data from cloud applications as well as on-premise systems. The Data Quality Cloud Edition combines the power and capabilities of pervasive data quality with the flexibility, ease of use, and affordability of the latest cloud computing platform to deliver data quality to all stakeholders, all projects, and all data domains. The result is a comprehensive cloud data quality solution.
- Informatica Identity Resolution is a robust, highly scalable identity resolution software that enables companies and government organizations to search and match identity data from more than 60 languages, in both batch and real time.
- Informatica Data Explorer delivers a complete picture of the content, quality, and structure of enterprise data. Combining powerful data profiling and mapping capabilities with an easy-to-use-interface, Informatica Data Explorer empowers business information owners to investigate, document, and resolve data quality issues.
- AddressDoctor offers technology to perform global address validation for more than 200 countries and territories. These capabilities include support for multiple levels of addresses such as street level, delivery point validation, and geocoding.

Informatica Master Data Management ("MDM") delivers consolidated and reliable business-critical data to improve business operations. Informatica MDM uniquely identifies all business-critical master data - as well as the relationships between master data - which is stored in different formats and multiple systems across the enterprise. Informatica MDM for multidomain master data management enables customers to start small and expand as their needs grow with comprehensive support for all MDM requirements - data integration, profiling, quality, and master data management - on the same platform. Informatica MDM's proven and flexible master data model, solution framework, and unified product architecture minimizes upfront adoption and implementation costs as well as the costs to manage and extend MDM initiatives over time.

Informatica B2B Data Exchange is industry-leading software for multi-enterprise data integration. It adds secured communication, management, and monitoring capabilities to handle data from internal and external sources.

- Informatica B2B Data Exchange provides a comprehensive technology infrastructure for multi-enterprise data integration, partner management, and business event monitoring. It helps companies collaborate efficiently and cost-effectively with their extended networks of trading partners and customers, which helps companies to reduce costs and protect and grow revenue streams.

- Informatica B2B Data Transformation is a high-performance software that converts structured and unstructured data to and from more broadly consumable data formats to support business-to-business and multi-enterprise transactions. This single, unified codeless environment supports virtually any-to-any data transformation and is accessible to multiple business levels within the organization: analysts, developers, and programmers.

Informatica Application Information Lifecycle Management product family is designed to help IT organizations manage

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every phase of the data lifecycle, from development and testing to archiving and retirement, while ensuring privacy of that data.

- Informatica Data Archive is highly scalable, high-performance software that helps IT organizations cost-effectively manage the proliferation of data volumes in a range of enterprise business applications. The software enables IT teams to safely and easily archive application data, including master, reference, and transactional data, and to readily access it when needed. Informatica Data Archive helps IT organizations manage increasing data volumes in production environments by safely archiving application data and data warehouses, providing seamless access to archived data, and delivering the archived data to the business as needed.
- Informatica Data Masking is comprehensive, flexible and scalable software for managing access to sensitive application data, such as credit card information, Social Security numbers, names, addresses, and phone numbers. The software prevents the unintended exposure of confidential information and is designed to reduce the risk of data breaches.
- Informatica Data Subset is flexible enterprise software that automates the process of creating smaller, targeted test databases from large, complex databases. With referentially intact, smaller targeted copies of production data, IT organizations can dramatically reduce the amount of time, effort, and disk space necessary to support test environments.

Informatica Complex Event Processing ("CEP") enables enterprises to rapidly detect, correlate, analyze and respond to data-driven events. The combination of CEP and data integration enables organizations to be more responsive, adaptable and agile.

- Informatica RulePoint is complex event processing software that helps companies and government organizations of all sizes gain operational intelligence: real-time alerts and insight into the pertinent information they need to operate smarter, faster, more efficiently, and more competitively.

Informatica Ultra Messaging products are designed using a modern "nothing in the middle" architecture that eliminates the need for daemons or message brokers. This design enables ultra low latency messaging and highly efficient systems that reduce hardware infrastructure costs while improving throughput, resiliency, and availability.

- Informatica Ultra Messaging Streaming Edition is the industry's first nothing-in-the-middle messaging system. It is the market-leading low-latency messaging software that is also an efficient, configurable, reliable, and widely deployed reliable messaging solution.
- Informatica Ultra Messaging Persistence Edition provides guaranteed messaging through innovative Parallel Persistence architecture that provides guaranteed messaging without the use of a central messaging broker, eliminating the need for store-and-forward architectures while providing unsurpassed resilience and performance over traditional guaranteed messaging systems.
- Informatica Ultra Messaging Queuing Edition extends Ultra Messaging's capabilities to include efficient, low latency, resilient, message queuing functions. For customers who desire once-and-only-once message delivery, low latency load balancing or intelligent index queuing for message delivery, Informatica Ultra Messaging Queuing Edition is the guaranteed messaging product of choice.

Informatica Cloud delivers purpose-built data integration cloud applications to allow business users to integrate data across cloud-based applications and on-premise systems and databases. Informatica Cloud takes advantage of the underlying PowerCenter data integration engine and includes online registration, user and task flow management, job scheduling and monitoring, error handling, compression, encryption and a secure agent to access and integrate cloud-based data with on-premise sources. With Informatica Cloud, customers and partners can build, manage, and share custom data integration services in the cloud. Informatica Cloud consists of Informatica Cloud Services and the Informatica Cloud Platform.

In addition, Informatica Communities (formerly Informatica Technology Network), created in 2001, has grown, as of December 31, 2010, to over 55,600 members in more than 186 countries using our products as a platform on which to build or customize a specific data integration solution. These developers extend Informatica's presence and profile in the broad data integration market and provide a network of knowledge that can be shared to amplify our brand and its influence. In 2010, we also opened the Informatica Marketplace, which allows buyers and sellers to share and leverage data integration solutions within an open and comprehensive ecosystem of more than 100,000 active users. The

Informatica Marketplace provides vendors, partners and individual developers with a central location to buy and sell assets and solutions called blocks. A block can be developed for on-premise or cloud use and may include data models, mappings, mapplets, tools, utilities, packaged services, methodologies, white papers, connectors and other useful resources. Users are able to browse blocks for industry specific solutions or platform use cases. Blocks contributed to the Informatica Marketplace are evaluated for quality and value by us before becoming available.

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Services

We offer a comprehensive set of services, including product-related customer support, consulting services, and education services. Additionally, we offer certain products as services priced on a subscription basis. Through strategically located Support Centers in the United States, Ireland, Spain, the Netherlands, the United Kingdom, Brazil, China, India, and Japan, we provide technical support for Informatica software deployments, both regional installations as well as geographically dispersed projects. Informatica's Global Customer Support offers a well-engineered and comprehensive set of support programs tailored to fit customer needs. Customers and partners can access our 24x7 technical support over the phone using toll-free lines, via email, and online through Informatica's Web portal "http://mysupport.informatica.com."

Our consulting services are focused on helping customers to become agile data-driven enterprises, both tactically and strategically. Our services range from initial configuration of the Informatica Platform, knowledge transfer to customers and partners, designing and implementing custom data integration solutions, project audit, and performance tuning, to helping customers implement enterprise-wide integration strategies such as Integration Competency Centers or leadership Lean Integration practices. Our consulting strategy is to provide specialized expertise on our products to enable our customers and partners to successfully implement and sustain business solutions using our integration platform.

Our Professional Services consultants use a services methodology called Informatica Velocity to guide the successful implementation of our software. Our services methodology reflects the best practices that Informatica has developed and refined through hundreds of successful projects. Informatica Velocity covers each of the major implementation project phases, including manage, analyze, design, build, test, deploy, and operate. Where applicable, Informatica Velocity includes technical white papers as well as sample project documentation and even sample implementations (mappings) of specific technical solutions.

We offer a global comprehensive role-based curriculum of product and solution oriented education offerings to enable our customers and strategic partners to build proficiency in using our products. Informatica delivers education services in more than 45 countries and over 50 course offerings through instructor led, virtual academy, and eLearning delivery options to make training easy and cost effective. We have established the Informatica Certification Program for both PowerCenter and Informatica Data Quality, which has created a database of expert professionals with verifiable skills in the design and administration of Informatica-based systems.

We also make available a number of products as services, priced on a subscription licensing bases. For example, Informatica's address validation, which allows customer to validate addresses against a continuously updated global database of addresses, is available as a service on a monthly subscription basis. Additionally, a number of our Cloud Services, such as the Informatica Cloud Data Quality Assessment service, are available via monthly subscriptions. Lastly, Informatica PowerCenter Cloud Edition, which is available on and through Amazon EC2, is priced on an hourly and capacity basis. Products delivered as a service allow customers to get specific, limited functionality at an attractive entry price point.

Our Partners

Informatica's partners include industry leaders in enterprise software, computer hardware, and systems integration. We offer a comprehensive strategic partner program for major companies in these areas so that they can provide sales and marketing leverage, have access to required technology, and can furnish complementary products and services to our joint customers. As of December 31, 2010, more than 195 companies helped market, resell, or implement Informatica's solution around the world. Additionally, as of December 31, 2010, more than 100 companies have embedded our core products into their own, enabling their customers to benefit from the enterprise-class data integration we provide within their products. Our partners that resold and/or referred more than $2,000,000 each in license orders in 2010 were Accenture, Affecto, Beijing Polystar, Cap Gemini, Cognizant, Computer Sciences Corporation, Deloitte Consulting, DLT Solutions, Fujitsu, GTSI Corporation, Hewlett-Packard, IBM Global Services, Infosys, Logica, Steria Mummert Consulting, Tata Consultancy Services, Teradata, and Wipro. Our original equipment manufacturer ("OEM") partners that generated more than $500,000 each in license orders for us in 2010 were Accenture, Experian, EMC, Oracle, and SITA Advanced Travel Solutions.

Our Customers

As of December 31, 2010, more than 4,200 companies worldwide relied on Informatica for their data integration and data quality needs. Our customers represent a wide range of corporations and governmental and educational institutions. Our targeted markets include energy and utilities, financial services, government and public sector, healthcare, high technology, insurance, manufacturing, retail, services, telecommunications, and transportation. The top three industry contributors in 2010 were financial services, healthcare, and high technology.

No single customer accounted for 10% or more of our total revenues in 2010, 2009, or 2008.

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Sales, Marketing, and Distribution

We market and sell software and services through both our direct sales force and indirect channel partners in North America, Europe, Asia-Pacific, Latin America, and other regions around the world. As of December 31, 2010, we employed 720 people in our sales and marketing organization worldwide.

Marketing programs are focused on creating awareness of Informatica and its products and services, generating interest among new customers as well as interest in new products within existing customers, documenting compelling customer references, and creating up-sell/cross-sell opportunities for our products. These programs are targeted at such key executives as chief information officers, vice presidents of IT, and vice presidents of specific functional areas such as marketing, sales, service, finance, human resources, manufacturing, distribution, and procurement as well as enterprise architects and other key IT professionals focused on data integration. Our marketing personnel engage in a variety of activities, including positioning our software products and services, conducting public relations programs, establishing and maintaining relationships with industry analysts, producing collateral that describes our products, services, and solutions, and generating qualified sales leads.

Our global sales process consists of several phases: lead generation, opportunity qualification, needs assessment, product demonstration, proposal generation, and contract negotiation. Although the typical sales cycle requires three to six months, some sales cycles have lasted substantially longer. In a number of instances, our relationships with systems integrators and other strategic partners have reduced sales cycles by generating qualified sales leads, making initial customer contacts, assessing needs prior to our introduction to the customers, and endorsing our products to the customers before their product selection. Also, partners have assisted in the creation of presentations and demonstrations, which we believe enhances our overall value proposition and competitive position.

In addition to our direct sales efforts, we distribute our products through systems integrators, resellers, distributors, and OEM partners in the United States and internationally. Systems integrators typically have expertise in vertical or functional markets. In some cases, they resell our products, bundling them with their broader service offerings. In other cases, they refer sales opportunities to our direct sales force for our products. Distributors sublicense our products and provide service and support within their territories. OEMs embed portions of our technology in their product offerings.

Research and Development

As of December 31, 2010, we employed 688 people in our research and development organization. This team is responsible for the design, development, release and maintenance of our products. The group is organized into four disciplines: development, quality assurance, documentation, and product management. Members from each discipline, along with product marketing, form focus teams that work closely with sales, marketing, services, customers, and prospects to better understand market needs and user requirements. These teams utilize a well-defined agile software development methodology that we believe enables us to deliver products that satisfy real business needs for the global market while also meeting commercial quality expectations and minimizing schedule risk.

When appropriate, we also use third parties to expand the capacity and technical expertise of our internal research and development team. On occasion, we have licensed third-party technology. We believe this approach shortens time to market without compromising competitive position or product quality, and we plan to continue drawing on third-party resources as needed in the future.

Approximately 40% of Informatica's research and development team is based in the United States and the remainder is based in Australia, Canada, Germany, India, Ireland, Israel, the Netherlands, Russia, and the United Kingdom. Our international development effort is intended to both increase development productivity and deliver innovative product capabilities. Our research and development expenditures, which are expensed as incurred, were \$106.0 million in 2010, \$78.4 million in 2009, and \$72.5 million in 2008.

Competition

The market for our products is highly competitive, quickly evolving, and subject to rapidly changing technology. Our competition consists of hand-coding, custom-built data integration solutions developed in-house by various companies in the industry segments that we target as well as other vendors of integration software products, including IBM (which acquired Ascential Software, Cast Iron Systems, Cognos, Data Mirror, Initiate Systems, and SPSS), Microsoft, Oracle (which acquired BEA Systems, GoldenGate Software, Hyperion Solutions, Siebel, SilverCreek, Sun

Microsystems, and Sunopsis), SAP (which acquired Business Objects, which had previously acquired FirstLogic, and Sybase), and certain privately held companies. In the past, we have competed with business intelligence vendors that currently offer, or may develop, products with functionalities that compete with our products, such as Business Objects, and to a lesser degree, Cognos, and certain privately held companies. With regard to data quality, we compete against SAP, Trillium (which is part of Harte-Hanks), and SAS Institute, as well as various other privately held companies.

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We currently compete on the basis of the breadth and depth of our products' functionality as well as on the basis of price. Additionally, we compete on the basis of certain other factors, including neutrality, dependability, user efficiency, quality of products, services, support, and versatility. We believe that we currently compete favorably with respect to these factors. For a further discussion of our competition, see "Risk Factors — If we do not compete effectively, our revenues may not grow and could decline" in Part I, Item 1A of this Report.

Seasonality

Our business is influenced by seasonal factors, largely due to customer buying patterns. In recent years, we have generally had weaker demand for our software products and services in the first and third quarters of the year and seasonally stronger demand in the fourth quarter. Our consulting and education services have sometimes been negatively impacted in the fourth and first quarters of the year due to holidays and internal Informatica meetings, which result in fewer billable hours for our consultants and fewer education classes.

Backlog

For a discussion of our backlog, see "Potential Future Revenues (New Orders, Backlog, and Deferred Revenue)" in Management's Discussion and Analysis of Financial Condition and Results of Operations in Part II, Item 7 of this Report, which is incorporated herein by reference.

Intellectual Property and Other Proprietary Rights

Our success depends in part upon our proprietary technology. 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. As part of our confidentiality procedures, we generally enter into non-disclosure agreements with our employees, distributors, and corporate partners and into license agreements with respect to our software, documentation, and other proprietary information. In addition, we have 27 patents issued in the United States, two patents issued in the European Union, four patents issued in Canada, one patent issued in New Zealand, fifteen patent applications pending in the United States, nine patent applications pending in Canada, six patent applications pending in the European Union, three patent applications pending in Australia, and two patent applications pending in Japan. Our issued patents are scheduled to expire at various times through February 2027. Where appropriate, we have also entered into patent cross-license agreements with third parties, thereby acquiring additional intellectual property rights which preserve our ability to pursue normal business activity and minimize our risks in entering new and adjacent technology markets.

Nonetheless, our intellectual property rights may not be successfully asserted in the future or may be invalidated, circumvented, or challenged. In addition, the laws of various foreign countries where our products are distributed do not protect our intellectual property rights to the same extent as U.S. laws. Our inability to protect our proprietary information could harm our business. For a further discussion of our intellectual property rights, see "Risk Factors - 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" in Part I, Item 1A of this Report.

Employees

As of December 31, 2010, we had a total of 2,126 employees, including 688 people in research and development, 720 people in sales and marketing, 483 people in consulting, customer support, and education services, and 235 people in general and administrative services. None of our employees is represented by a labor union. We have not experienced any work stoppages, and we consider employee relations to be good.

Additional Information

Informatica's corporate headquarters are located at 100 Cardinal Way, Redwood City, California 94063, and the telephone number at that location is (650) 385-5000. We can also be reached at our Web site at www.informatica.com; however, the information in, or that can be accessed through, our Web site is not part of this Report. Informatica was incorporated in California in February 1993 and reincorporated in Delaware in April 1999. Copies of annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to these reports pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act") are available, free of charge, on Informatica's Web site as soon as reasonably practicable after we file such material electronically with the Securities and Exchange Commission ("SEC"). The SEC also maintains a Web site that contains our SEC filings. The address of the site is www.sec.gov.

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ITEM 1A. RISK FACTORS

In addition to the other information contained in this Annual Report on Form 10-K, 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.

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

As our business has grown, we have become increasingly subject to the risks arising from adverse changes in the domestic and global economies. We have experienced the adverse effect of economic slowdowns in the past, which resulted in a significant reduction in capital spending by our customers, as well as longer sales cycles and the deferral or delay of purchases of our products.

Uncertainty in the macroeconomic environment and associated global economic conditions have resulted in extreme volatility in credit, equity, and foreign currency markets, including the European sovereign debt markets and volatility in various markets including the financial services sector, which typically is the largest vertical segment that we serve. In addition, in 2010, we experienced a decline in European public sector transactions, and we continue to expect uncertainty in European public sector spending. These conditions affected the buying patterns of our customers and prospective customers and adversely affected our overall pipeline conversion rate as well as our revenue growth expectations. Though the economic conditions appear to be improving, although unevenly, if such conditions deteriorate or if the pace of economic recovery is slower or more uneven, our results of operations could be adversely affected, we may not be able to sustain the growth rates we have experienced recently, and we could fail to meet the expectations of stock analysts and investors, which could cause the price of our common stock to decline.

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

If we do not compete effectively, our revenues may not grow and could decline.

The market for our products is highly competitive, quickly evolving, and subject to rapidly changing technology. Our competition consists of hand-coding, custom-built data integration solutions developed in-house by various companies in the industry segments that we target, as well as other vendors of integration software products, including IBM (which acquired Ascential Software, Cast Iron Systems, Cognos, DataMirror, Initiate Systems, and SPSS), Microsoft, Oracle (which acquired BEA Systems, GoldenGate Software, Hyperion Solutions, Siebel, SilverCreek, Sun Microsystems, and Sunopsis), SAP (which acquired Business Objects, which had previously acquired FirstLogic, and Sybase), and certain privately held companies. In the past, we have competed with business intelligence vendors that currently offer, or may develop, products with functionalities that compete with our products, such as Business Objects, and to a lesser degree Cognos, and certain privately-held companies. With regard to data quality software and services, we also compete against SAP, Trillium (which is part of Harte-Hanks), and SAS Institute, as well as various other privately-held companies.

Many of our competitors have longer operating histories, substantially greater financial, technical, marketing, and other resources, greater name recognition, broader product portfolios and stronger customer relationships than we do and may be able to exert greater influence on customer purchase decisions. Our competitors may be able to respond more quickly than we can to new or emerging technologies and changes in customer requirements. Our current and potential competitors may develop and market new technologies that render our existing or future products obsolete, unmarketable, or less competitive. We believe we currently compete on the basis of the breadth and depth of our products' functionality, as well as on the basis of price. We may have difficulty competing on the basis of price in circumstances where our competitors develop and market products with similar or superior functionality and pursue an aggressive pricing strategy or bundle data integration technology and data quality at no cost to the customer or at deeply discounted prices. These difficulties may increase as larger companies target the data integration and data quality markets. As a result, increased competition and bundling strategies could seriously impede our ability to sell additional products and services on terms favorable to us.

In addition, consolidation among vendors in the software industry is continuing at a rapid pace. For example, Oracle's acquisition of Sun Microsystems, creating a large integrated supplier of enterprise software on hardware optimized for its software

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

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

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

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

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

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

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

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Due to the difficulty we experience in predicting our quarterly license revenues, we believe that quarter-to-quarter comparisons of our operating results are not necessarily a good indication of our future performance. In addition, a number of the other factors discussed in this section may cause fluctuations in our quarterly operating results. Our future operating results or forecasts of future operating results could fail to meet the expectations of stock analysts and investors. If any of these happen, the price of our common stock would likely fall.

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

We have significant operations outside the United States, including sales and professional services operations, software development centers and customer support centers. We have recently expanded our presence and capabilities in a number of major geographic regions, including North and Latin America, Europe and the Middle East and Asia-Pacific, and we plan to continue such expansion. Our international operations are subject to numerous risks, including:

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

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

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

Our international sales and operations expose us to fluctuations in foreign currency exchange rates. An unfavorable change in the exchange rate of foreign currencies against the U.S. dollar would result in lower revenues when translated into U.S. dollars, although operating expenditures would be lower as well. Historically, the effect of changes in foreign currency exchange rates on our revenues and operating expenses has been immaterial, although in the fourth quarter of 2008 and the first half of 2009, the decline in the U.S. dollar and the increased volatility in currency markets caused a greater than historical impact. The sequential impact of the foreign currency exchange rate fluctuation diminished near the end of 2009 and increased in the second and third quarters of 2010. Beginning in the fourth quarter of 2008, 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.

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If we are unable to accurately forecast sales and trends in our business, we may fail to meet expectations and our stock price could decline.

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

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

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

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

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

Due to the expense, broad functionality, and company-wide deployment of our products, our customers' decisions to purchase our products typically require the approval of their executive decision makers. In addition, we frequently must educate our potential customers about the full benefits of our products, which also can require significant time. This trend toward greater customer executive level involvement and customer education is likely to increase as we expand our market focus to broader data integration initiatives. Further, our sales cycle may lengthen, particularly in the current economic environment, as we continue to focus our sales efforts on large corporations. As a result of these factors, the length of time from our initial contact with a customer to the customer's decision to purchase our products typically ranges from three to nine months. We are subject to a number of significant risks as a result of our lengthy sales cycle, including:

- our customers' budgetary constraints and internal acceptance review procedures;
- the timing of our customers' budget cycles;
- the seasonality of technology purchases, which historically has resulted in stronger sales of our products in the fourth quarter of the year, especially when compared to lighter sales in the first quarter of the year;
- our customers' concerns about the introduction of our products or new products from our competitors; or

- potential downturns in general economic or political conditions or potential tightening of credit markets that could occur during the sales cycle.

If our sales cycles lengthen unexpectedly, they could adversely affect the timing of our revenues or increase costs, which may independently cause fluctuations in our revenues and results of operations. Finally, if we are unsuccessful in closing sales of our

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products after spending significant funds and management resources, our operating margins and results of operations could be adversely impacted, and the price of our common stock could decline.

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

We believe that our ability to increase the sales of our products depends in part upon maintaining and strengthening relationships with our current strategic partners and any future strategic partners. In addition to our direct sales force, we rely on established relationships with a variety of strategic partners, such as systems integrators, resellers, and distributors, for marketing, licensing, implementing, and supporting our products in the United States and internationally. We also rely on relationships with strategic technology partners, such as enterprise application providers, database vendors, data quality vendors, and enterprise integrator vendors, for the promotion and implementation of our products. Among others, we are partners with Cloudera, Dun & Bradstreet, EMC, Hewlett Packard, Intel, Microsoft, Oracle, Salesforce.com, and SAP.

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

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

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

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

From time to time, we evaluate potential acquisitions or investments in complementary businesses, products, or technologies. For example, we have recently acquired several companies, including 29West in March 2010, Siperian in January 2010, Agent Logic in September 2009, AddressDoctor in June 2009, and Applimation in February 2009. Acquisitions and investments involve a number of risks, including:

- the failure to capture the value of the business we acquired, including the loss of any key personnel, customers and business relationships, including strategic partnerships, or the failure of the transaction to advance our business strategy as anticipated;
- the difficulties in and costs associated with successfully integrating or incorporating the acquired company's products, technologies, services, employees, customers, partners, business operations and administrative systems with ours;
- the disruption of our ongoing business and the diversion of management's attention by transition or integration issues;
- the failure to accurately predict how the acquired company's pipeline will convert into sales or revenues following the acquisition, as conversion rates post-acquisition may be quite different from the acquired company's historical conversion rates and can be affected by changes in business practices that we implement;

- 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.

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

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

Our products are designed to interoperate with and provide access to a wide range of third-party developed and maintained hardware and software technologies, which are used by our customers. The future design and development plans of the third parties that maintain these technologies are not within our control and may not be in line with our future product development plans. We may also rely on such third parties, particularly certain third-party developers of database and application software products, to provide us with access to these technologies so that we can properly test and develop our products to interoperate with the third-party technologies. These third parties may in the future refuse or otherwise be unable to provide us with the necessary access to their technologies. In addition, these third parties may decide to design or develop their technologies in a manner that would not be interoperable with our own. The continued consolidation in the enterprise software market may heighten these risks. Furthermore, our expanding product line, including our combination of products delivered on a comprehensive, unified and open data integration platform makes maintaining interoperability more difficult as various products may have different levels of interoperability and compatibility, which may change from version to version. If any of the situations described above were to occur, we would not be able to continue to market our products as interoperable with such third-party hardware and software, which could adversely affect our ability to successfully sell our products to our customers.

The loss of our key personnel, an increase in our sales force personnel turnover rate, or 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. We continue to experience changes in members of our senior management team. As new senior personnel join our company and become familiar with our business strategy and systems, their integration could result in some disruption to our ongoing operations.

In the past, we also experienced an increased level of turnover in our direct sales force. Such increase in the turnover rate impacted our ability to generate license revenues. Although we have hired replacements in our sales force and have seen the pace of voluntary turnover decrease in 2009 and 2010, we typically experience lower productivity from newly hired sales personnel for a period of 6 to 12 months. If we are unable to effectively train such new personnel, or if we experience an increase in the level of sales force turnover, our ability to generate license revenues may be negatively impacted.

In addition, we have experienced turnover in other areas of the business. As the market becomes increasingly competitive and the hiring becomes more difficult and costly, our personnel (including those with government security clearance qualifications) become more attractive to other companies. Many of our competitors have greater financial and other resources than us for attracting experienced personnel. Our plan for continued growth requires us to add personnel to meet our growth objectives and places increased importance on our ability to attract, train, and

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

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

The market for software products that enable more effective business decision making by helping companies aggregate and utilize data stored throughout an organization continues to change. While we believe that the traditional use of our technology in data warehousing applications is still growing, we expect most of our growth to come from the emerging market for broader data integration, which includes data migration, data consolidation, data synchronization, master data management, B2B data exchange, information lifecycle management, cloud data integration, and data quality projects. The use of packaged software solutions to address the needs of the broader data integration and data quality markets is relatively new and is still emerging. Our customers or prospective customers may:

- not fully value the benefits of using our products;
- not achieve favorable results using our products;
- defer product purchases due to the current global economic downturn;
- experience technical difficulties in implementing our products; or
- use alternative methods to solve the problems addressed by our products.

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

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

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

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

The market for our products is characterized by continuing technological development, evolving industry standards, changing customer needs, and frequent new product introductions and enhancements. The introduction of products by our direct competitors or others embodying new technologies, the emergence of new industry standards, or changes in customer requirements could render our existing products obsolete, unmarketable, or less competitive. In particular, an industry-wide adoption of uniform open standards across heterogeneous applications could minimize the importance of the integration functionality of our products and materially adversely affect the competitiveness and market acceptance of our products. Our success depends upon our ability to enhance existing products, to respond to changing customer requirements, and to develop and introduce in a timely manner new products that keep pace with technological and competitive developments and emerging industry standards. We have in the past experienced delays in releasing new products and product enhancements and may experience similar delays in the future. As a result, in the past, some of our customers deferred purchasing our products until the next upgrade was released. Future delays or problems in the installation or implementation of our new releases may cause customers to 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

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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 August 2007, JuxtaComm Technologies filed a complaint in the Eastern District of Texas alleging patent infringement against various defendants, including Informatica. Some defendants, including Informatica, have settled with JuxtaComm. More recently, in November 2008, Data Retrieval Technologies LLC filed a complaint in the Western District of Washington against Sybase, Inc. and Informatica, alleging patent infringement.

Any claims, with or without merit, could be time consuming, result in costly litigation, cause product shipment delays, or require us to enter into royalty or licensing agreements, any of which could adversely affect our business, financial condition, and operating results. Although we do not believe that we are currently infringing any proprietary rights of others, additional legal action claiming patent infringement could be commenced against us. We may not prevail in such litigation given the complex technical issues and inherent uncertainties in patent litigation. The potential effects on our business that may result from third-party infringement claims, including those claims brought by Data Retrieval Technologies LLC, 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.

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

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

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

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

Sales to U.S. and foreign federal, state, and local governmental agency end-customers have accounted for a portion of our revenue, and we may in the future increase sales to government entities. However, government entities have recently announced reductions in, or experienced increased pressure to reduce, government spending. In particular, such measures have adversely affected European public sector transactions. 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.

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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.

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 pre-tax income. 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 were under various examinations by the Internal Revenue Service and have been under examinations by state and foreign taxing authorities for 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 an annual 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 recently enacted 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

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revenue on transactions derived in this region (except for direct sales in Japan and Australia) only when the cash has been received and all other revenue recognition criteria have been met. We also have provided business practices training to our sales teams. Overall, the combination of increased structural complexity and the ever-increasing regulatory complexity make it more critical for us to attract and retain qualified and technically competent finance employees.

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

We need to continue to improve our internal systems, processes, and controls to effectively manage our operations and growth, including our international growth into new geographies, particularly the Asia-Pacific and Latin American markets, and realign resources from time to time to more efficiently address market or product requirements. To the extent any realignment requires changes to our internal systems, processes, and controls or organizational structure, we could experience disruption in customer relationships, increases in cost, and increased employee turnover. Furthermore, as we expand our geographic presence and capabilities, we may also need to implement additional or enhance our existing systems, processes and controls to ensure compliance with U.S. and international laws, including anti-corruption and anti-bribery laws such as the FCPA and the UK Bribery Act, which is broader in scope than the FCPA. For our systems process and controls, we use both on-premise and cloud resources, and any security or other flaws in such resources could have a negative impact on such systems, processes, or controls. In addition, we may not be able to successfully implement upgrades and improvements to these systems, processes, and controls in an efficient or timely manner, and we may discover deficiencies in existing systems, processes, and controls. We have licensed technology from third parties to help us accomplish this objective. The support services available for such third-party technology may be negatively affected by mergers and consolidation in the software industry, and support services for such technology may not be available to us in the future. We may experience difficulties in managing upgrades and improvements to our systems, processes, and controls or in connection with third-party software, which could disrupt existing customer relationships, causing us to lose customers, limit us to smaller deployments of our products, or increase our technical support costs.

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

Changes in existing accounting rules or practices, including the possible conversion to unified international accounting standards, new accounting pronouncements, or varying interpretations of current accounting pronouncements could have a significant adverse effect on our results of operations or the manner in which we conduct our business. For example, the adoption of Financial Accounting Standards Board's ("FASB") Accounting Standards Codification ("ASC") 718, Stock Compensation, has had a significant adverse impact on our consolidated results of operations as it has increased our operating expenses and the number of diluted shares outstanding and reduced our operating income and diluted earnings per share. Further, we may not be able to accurately forecast the effect of stock-based compensation on our operating income, net income, and earnings per share because the underlying assumptions, including volatility, interest rate, and expected life, of the Black-Scholes-Merton option pricing model could vary over time. In addition, the FASB is currently working together with the International Accounting Standards Board ("IASB") to converge certain accounting principles and facilitate more comparable financial reporting between companies who are required to follow generally accepted accounting principles ("GAAP") and those who are required to follow International Financial Reporting Standards ("IFRS"). These projects may result in different accounting principles under GAAP, which may have a material impact on the way in which we report financial results in areas including, but not limited to, principles for recognizing revenue, lease accounting, and financial statement presentation. The SEC has also stated that it expects to make a determination in 2011 as to whether, when, and how IFRS should be incorporated into the financial reporting system for U.S. companies. A change in accounting principles from GAAP to IFRS may have a material impact on our financial statements. A change in existing financial accounting standards or practices may even retroactively adversely affect previously reported transactions.

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

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

- volatility in the capital markets;
- the announcement of new products or product enhancements by our competitors;
- quarterly variations in our competitors' results of operations;
- changes in earnings estimates and recommendations by securities analysts;
- developments in our industry; and
- changes in accounting rules.

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

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

We have substantial real estate lease commitments in the United States and internationally. However, we do not occupy some of these leases with the most significant portion of our unoccupied leases being located in Silicon Valley. Currently, we have substantially subleased these unoccupied properties to third parties. The terms of most of these sublease agreements comprise a majority of the remaining lease terms through 2013. In addition, the current economic downturn has negatively impacted commercial lease rates and terms in the Silicon Valley area and makes it more difficult to enter into agreements with existing subtenants on sublease renewals or prospective subtenants with sublease rates or terms comparable to those contracted for in the past. To the extent that our subtenants do not renew their subleases at the end of the initial term and we are unable to enter into new subleases with other parties at comparable rates, or our subtenants are unable to pay the sublease rent amounts in a timely manner, our cash flow would be negatively impacted and our operating results and financial condition could be adversely affected. See Note 11. Facilities Restructuring Charges of Notes to Consolidated Financial Statements in Part II, Item 8 of this Report.

The conversion provisions of our Convertible Senior Notes and the level of debt represented by such notes will dilute the ownership interests of stockholders, could adversely affect our liquidity, and could impede our ability to raise additional capital which may also be affected by the tightening of the capital markets.

In March 2006, we issued $230 million aggregate principal amount of 3% Convertible Senior Notes due 2026 (the “Notes”). As of December 31, 2010, $200.7 million of the Notes were outstanding. The Note holders can convert the Notes into shares of our common stock at any time before the Notes mature or we redeem or repurchase them. Upon certain dates (March 15, 2011, March 15, 2016, and March 15, 2021) or the occurrence of certain events including a change in control, the Note holders can require us to repurchase some or all of the Notes. Upon any conversion of the Notes, our basic earnings per share would be expected to decrease because such underlying shares would be included in the basic earnings per share calculation. Given that events constituting a “change in control” can trigger such repurchase obligations, the existence of such repurchase obligations may delay or discourage a merger, acquisition, or other consolidation. In February 2011, we called for redemption on March 18, 2011 all of the remaining Notes. While we expect holders to convert the Notes into shares prior to the redemption date, if our stock price declines and the interest rates rise significantly, we may be required to settle the Notes in cash. If we are unable to meet the obligations out of cash flows from operations or other available funds, we may need to raise additional funds through public or private debt or equity financings. We may not be able to borrow money or sell more of our equity securities to meet our cash needs for reasons including the tightening of the capital markets. Even if we are able to do so, it may not be on terms that are favorable or reasonable to us.

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 December 31, 2010. The credit agreement contains affirmative and negative covenants, including covenants that 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, including our Notes. 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.

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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 major fiber outage experienced by some of our facilities in Asia as a result of the December 2006 earthquake off the coast of Taiwan, can negatively affect our operations given necessary interaction among our international facilities. The outage affected network connectivity, which was restored to acceptable levels shortly thereafter. In the event such an earthquake or any other natural disaster or man-made failure occurs, it could disrupt the operations of our affected facilities and recovery of our resources. In addition, we do not carry sufficient business interruption insurance to compensate us for losses that may occur, and any losses or damages incurred by us could have a material adverse effect on our business.

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

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

In addition, we have adopted a stockholder rights plan. Under the plan, we issued a dividend of one right for each outstanding share of common stock to stockholders of record as of November 12, 2001, and such rights will become exercisable only upon the occurrence of certain events. Because the rights may substantially dilute the stock ownership of a person or group attempting to take us over without the approval of our Board of Directors, the plan could make it more difficult for a third party to acquire us or a significant percentage of our outstanding capital stock without first negotiating with our Board of Directors regarding such acquisition.

ITEM 1B. UNRESOLVED STAFF COMMENTS

Not applicable.

ITEM 2. PROPERTIES

Our corporate headquarters are located in a leased facility in Redwood City, California and comprise approximately 159,000 square feet. 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 amended the lease to further extend the term for an additional three years to December 31, 2013. The facility is used by our administrative, sales, marketing, product development, customer support, and services groups.

We also occupy additional leased facilities in the United States, including offices located in Alpharetta, Georgia; Austin and Plano, Texas; Boston, Massachusetts; Chicago, Illinois; Old Greenwich, Connecticut; New York, New York; Raleigh, North Carolina; and Reston and Vienna, Virginia, which are primarily used for sales, marketing, services, and to a lesser degree, product development. Leased facilities located outside of the United States and used primarily for sales, marketing, customer support, and services include offices in Toronto, Canada; Paris, France; Frankfurt and Maxdorf, Germany; Nieuwegein, the Netherlands; Lisboa, Portugal; Barcelona and Madrid, Spain; London and Maidenhead, the United Kingdom; Sydney, Australia; Beijing, China; Mumbai and New Delhi, India; Seoul, South Korea; Dublin, Ireland; Tel Aviv, Israel; Sao Paulo, Brazil; Tokyo, Japan; and Singapore. We also lease facilities in Hyderabad, India and Canberra City, Australia where our offices are primarily used for product development. We also lease a facility in Bangalore, India, which is used primarily for product development, customer support, professional services, finance, and other operations. In addition, we lease executive office space throughout the world for our local sales and services needs. These leased facilities expire at various times through July 2021. We are continually evaluating the adequacy of existing facilities and additional facilities in new cities, and we believe that, if needed, suitable additional space will be available in the future on commercially reasonable terms as needed.

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We also lease certain facilities that we no longer occupy because they exceed our current requirements. Currently, the majority of these facilities are subleased to third parties. See Note 11. Facilities Restructuring Charges and Note 15. Commitments and Contingencies of Notes to Consolidated Financial Statements in Part II, Item 8 of this Report.

ITEM 3. LEGAL PROCEEDINGS

The information set forth in Note 16. Litigation of Notes to Consolidated Financial Statements in Part II, Item 8 of this Report is incorporated herein by reference.

ITEM 4. RESERVED

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS, AND ISSUER PURCHASES OF EQUITY SECURITIES

Price Range of Common Stock

Our common stock is listed on the NASDAQ Global Select Market under the symbol "INFA." The price range per share in the table below reflects the highest and lowest sale prices for our stock as reported by the NASDAQ Global Select Market during the last two fiscal years.

	High	Low
Year Ended December 31, 2010		
Fourth quarter	$45.43	$36.03
Third quarter	$38.41	$23.79
Second quarter	$27.61	$23.29
First quarter	$27.69	$22.86
Year Ended December 31, 2009		
Fourth quarter	$26.68	$21.23
Third quarter	$22.71	$16.50
Second quarter	$17.57	$13.35
First quarter	$14.79	$11.59

Holders of Record

At January 31, 2011, there were approximately 102 stockholders of record of our common stock, and the closing price per share of our common stock was $46.40. Since many of our shares of common stock are held by brokers and other institutions on behalf of stockholders, we are unable to estimate the total number of stockholders represented by these record holders.

Dividends

We have never declared or paid cash dividends on our common stock. Because we currently intend to retain all future earnings to finance future growth, we do not anticipate paying any cash dividends in the near future.

Purchases of Equity Securities and Convertible Senior Notes by the Issuer and Affiliated Purchasers

The following table provides information about the repurchase of our common stock for the quarter ended December 31, 2010.

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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)
October 1 — October 31				
From employees (1)	—	—	—	—
Repurchase program (2)	—	—	—	$39,675
November 1 — November 30				
From employees (1)	6,842	$40.45	—	—
Repurchase program (2)	—	—	—	$39,675
December 1 — December 31				
From employees (1)	—	—	—	—
Repurchase program (2)	300,000	$43.74	300,000	$26,542
Total	306,842	$43.70	300,000	

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

(2) Informatica repurchased shares in the fourth quarter of fiscal 2010 under its ongoing stock repurchase program. This program does not have a specific expiration date and authorizes repurchases in the open market and in private transactions. In October 2008, our Board approved expanding our stock repurchase program to include the repurchase, from time to time, of a portion of our outstanding convertible notes in privately negotiated transactions. All stock repurchased pursuant to the repurchase program in the quarter ended December 31, 2010 were purchased in open market transactions. As of December 31, 2010, Informatica had remaining authorization of $26.5 million for future share repurchases; however, in January 2011, we announced that our Board had authorized an additional $50 million increase to the program. In February 2011, we called for redemption on March 18, 2011 all of the remaining Notes. For further information about our stock repurchase program, see the subsection Stock Repurchase Plan in Note 7. Stockholders' Equity of Notes to Consolidated Financial Statements in Part II, Item 8 of this Report.

Our annual report to stockholders will include our performance graph that compares the five-year cumulative total return to stockholders on our common stock for the period ended December 31, 2010, with the cumulative total return of the NASDAQ Composite Index and the S&P Information Technology Index.

ITEM 6. SELECTED FINANCIAL DATA

The following selected consolidated financial data is qualified in its entirety by, and should be read in conjunction with the consolidated financial statements and the notes thereto included in Part II, Item 8 and Management’s Discussion and Analysis of Financial Condition and Results of Operations included in Part II, Item 7 of this Report. The selected consolidated statements of income data and consolidated balance sheet data as of and for each of the five years in the period ended December 31, 2010, have been derived from the audited consolidated financial statements. All share and per share amounts have been adjusted to give retroactive effect to stock splits that have occurred since our inception.

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	Years Ended December 31,				
	2010	2009	2008	2007	2006
	(In thousands, except per share data)				
Selected Consolidated Statements of Income Data:					
Revenues:					
License	$295,110	$214,322	$195,769	$175,318	$146,092
Service	354,966	286,371	259,930	215,938	178,506
Total revenues	650,076	500,693	455,699	391,256	324,598
Cost of revenues:					
License	4,485	3,135	3,291	3,693	6,978
Service	100,602	76,549	80,287	69,174	58,402
Amortization of acquired technology	13,342	7,950	4,125	2,794	2,118
Total cost of revenues	118,429	87,634	87,703	75,661	67,498
Gross profit	531,647	413,059	367,996	315,595	257,100
Operating expenses:					
Research and development	106,043	78,352	72,522	69,908	54,997
Sales and marketing	245,498	192,747	177,339	158,298	138,851
General and administrative	46,273	41,449	37,411	35,531	28,187
Amortization of intangible assets	9,539	10,051	4,575	1,441	653
Facilities restructuring charges	1,133	1,661	3,018	3,014	3,212
Acquisitions and other	1,326	(570)	390	—	1,340
Patent related litigation proceeds net of patent contingency accruals	—	—	(11,495)	—	—
Total operating expenses	409,812	323,690	283,760	268,192	227,240
Income from operations	121,835	89,369	84,236	47,403	29,860
Interest and other income (expense), net	(686)	449	7,737	15,237	11,823
Income before income taxes	121,149	89,818	91,973	62,640	41,683
Income tax provision	34,825	25,607	35,993	8,024	5,477
Net income (1)	$86,324	$64,211	$55,980	$54,616	$36,206
Basic net income per common share(1)	$0.93	$0.73	$0.64	$0.63	$0.42
Diluted net income per common share(1)	$0.83	$0.66	$0.58	$0.57	$0.39
Shares used in computing basic net income per common share	92,361	87,991	88,109	87,164	86,420
Shares used in computing diluted net income per common share	109,083	103,312	103,278	103,252	92,942

(1) Net income and net income per share include the impact of stock compensation of $23.4 million, $17.9 million, $16.3 million, $16.0 million, and $14.1 million for the years ended December 31, 2010, 2009, 2008, 2007, and 2006 respectively. See Note 8. Stock-Based Compensation of Notes to Consolidated Financial Statements in Part II, Item 8 of this Report.

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	December 31,				
	2010	2009	2008	2007	2006
	(In thousands)				
Selected Consolidated Balance Sheet Data:					
Cash and cash equivalents	$208,899	$159,197	$179,874	$203,661	$120,491
Short-term investments	262,047	305,283	281,055	281,197	280,149
Restricted cash	—	—	—	12,122	12,016
Working capital	169,253	358,435	371,552	410,275	311,174
Total assets	1,189,641	989,622	863,112	798,644	696,765
Long-term debt	—	201,000	221,000	230,000	230,000
Total stockholders' equity	644,982	483,113	355,955	312,542	227,163

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ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This Annual Report on Form 10-K includes "forward-looking statements" within the meaning of the federal securities laws, particularly statements referencing our expectations relating to license revenues, service revenues, international revenues, deferred revenues, cost of license revenues, cost of service revenues, operating expenses, amortization of acquired technology, stock-based compensation, interest income or expense, and provision for income taxes; deferred taxes; international expansion; the growth of our customer base and customer demand for our products and services; continuing impacts from our 2004 and 2001 Restructuring Plans; the sufficiency of our cash balances and cash flows for the next 12 months; our stock repurchase programs; investment and potential investments of cash or stock to acquire or invest in complementary businesses, products, or technologies; the impact of recent changes in accounting standards; the acquisitions of Siperian and 29West; 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 th 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 under Part I, Item 1A. Risk Factors. All forward-looking statements and reasons why results may differ included in this Report are made as of the date hereof, and we assume no obligation to update any such forward-looking statements or reasons why actual results may differ.

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

Overview

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

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

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

We were able to grow our total revenues in 2010 by 30% to $650.1 million from $500.7 million in 2009. License revenues grew 38% year over year, primarily due to continued market acceptance of our products for broader data integration projects, and to a lesser degree, revenues from recent acquisitions. Services revenues increased 24% year over year due to 19% growth in maintenance revenues and a 40% increase in consulting, education, and other revenues. The maintenance revenue growth is attributable to the increased size of our installed customer base, and the increase in consulting, education, and other revenues is due to higher customer demand, increased utilization rates, and increased subscriptions. Our operating income as a percentage of revenues has increased slightly to 19% in 2010 from 18% in 2009.

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

- Macroeconomic Conditions: The United States and many foreign economies continue to experience uncertainty driven by varying macroeconomic conditions. Although some of these economies have shown signs of improvement, macroeconomic recovery remains uneven. Uncertainty in the macroeconomic environment and associated global economic conditions have resulted in extreme volatility in credit, equity, and foreign currency markets, including the European sovereign debt markets and volatility in various markets including the financial services sector, which typically is the largest vertical segment that we serve. In addition, in 2010, we experienced a decline in European public sector transactions, and we continue to expect uncertainty in European public sector spending. Furthermore, we have made incremental investments in Asia-Pacific and Latin America, and have maintained a high level of investments in Europe, the Middle East, and Africa ("EMEA"). There are significant risks with overseas investments, and our growth prospects in these regions are uncertain.

- Competition: Inherent in our industry are risks arising from competition with existing software solutions, including solutions from IBM, Oracle, and SAP, technological advances from other vendors, and the perception of cost savings by solving data integration challenges through customer hand-coding development resources. Our prospective customers may view these alternative solutions as more attractive than our offerings. Additionally, the consolidation activity in our industry (including Oracle's acquisition of BEA Systems, GoldenGate, Hyperion Solutions, Siebel, SilverCreek, Sun Microsystems, and Sunopsis; IBM's acquisition of Ascential Software, Cast Iron Systems, Cognos, DataMirror, Initiate Systems, and SPSS; and SAP's acquisition of Business Objects, which had previously acquired FirstLogic, and Sybase; and Tibco Software's acquisition of Netrics) pose challenges as competitors market a broader suite of software products or solutions to our existing or prospective customers.
- Product Introductions and Enhancements: To address the expanding data integration and data quality needs of our customers and prospective customers, we introduce new products and technology enhancements on a regular basis, including products we acquire. For example, in January 2010, we extended our existing MDM offering through the acquisition of Siperian. In February 2010, we launched Informatica Data Cloud Store, the industry's first Infrastructure-as-a-Service offering to archive database and enterprise application data to the cloud in a cost-effective and secure manner. In March 2010, we acquired 29West and their family of Ultra Messaging products. In June 2010, we delivered the Informatica Cloud Summer 2010 Release. In December 2010, we announced Informatica Cloud Express, the first cloud data integration service with usage-based pricing. The introduction of new products, integration of acquired products and enhancement of existing products, is a complex process involving inherent risks, and to which we devote significant resources. We cannot predict the impact of new or enhanced products on our overall sales and we may not generate sufficient revenues to justify their costs.
- Quarterly and Seasonal Fluctuations: Historically, purchasing patterns in the software industry have followed quarterly and seasonal trends and are likely to do so in the future. Specifically, it is normal for us to recognize a substantial portion of our new license orders in the last month of each quarter and sometimes in the last few weeks or days of each quarter, though such fluctuations are mitigated somewhat by recognition of backlog orders. In recent years, the fourth quarter has had the highest level of license revenues and order backlog, and we generally have weaker demand for our software products and services in the first and third quarters of the year. The first, second, and fourth quarters of 2010 and 2009 followed these seasonal trends. However, license revenues in the third quarter were essentially flat with the second quarter in both years. The current uncertain macroeconomic conditions make our historical seasonal trends more difficult to predict.

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

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, in November 2010, we announced a partnership with Cloudera, a provider of Apache Hadoop-based data management software and services, to provide solutions for addressing the challenges associated with managing large scale data, including structured, complex and social data. Additionally, in July 2010, we entered into a partnership with Dun & Bradstreet with respect to Informatica Cloud, and in May 2010, we announced a partnership with EMC to resell our Information Lifecycle Management ("ILM") and MDM products and services. In addition, we are partners with Hewlett-Packard, Intel, Microsoft, Oracle, salesforce.com, and SAP, among others. See "Risk Factors — We rely on our relationships with our strategic partners. If we do not maintain and strengthen these relationships, our ability to generate revenue and control expenses could be adversely affected, which could cause a decline in the price of our common stock" in Part I, Item 1A of this Report.

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

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

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

Critical Accounting Policies and Estimates

Our consolidated financial statements are prepared in accordance with generally accepted accounting principles ("GAAP") in the United States, which require us to make estimates, judgments, and assumptions. We believe that the estimates, judgments, and assumptions upon which we rely are reasonable based upon information available to us at the time that these assumptions, judgments, and estimates are made. These estimates, judgments, and assumptions can affect the reported amounts of assets and liabilities as of the date of the financial statements as well as the reported amounts of revenues and expenses during the periods presented. Any material differences between these estimates and actual results will impact our consolidated financial statements. On a regular basis, we evaluate our estimates, judgments, and assumptions and make changes accordingly. We also discuss our critical accounting estimates with the Audit Committee of the Board of Directors. We believe that the estimates, judgments, and assumptions involved in the accounting for revenue recognition, facilities restructuring charges, income taxes, impairment of goodwill and intangible assets, acquisitions, stock-based compensation, and allowance for doubtful accounts have the greatest potential impact on our consolidated financial statements, so we consider these to be our critical accounting policies. We discuss below the critical accounting estimates associated with these policies. Historically, our estimates, judgments, and assumptions relative to our critical accounting policies have not differed materially from actual results. See Note 2. Summary of Significant Accounting Policies of Notes to Consolidated Financial Statements in Part II, Item 8 of this Report for further information on our significant accounting policies.

Revenue Recognition

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

We derive revenues from software license fees, maintenance fees (which entitle the customer to receive product support and unspecified software updates), professional services, consisting of consulting and education services, and other revenues, primarily consisting of subscriptions for address validation and cloud services. We follow the appropriate revenue recognition rules for each type of revenue. The basis for recognizing software license revenue is determined by Software Revenue Recognition (ASC 985-605), Revenue Recognition for Construction-Type and Production-Type Contracts (ASC 605-35), and the Securities and Exchange Commission's Staff Accounting Bulletin

(“SAB”) 104, Revenue Recognition, which is discussed in the subsection Revenue Recognition in Note 2. Summary of Significant Accounting Policies of Notes to Consolidated Financial Statements in Part II, Item 8 of this Report.
Substantially all of our software licenses are perpetual licenses under which the customer acquires the perpetual right to use the software as provided and subject to the conditions of the license agreement. We recognize revenue when persuasive evidence of an arrangement exists, delivery has occurred, the fee is fixed or determinable, and collection is probable. In applying these criteria to revenue transactions, we must exercise judgment and use estimates to determine the amount of software, maintenance, and professional services revenue to be recognized at each period.
We assess whether fees are fixed or determinable prior to recognizing revenue. We must make interpretations of our customer

contracts and exercise judgments in determining if the fees associated with a license arrangement are fixed or determinable. We consider factors including extended payment terms, financing arrangements, the category of customer (end-user customer or reseller), rights of return or refund, and our history of enforcing the terms and conditions of customer contracts. If the fee due from a customer is not fixed or determinable due to extended payment terms, revenue is recognized when payment becomes due or upon cash receipt, whichever is earlier. Revenue arrangements from resellers and distributors are recognized on a sell-through basis upon shipment to the end user provided all other revenue recognition criteria are met, which in most cases is when cash is collected. Further, we make judgments in determining the collectability of the amounts due from our customers that could possibly impact the timing of revenue recognition. We assess credit worthiness and collectability, and when a customer is not deemed credit worthy, revenue is recognized when payment is received.

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

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

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

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

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

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

Facilities Restructuring Charges

During the fourth quarter of 2004, we recorded significant charges ("2004 Restructuring Plan") related to the relocation of our corporate headquarters, to take advantage of more favorable lease terms and reduce our operating expenses. The accrued restructuring charges represent the net present value of lease obligations and estimated broker commissions and other costs (principally leasehold improvements and asset write-offs), offset by actual and estimated gross sublease income, which is net of estimated broker commissions and tenant improvement allowances, expected to be received over the remaining lease terms. In addition, we significantly increased the 2001 restructuring charges ("2001 Restructuring Plan") in the third and fourth quarters of 2004 due to changes in our assumptions used to calculate the original charges as a result of our decision to relocate our corporate headquarters.

These liabilities include management’s estimates pertaining to sublease activities. Inherent in the assessment of the costs related to our restructuring efforts are estimates related to the probability weighted outcomes of the significant actions to accomplish the restructuring. We will continue to evaluate the commercial real estate market conditions periodically to determine if our estimates of the amount and timing of future sublease income are reasonable based on current and expected commercial real estate market conditions. Our estimates of sublease income may vary significantly depending, in part, on factors that may be beyond our control, such as the global economic downturn, time periods required to locate and contract suitable subleases, and market rates at the time of subleases. Currently, we have subleased our excess facilities in connection with our 2004 and 2001 facilities restructuring for durations that comprise a majority of the remaining lease terms through 2013. Future adjustments to the charges could result from any default by a sublessor, which could impact the time period that the buildings will be vacant, expected sublease rates, expected sublease terms, and the expected time it will take to sublease.

See Note 11. Facilities Restructuring Charges of Notes to Consolidated Financial Statements in Part II, Item 8 of this Report.

Accounting for Income Taxes

We use the asset and liability method of accounting for income taxes in accordance with ASC 740, Income Taxes. Under this method, income tax expenses or benefits are recognized for the amount of taxes payable or refundable for the current year and for deferred tax liabilities and assets for the future tax consequences of events that have been recognized in our consolidated financial statements or tax returns. We account for any income tax contingencies in accordance with ASC 740. The measurement of current and deferred tax assets and liabilities is based on provisions of currently enacted tax laws. The effects of any future changes in tax laws or rates have not been taken into account with the exception of revaluing deferred taxes for California relating to 2011 and thereafter.

As part of the process of preparing consolidated financial statements, we estimate our income taxes and tax contingencies in each of the tax jurisdictions in which we operate prior to the completion and filing of tax returns for such periods. This process involves estimating actual current tax expense together with assessing temporary differences resulting from differing treatment of items, such as deferred revenue, for tax and accounting purposes. These differences result in net deferred tax assets and liabilities. We must then assess the likelihood that the deferred tax assets will be realizable, and to the extent we believe that a deferred tax asset is not likely to be realized, we must establish a valuation allowance. In assessing the need for any additional valuation allowance, we considered all the evidence available to us, 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.

Accounting for Impairment of Goodwill and Intangible Assets

We assess goodwill for impairment annually on October 31 of each year and whenever an event or changes in circumstances indicate that the carrying value of the asset may not be recoverable. Consistent with our determination that we have only one reporting segment, we have determined that there is only one reporting unit and goodwill for impairment at the entity level. We test goodwill using the two-step process required by ASC 350, Intangibles - Goodwill and Other. In the first step, we compare the carrying amount of the reporting unit to the fair value based on quoted market prices of our common stock. If the fair value of the reporting unit exceeds the carrying value, goodwill is not considered impaired and no further testing is required. If the carrying value of the reporting unit exceeds the fair value, goodwill is potentially impaired and the second step of the impairment test must be performed. In the second step, if such comparison reflects potential impairment, we would compare the implied fair value of the goodwill, as defined by ASC 350, to its carrying amount to determine the amount of impairment loss, if any. We performed our annual goodwill impairment tests on October 31, 2010, 2009, and 2008 and concluded that there was no impairment.

We evaluate intangible assets, other than goodwill, for impairment whenever events or changes in circumstances indicate that the carrying value of these assets may not be recoverable. Recoverability of these assets is measured by comparison of the carrying amount of an asset to the future undiscounted cash flows attributable to that asset. The Company measures any amount of impairment based on the difference between the carrying value and the fair value of the impaired asset. The Company did not recognize any impairment charges of long-lived assets in 2010, 2009, or 2008.

We have made assumptions and estimates about future values and remaining useful lives which are complex and often subjective. They can be affected by a variety of factors, including external factors such as industry and economic trends, and internal factors such as changes in our business strategy and our internal forecasts. Although we believe that the assumptions and estimates that we have made are reasonable and appropriate, different assumptions and estimates could materially impact our reported financial results.

Business Combinations

In 2009, the Company adopted ASC 805, Business Combinations, which revised the accounting guidance for acquisitions in comparison to prior years. The guidance requires the Company to allocate the purchase price of acquired companies to the tangible and intangible assets acquired and liabilities assumed based on their estimated fair values at the acquisition date. Goodwill as of the acquisition date is measured as the excess of consideration transferred and the net of the acquisition fair values of the assets acquired and the liabilities assumed. The purchase price allocation process requires management to make significant estimates and assumptions, especially at the acquisition date with respect to intangible assets, support obligations assumed, estimated restructuring liabilities, and pre-acquisition contingencies.

As a result of the adoption of the revised accounting guidance in ASC 805, the Company's accounting for acquisitions in 2009 and after in comparison to the accounting for acquisitions prior to 2009 differs. Under the new accounting pronouncement, the Company expenses transaction costs and restructuring expenses related to the acquisition as incurred. Prior to 2009, direct transaction costs were included as part of the purchase price, and restructuring expenses were included as part of the assumed obligations in deriving the purchase price allocation. Further, pursuant to ASC 805, the Company identifies pre-acquisition contingencies and determines their respective fair values as of the end of the purchase price allocation period. The Company records any adjustments to pre-acquisition contingencies in the Company's operating results in the period in which the adjustment is determined. Furthermore, any adjustments to estimates of acquisition related tax contingencies are recorded to goodwill during the measurement period and in the Company's operating results after the conclusion of the measurement period. Prior to 2009, any such adjustments were included as part of the purchase price allocation. Moreover, the Company identifies in-process research and development costs, determines their respective fair values, and includes them as part of the purchase price allocation. In-process research and development costs, under the new guidance, meet the definition of an asset, and the Company classifies them as an indefinite lived intangible asset until the asset is put to use or deemed to be impaired. Prior to 2009, in-process research and development was expensed at the acquisition date.

Accounting for business combinations requires management to make significant estimates and assumptions. Although we believe the estimates and assumptions that we have made are reasonable and appropriate, they are based in part on historical experience and information obtained from management of the acquired companies and are inherently uncertain. The following are some of the examples of critical estimates that we have applied in our acquisitions:

- future expected cash flows from software license sales, support agreements, consulting contracts, other customer contracts, and acquired developed technologies and patents;
- expected costs to develop the in-process research and development into commercially viable products and estimated cash flows from the projects when completed;
- the acquired company’s brand and competitive position as well as assumptions about the period of time the acquired brand will continue to be used in the combined company’s product portfolio; and
- discount rates.

Unanticipated events and circumstances may occur that may affect the accuracy of our estimates and assumptions.

In connection with the purchase price allocations for our acquisitions, we estimate the fair value of the support obligations assumed. The estimated fair value of the support obligations is determined utilizing a cost build-up approach. The cost build-up approach determines fair value by estimating the costs related to fulfilling the obligations plus a normal profit margin. The estimated costs to fulfill the support obligations are based on the historical costs related to fulfilling the obligations. The sum of these costs and operating profit approximates, in theory, the amount that we would be required to pay a third party to assume the support obligations.

Stock-Based Compensation

We account for stock-based compensation in accordance with the provisions of ASC 718, Stock Compensation. Stock-based awards granted include stock options, restricted stock units ("RSUs"), and stock purchased under the Company's Employee Stock Purchase Plan ("ESPP"). Stock-based compensation expense is measured at the grant date based on the fair value of the awards and is recognized as an expense ratably on a straight line basis over its requisite service period. It requires a certain amount of judgment to select the appropriate fair value model and calculate the fair value of stock-based awards, including estimating stock price volatility and expected life. Further, estimates of forfeiture rates could shift stock-based compensation expense from one period to the next.

We have estimated the expected volatility as an input into the Black-Scholes-Merton valuation formula when assessing the fair value of options granted. Our current estimate of volatility is based upon a blend of average historical and market-based implied volatilities of our stock price. Our volatility rates were 34-39%, 37-48%, and 38-54% for 2010, 2009, and 2008, respectively.

The decrease in volatility rates in 2010 from 2009 and in 2009 from 2008 was due to a decline in the implied components of our volatility rates. Our historical volatility in 2010 decreased slightly compared to 2009 and remained relatively unchanged in 2009 compared to 2008. Our implied volatility rates declined in 2010 compared to 2009 and in 2009 compared to 2008. To the extent that the volatility rate in our stock price increases in the future, our estimates of the fair value of options granted will increase accordingly. We do not expect that changes in the volatility rates to impact our future stock-based compensation expense materially due to the limited amount of recent option grants.

We derived our expected life of the options that we granted in 2010 from the historical option exercises, post-vesting cancellations, and estimates concerning future exercises and cancellations for vested and unvested options that remain outstanding. We increased our expected life estimate from 3.6 years in 2009 to 3.7 years in 2010. The higher expected life of options was mainly due to lower forfeitures in 2009. We do not expect that changes in the expected life to impact our future stock-based compensation expense materially due to the limited amount of recent option grants.

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In addition, we apply an expected forfeiture rate in determining the amount of stock-based compensation. We use historical forfeitures to estimate our future forfeiture rates. We increased our forfeiture rate for stock options from 8% in 2009 to 10% in 2010. While the total stock options forfeited was relatively consistent, the number of stock options granted to employees decreased. The impact on our stock compensation for 2010 due to the change in our forfeiture rate was negligible. The forfeiture rate for RSUs remained at 10% for both 2009 and 2010. We believe that the estimates that we have used for the calculation of the variables to arrive at stock-based compensation expense are reasonable and appropriate. The assumptions entered into the option valuation model we use to fair value our stock-based awards are subjective estimates, and changes to these estimates will cause the fair value of our stock-based awards and related stock-based compensation expense that we record to vary. We will continue to monitor the historical performance of these variables and will modify our methodology and assumptions in the future as needed.

See Note 8. Stock-Based Compensation of Notes to Consolidated Financial Statements in Part II, Item 8 of this Report for a description of the Company's stock-based compensation plans and more information on the assumptions used to calculate the fair value of stock-based compensation.

Recent Accounting Pronouncements

For recent accounting pronouncements, see Note 2. Summary of Significant Accounting Policies of Notes to Consolidated Financial Statements in Part II, Item 8 of this Report.

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Results of Operations

The following table presents certain financial data as a percentage of total revenues:

	Years Ended December 31, 2010		2009		2008	
Revenues:						
License	45	%	43	%	43	%
Service	55		57		57	
Total revenues	100		100		100	
Cost of revenues:						
License	1		1		1	
Service	15		15		18	
Amortization of acquired technology	2		2		1	
Total cost of revenues	18		18		20	
Gross profit	82		82		80	
Operating expenses:						
Research and development	16		16		16	
Sales and marketing	38		38		39	
General and administrative	7		8		8	
Amortization of intangible assets	2		2		1	
Facilities restructuring charges	—		—		1	
Acquisitions and other	—		—		—	
Patent related litigation proceeds net of patent contingency accruals	—		—		(3	)
Total operating expenses	63		64		62	
Income from operations	19		18		18	
Interest income and other, net	—		—		2	
Income before income taxes	19		18		20	
Income tax provision	6		5		8	
Net income	13	%	13	%	12	%

Revenues

Our total revenues were $650.1 million in 2010 compared to $500.7 million in 2009 and $455.7 million in 2008, representing growth of $149.4 million (or 30%) in 2010 from 2009 and $45.0 million (or 10%) in 2009 from 2008. The increases were due to an increase in the number of license transactions and the average sales price of those transactions, growth in our customer installed base, and revenues derived from our strategic acquisitions of complementary businesses and products. In 2010, less than 7% of our total revenues and less than 30% of our growth in revenues were due to revenue derived from our 2010 acquisitions. See Note 20. Acquisitions of Notes to Consolidated Financial Statements in Part II, Item 8 of this Report.

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The following table and discussion compare our revenues by type for the three years ended December 31, 2010:

	Years Ended December 31,			Percentage Change	
	2010	2009	2008	2009 to 2010	2008 to 2009
	(In thousands, except percentages)				
License	$295,110	$214,322	$195,769	38 %	9 %
Service revenues:					
Maintenance	255,417	215,315	186,212	19 %	16 %
Consulting, education, and other	99,549	71,056	73,718	40 %	(4)%
Total service revenues	354,966	286,371	259,930	24 %	10 %
Total revenues	$650,076	$500,693	$455,699	30 %	10 %

License Revenues

Our license revenues increased to $295.1 million (or 45% of total revenues) in 2010 compared to $214.3 million (or 43% of total revenues) in 2009, and $195.8 million (or 43% of total revenues) in 2008, representing growth of $80.8 million (or 38%) in 2010 from 2009, and $18.6 million (or 9%) in 2009 from 2008. The increase in license revenues in 2010 from 2009 was primarily due to an increase in both the volume of license transactions and the average sales price of those transactions, resulting in growth of license revenues across all major geographic regions. The increase in license revenues in 2009 from 2008 was primarily due to an increase in the volume of transactions, partially offset by a decrease in the average size of the transactions. Our growth in license revenues reflects the continued market acceptance of our products beyond data warehousing and the adoption of new technologies.

The number of transactions greater than $1.0 million increased to 53 in 2010 from 28 and 21, in 2009 and 2008, respectively. The total number of new customers that we added in 2010, 2009, and 2008, including the number of customers added through acquisitions, was 351, 479, and 464, respectively. We had license revenue transactions with 1,292 existing customers in 2010 compared to 1,020 and 927 in 2009 and 2008, respectively.

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 2010, including upgrades, for which we charge customers an additional fee, increased to $419,000 from $360,000 and $314,000 in 2009 and 2008, respectively.

Service Revenues

Maintenance Revenues

Maintenance revenues increased to $255.4 million (or 39% of total revenues) in 2010 from $215.3 million (or 43% of total revenues) in 2009, and $186.2 million (or 41% of total revenues) in 2008, representing growth of $40.1 million (or 19%) in 2010 from 2009, and $29.1 million (or 16%) in 2009 from 2008. The increases in maintenance revenues in 2010 and 2009 were primarily due to the increasing size of our installed customer base, including those acquired through our recent acquisitions.

We expect maintenance revenues to increase in 2011 from the 2010 levels due to our growing installed customer base.

Consulting and Education, and Other Services Revenues

Consulting, education, and other services revenues were $99.5 million (or 15% of total revenues) in 2010, $71.1 million (or 14% of total revenues) in 2009, and $73.7 million (or 16% of total revenues) in 2008. The $28.4 million (or 40%) increase in 2010 compared to 2009 was primarily due to an increase in consulting revenues in North America as a result of higher customer demand, increased utilization rates, and increased subscriptions.

The $2.7 million (or 4%) decrease in 2009 compared to 2008 was primarily due to our customers' trend toward deferring spending and reducing education and consulting budgets. The decline occurred primarily in the first half of 2009 and stabilized subsequently during the second half as the macroeconomic environment improved.

We expect our revenues from consulting, education, and other services to increase in 2011 from the 2010 levels.

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International Revenues

Our international revenues were $218.8 million (or 34% of total revenues) in 2010, $178.8 million (or 36% of total revenues) in 2009, and $158.6 million (or 35% of total revenues) in 2008, representing an increase of $40.0 million (or 22%) in 2010 from 2009 and an increase of $20.2 million (or 13%) in 2009 from 2008. International revenues in all major geographic regions increased in 2010 compared to 2009.

The $40.0 million (or 22%) increase in 2010 from 2009 was primarily due to an increase in international license revenues in Europe and Asia Pacific and an increase in maintenance revenue in all major geographic regions as a result of a larger and growing installed customer base.

The $20.2 million (or 13%) increase in 2009 from 2008 was primarily due to an increase in international maintenance revenue as a result of a larger and growing installed customer base, and an increase in international license and service revenues in Latin America and in Europe.

We expect international revenues as a percentage of total revenues in 2011 to be relatively consistent with 2010.

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

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

We typically ship products shortly after the receipt of an order, which is common in the software industry, and historically our backlog of license orders awaiting shipment at the end of any given quarter has varied. However, our backlog historically decreases from the prior quarter at the end of the first and third quarters and increases at the end of the fourth quarter. The increase, however, was less pronounced at the end of 2009. Aggregate backlog and deferred revenues at December 31, 2010 were approximately $215.9 million compared to $171.8 million at December 31, 2009. This increase in 2010 was primarily due to an increase in deferred maintenance revenues and an increase in license backlog. Aggregate backlog and deferred revenues as of any particular date are not necessarily indicative of future results.

Cost of Revenues

	Years Ended December 31,			Percentage Change	
	2010	2009	2008	2009 to 2010	2008 to 2009
	(In thousands, except percentages)				
Cost of license revenues	$4,485	$3,135	$3,291	43%	(5)%
Cost of service revenues	100,602	76,549	80,287	31%	(5)%
Amortization of acquired technology	13,342	7,950	4,125	68%	93%
Total cost of revenues	$118,429	$87,634	$87,703	35%	—%
Cost of license revenues, as a percentage of license revenues	2%	1%	2%	1%	(1)%
Cost of service revenues, as a percentage of service revenues	28%	27%	31%	1%	(4)%

Cost of License Revenues

Our cost of license revenues consists primarily of software royalties, product packaging, documentation, production costs and personnel costs. Cost of license revenues was $4.5 million (or 2% of license revenues) in 2010, $3.1 million (or 1% of license revenues) in 2009, and $3.3 million (or 2% of license revenues) in 2008. The $1.4 million (or 43%) increase in 2010 from 2009

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was primarily due to a proportional increase in license revenues. The $0.2 million (or 5%) decrease in 2009 from 2008 was primarily due to the smaller proportion of royalty based products being shipped in 2009.

We expect that our cost of license revenues as a percentage of license revenues in 2011 to be consistent with or slightly higher than 2010 levels.

Cost of Service Revenues

Our cost of service revenues is a combination of costs of maintenance, consulting, education, and other services revenues. Our cost of maintenance revenues consists primarily of costs associated with customer service personnel expenses and royalty fees for maintenance related to third-party software providers. Cost of consulting revenues consists primarily of personnel costs and expenses incurred in providing consulting services at customers' facilities. Cost of education services revenues consists primarily of the costs of providing education classes and materials at our headquarters, sales and training offices, and customer locations. Cost of other services revenue consists primarily of fees paid to postal authorities and other third parties for content and hosting costs for our subscription services. Cost of service revenues was $100.6 million (or 28% of service revenues) in 2010, $76.5 million (or 27% of service revenues) in 2009, and $80.3 million (or 31% of service revenues) in 2008.

The $24.1 million (or 31%) increase in 2010 from 2009 was primarily due to a $13.6 million increase in personnel related costs, a $6.0 million increase in subcontractor fees, a $2.3 million increase in reimbursable expenses, and a $0.5 million increase in stock compensation. The majority of these increases were driven by increased demand for our consulting and education services in 2010 compared to 2009.

The $3.7 million (or 5%) decrease in 2009 from 2008 was primarily due to a $1.6 million reduction in reimbursable expenses, a $1.2 million reduction in subcontractor fees, and $1.1 million reduction in personnel related costs related to consulting and education services, offset by a $0.2 million increase in stock-based compensation. The reduction in consulting and education services costs is as a result of corresponding lower revenues in consulting and education services in 2009 compared to 2008.

We expect that our cost of service revenues, in absolute dollars, to increase in 2011 from the 2010 levels, mainly due to headcount increases associated with increased service revenues. We expect, however, the cost of service revenues as a percentage of service revenues in 2011 to remain relatively consistent with 2010 levels.

Amortization of Acquired Technology

Amortization of acquired technology is the amortization of technologies acquired through business acquisitions and technology licenses. Amortization of acquired technology totaled $13.3 million, $8.0 million, and $4.1 million in 2010, 2009, and 2008, respectively. The $5.4 million (or 68%) increase in 2010 from 2009 is the result of amortization of certain technologies that we acquired from the acquisitions of Applimation, AddressDoctor, Agent Logic, Siperian, and 29West in 2009 and 2010. The $3.8 million (or 93%) increase in 2009 from 2008 was the result of amortization of certain technologies that we acquired from the acquisitions of Identity Systems, Applimation, AddressDoctor, and Agent Logic in 2008 and 2009.

We expect the amortization of acquired technology to be approximately $18.9 million in 2011 before the effect of any potential future acquisitions subsequent to December 31, 2010.

Operating Expenses

Research and Development

	Years Ended December 31,			Percentage Change	
	2010	2009	2008	2009 to 2010	2008 to 2009
	(In thousands, except percentages)				
Research and development	$106,043	$78,352	$72,522	35 %	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 were $106.0 million (or 16% of total revenues), $78.4 million (or 16% of total revenues), and $72.5 million (or 16% of total revenues), for 2010, 2009, and 2008, respectively. All software development costs have been expensed in the period incurred since the costs incurred subsequent to the establishment of technological feasibility have not been significant.

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The $27.7 million million (or 35%) increase in 2010 from 2009 was primarily due to a $24.2 million increase in personnel related costs, partially related to acquisitions, and a $3.5 million increase in general overhead costs. The increase in personnel-related costs includes an increase in headcount in 2010 from 2009 and additional stock-based compensation costs.

The $5.8 million (or 8%) increase in 2009 from 2008 was primarily due to a $7.3 million increase in personnel related costs, partially related to acquisitions, partially offset by a $1.5 million reduction in general overhead costs. The increase in personnel-related costs includes an increase in headcount in 2009 from 2008 and additional stock-based compensation costs.

We expect research and development expenses as a percentage of total revenues in 2011 to remain relatively consistent with 2010 levels.

Sales and Marketing

	Years Ended December 31,			Percentage Change			
	2010	2009	2008	2009 to 2010		2008 to 2009	
	(In thousands, except percentages)						
Sales and marketing	$245,498	$192,747	$177,339	27	%	9	%

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 $245.5 million (or 38% of total revenues), $192.7 million (or 38% of total revenues), and $177.3 million (or 39% of total revenues) for 2010, 2009, and 2008, respectively. The sales and marketing expenses as a percentage of total revenues did not change for 2010 compared to 2009, and declined by 1% for 2009 compared to 2008.

The $52.8 million (or 27%) increase from 2009 to 2010 was primarily due to a $45.8 million increase in personnel-related costs, which include sales commissions, stock-based compensation, and headcount growth from 611 in 2009 to 720 in 2010.

The $15.4 million (or 9%) increase from 2008 to 2009 was primarily due to a $13.0 million increase in personnel-related costs, which include sales commissions, stock-based compensation, and headcount growth from 572 in 2008 to 611 in 2009.

We expect sales and marketing expenses as a percentage of total revenues in 2011 to remain relatively consistent with or decrease slightly from 2010 levels. 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.

General and Administrative

	Years Ended December 31,			Percentage Change			
	2010	2009	2008	2009 to 2010		2008 to 2009	
	(In thousands, except percentages)						
General and administrative	$46,273	$41,449	$37,411	12	%	11	%

Our general and administrative expenses consist primarily of personnel costs for finance, human resources, legal, and general management, as well as professional service expenses associated with recruiting, legal, and accounting services. General and administrative expenses were $46.3 million (or 7% of total revenues), $41.4 million (or 8% of total revenues), and $37.4 million (or 8% of total revenues) for the years ended December 31, 2010, 2009, and 2008, respectively. The general and administrative expenses as percentage of total revenues declined by 1% for the year ended December 31, 2010 mainly due to benefits of scale as our revenues have increased proportionately more than our general and administrative expenses, as well as implementation of certain cost containment programs.

General and administrative expenses increased by $4.8 million (or 12%) in 2010 from 2009. The increase over 2009 was driven by an increase in personnel-related costs (including stock-based compensation) of $6.0 million offset by a $1.5 million decrease in outside services. The increase in personnel-related costs of $6.0 million was due to headcount growth in 2010 from 2009 and additional expenses related to performance based bonuses and stock-based compensation.

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General and administrative expenses increased by $4.0 million (or 11%) in 2009 from 2008. The increase over 2008 was driven by an increase in personnel-related costs of $2.2 million and a $2.7 million increase in outside services as a result of legal fees for patent litigation and acquisition related costs. This increase was partially offset by a $0.9 million decrease in bad debt expense. The increase in personnel-related costs of $2.2 million was due to headcount growth in 2009 from 2008 and additional expenses related to performance based bonuses and stock-based compensation.

We expect general and administrative expenses as a percentage of total revenues in 2011 to remain relatively consistent with or decrease slightly from 2010 levels.

Amortization of Intangible Assets

	Years Ended December 31,			Percentage Change	
	2010	2009	2008	2,009 to 2010	2,008 to 2009
	(In thousands, except percentages)				
Amortization of intangible assets	$9,539	$10,051	$4,575	(5)%	120%

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 were $9.5 million, $10.1 million, and $4.6 million for the years ended December 31, 2010, 2009, and 2008, respectively.

The decrease of $0.5 million in amortization of intangible assets for the year ended December 31, 2010 compared to 2009 was primarily due to certain intangibles from prior acquisitions that were fully amortized during 2010.

The increase of $5.5 million in amortization of intangible assets for the year ended December 31, 2009 compared to 2008 was the result of amortization of intangibles that we acquired from the acquisitions of Identity Systems, PowerData, Applimation, AddressDoctor, and Agent Logic in 2008 and 2009.

We expect amortization of the remaining intangible assets in 2011 to be approximately $7.7 million, before the impact of any amortization for any possible intangible assets acquired as part of the pending or any future acquisitions subsequent to December 31, 2010.

Facilities Restructuring Charges

	Years Ended December 31,			Percentage Change	
	2010	2009	2008	2009 to 2010	2008 to 2009
	(In thousands, except percentages)				
Facilities restructuring charges	$1,133	$1,661	$3,018	(32)%	(45)%

In 2010, we recorded $1.1 million of restructuring charges related to the 2004 and 2001 Restructuring Plans. These charges included primarily $2.4 million of accretion charges, offset by an adjustment of $1.5 million due to changes in our assumed sublease income.

In 2009, we recorded $1.7 million of restructuring charges related to the 2004 and 2001 Restructuring Plans. These charges included primarily $2.8 million of accretion charges, offset by an adjustment of $1.3 million due to changes in our assumed sublease income.

In 2008, we recorded $3.0 million of restructuring charges related to the 2004 and 2001 Restructuring Plans. These charges included primarily $3.5 million of accretion charges, offset by an adjustment of $0.6 million due to changes in our assumed sublease income.

As of December 31, 2010, $38.9 million of total lease termination costs, net of actual and expected sublease income, less broker commissions and tenant improvement costs related to facilities to be subleased, was included in accrued restructuring charges and is expected to be paid by 2013.

2004 Restructuring Plan. Net cash payments for facilities included in the 2004 Restructuring Plan amounted to $13.2 million

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in 2010, $11.7 million in 2009, and $11.1 million in 2008. Actual future cash requirements may differ from the restructuring liability balances as of December 31, 2010, if there are changes to the time period that facilities are vacant, or the actual sublease income is different from current estimates.

2001 Restructuring Plan. Net cash payments for facilities included in the 2001 Restructuring Plan amounted to $1.6 million in 2010, $1.5 million in 2009, and $1.6 million in 2008. Actual future cash requirements may differ from the restructuring liability balances as of December 31, 2010 if we are unable to continue subleasing the excess leased facilities, there are changes to the time period that facilities are vacant, or the actual sublease income is different from current estimates.

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

In addition, we will continue to evaluate our current facilities requirements to identify facilities that are in excess of our current and estimated future needs. We will also evaluate the assumptions related to estimated future sublease income for excess facilities. Accordingly, any changes to these estimates of excess facilities costs could result in additional charges that could materially affect our consolidated financial position and results of operations. See Note 11. Facilities Restructuring Charges of Notes to Consolidated Financial Statements in Part II, Item 8 of this Report.

Acquisitions and Other

	Years Ended December 31,			Percentage Change	
	2010	2009	2008	2009 to 2010	2008 to 2009
	(In thousands, except percentages)				
Acquisitions and other	$1,326	$(570)	$390	333%	(246)%

In 2010, acquisition and other expenses of $1.3 million consisted of a $2.3 million reduction in fair value of an acquisition liability offset by $3.6 million in charges. The $3.6 million in charges include $2.2 million for legal and bankers' fees, $1.1 million for write-off of certain lease liabilities and leasehold improvements, and $0.3 million for severance payments to certain employees.

In 2009, acquisition and other expenses include a $0.6 million reduction in fair value of an acquisition liability.

In 2008, in conjunction with our acquisition of Identity Systems, we recorded in-process research and development (IPR&D) charges of $0.4 million. The IPR&D charges 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.

Patent Related Litigation Proceeds Net of Patent Contingency Accruals

We recorded $11.5 million for patent litigation proceeds net of accruals for patent litigation in 2009.

Interest Income and Other, Net

	Years Ended December 31,			Percentage Change	
	2010	2009	2008	2009 to 2010	2008 to 2009
	(In thousands, except percentages)				
Interest income	$3,904	$5,867	$14,092	(33)%	(58)%
Interest expense	(6,568)	(6,602)	(7,221)	(1)%	(9)%
Other income, net	1,978	1,184	866	67%	37%
Interest and other income (expense), net	$(686)	$449	$7,737	(253)%	(94)%

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. Interest and other income

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(expense), net was $(0.7) million, $0.4 million, and $7.7 million in 2010, 2009, and 2008, respectively.
The decrease of $1.1 million (or 253%) in 2010 from 2009 was primarily due to a $2.0 million decrease in interest income due primarily to lower investment yields and, to a lesser degree, a decline in the average portfolio balance, a $0.5 million decrease in foreign exchange gains, a decrease of $0.3 million of gain on early extinguishment of debt, and a $0.1 million decrease in gain on disposition of investment securities, which were partially offset by a $1.8 million gain recognized from the sale of our investment in an equity interest.
The decrease of $7.3 million (or 94%) in 2009 from 2008 was primarily due to a $8.2 million decrease in interest income due to lower investment yields, a decrease of $0.7 million of gain on early extinguishment of debt, partially offset by $0.6 million decrease in interest expense due to the repurchase of $20.0 million Convertible Senior Notes in the first quarter of 2009, $0.3 million increase in gain on disposition of securities, $0.2 million increase in foreign exchange gains, $0.2 million decrease in loss related to liquidation of a branch office, and $0.3 million decrease in other expenses.

Income Tax Provision

	Years Ended December 31,			Percentage Change	
	2010	2009	2008	2009 to 2010	2008 to 2009
	(In thousands, except percentages)				
Income tax provision	$34,825	$25,607	$35,993	36%	(29)%
Effective tax rate	29%	29%	39%	—%	(10)%

Our effective tax rates were 29%, 29%, and 39% for 2010, 2009, and 2008, respectively. The effective tax rate of 29% for 2010 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 a prior year tax return true-up offset by compensation expense related to non-deductible stock-based compensation and the accrual of reserves related to uncertain tax positions. We have not provided for residual U.S. taxes in all of these lower-tax jurisdictions since we intend to indefinitely reinvest these earnings offshore.
The effective tax rate of 29% for 2009 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 previously unrealized foreign tax credits and a prior year tax return true-up offset by compensation expense related to non-deductible stock-based compensation, and agreed upon audit assessments with the Internal Revenue Service, as well as the accrual of reserves related to uncertain tax positions.
The effective tax rate of 39% for 2008 differed from the federal statutory rate of 35% primarily due to the nondeductibility of stock-based compensation as well as the accrual of reserves related to uncertain tax positions offset by the tax credits and tax rate benefits of certain earnings from our operations in lower-tax jurisdictions throughout the world.

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

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 December 31, 2010, we had $470.9 million in available cash and cash equivalents and short-term investments. Our primary sources of cash are the collection of accounts receivable from our customers and proceeds from the exercise of stock options and stock purchased under our employee stock purchase plan. In addition, as of December 31, 2010, we had $220.0 million available for borrowing under the Credit Agreement discussed below. Our uses of cash include payroll and payroll-related expenses and operating expenses such as marketing programs, travel, professional services, and facilities and related costs. We have also used cash to purchase property and equipment, repurchase common stock from the open market to reduce the dilutive impact of stock option issuances, repurchase our Convertible Senior Notes, and acquire businesses and technologies to expand our product offerings.

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The following table summarizes our cash flows for 2010, 2009, and 2008 (in thousands):

	Years Ended December 31,		
	2010	2009	2008
Cash provided by operating activities	$131,828	$76,869	$99,895
Cash used in investing activities	$(132,065)	$(117,032)	$(82,867)
Cash provided by (used in) financing activities	$52,786	$18,332	$(32,094)

Operating Activities: Cash provided by operating activities in 2010 was $131.8 million, representing an increase of $55.0 million from 2009. This increase resulted primarily from a $22.1 million increase in net income, a $15.0 million increase in adjustments for non-cash expenses, a $23.8 million increase in deferred revenues, a $19.1 million increase in accounts payable and accrued liabilities, and a $3.5 million decrease in prepaids and other assets, which were offset by an $8.0 million increase in accounts receivable due to a higher amount of billings which occurred toward the end of 2010 and a $20.6 million decrease in income taxes payable. We recognized the excess tax benefits from stock-based compensation of $22.9 million during the year ended December 31, 2010. This amount is recorded as a use of operating activities and an offsetting amount is recorded as a provision by financing activities. We made cash payments for taxes in different jurisdictions for $23.3 million during the year ended December 31, 2010. Our "days sales outstanding" in accounts receivable increased from 67 days at December 31, 2009 to 68 days at December 31, 2010, due to a slightly higher amount of billings which occurred toward the end of 2010, compared to 2009. Deferred revenues increased primarily due to an increase in deferred maintenance revenues resulting from a larger customer base. Our operating cash flows will also be impacted in the future by the timing of payments to our vendors and payments for taxes.

Cash provided by operating activities in 2009 was $76.9 million, representing a decrease of $23.0 million from 2008. This decrease resulted primarily from an increase in accounts receivable due to a higher amount of billings which occurred toward the end of 2009 and a decrease in income taxes payable, payments to reduce our accrual for excess facilities and accrued liabilities, and excess tax benefits from stock-based compensation. We recognized the excess tax benefits from stock-based compensation for $8.7 million during the year ended December 31, 2009. This amount is recorded as a use of operating activities and an offsetting amount is recorded as a provision by financing activities. We made cash payments for taxes in different jurisdictions for $17.2 million during the year ended December 31, 2009. Our "days sales outstanding" in accounts receivable increased from 64 days at December 31, 2008 to 67 days at December 31, 2009, due to a higher amount of billings which occurred toward the end of 2009, compared to 2008. Deferred revenues increased primarily due to an increase in deferred maintenance revenues resulting from a larger customer base. Our operating cash flows will also be impacted in the future by the timing of payments to our vendors and payments for taxes.

Cash provided by operating activities in 2008 was $99.9 million, representing an increase of $17.9 million from 2007. This increase resulted primarily from a $1.4 million increase in net income (adjusted for non-cash expenses), an increase in accounts receivable cash collections, an increase in income taxes payable, and an increase in accrued liabilities. These increases were offset by payments to reduce our accrual for excess facilities and excess tax benefits from stock-based compensation. We recognized the excess tax benefits from stock-based compensation for $5.1 million during the year ended December 31, 2008. This amount is recorded as a use of operating activities and an offsetting amount is recorded as a provision by financing activities. We made cash payments for taxes in different jurisdictions for $25.5 million during the year ended December 31, 2008. Our "days sales outstanding" in accounts receivable increased from 58 days at December 31, 2007 to 64 days at December 31, 2008, due to a higher amount of billings which occurred toward the end of 2008, compared to 2007. Deferred revenues increased primarily due to an increase in deferred maintenance revenues resulting from a larger customer base.

Investing Activities: Net cash used in investing activities were $132.1 million, $117.0 million, and $82.9 million in 2010, 2009, and 2008, respectively. We acquire property and equipment in our normal course of business. The amount and timing of these purchases and the related cash outflows in future periods depend on a number of factors, including the hiring of employees, the rate of upgrade of computer hardware and software used in our business, as well as our business outlook.

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

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

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of such cash requirements to complete such transactions. We may be required to raise additional funds to complete future acquisitions.

In March 2008, we invested $3.0 million in the preferred stock of a privately held company that we accounted for on a cost basis. In May 2008, we acquired all of the issued and outstanding shares of Identity Systems, a Delaware corporation and a wholly owned subsidiary of Intellisync Corporation, for $85.6 million in cash, including transaction costs of $0.9 million and acquired cash of $5.8 million. In October 2008, Informatica Nederland B.V., a wholly owned subsidiary of Informatica, purchased all of the issued and outstanding shares of PowerData, a company organized under the laws of Spain for $7.1 million in cash, including transaction costs of $0.4 million.

In February 2009, we acquired all the capital stock of Applimation, a privately held company, in a cash merger transaction valued at approximately $37.2 million (including $1.6 million retention bonuses). In June 2009, we acquired all of the capital stock of AddressDoctor for $27.8 million. As part of the acquisition purchase price, we wrote off $0.3 million in prepaid royalties to AddressDoctor. In September 2009, we acquired all the capital stock of Agent Logic, which specializes in the development and marketing of complex event processing software which supports security initiatives in highly complex environments, for $35 million, of which $6.1 million is held in an escrow fund as security for losses accrued by Informatica in the event of certain breaches of the merger agreement by Agent Logic. The escrow fund will remain in place for a period of 18 months, although a portion of the escrow funds were paid out in September 2010.

In January 2010, we acquired Siperian, a privately-held company, in a cash merger transaction valued at approximately $130 million, of which approximately $18.3 million was placed in an escrow fund as security for losses accrued by Informatica in the event of certain breaches of the merger agreement by Siperian. As a result of this acquisition, we assumed certain facility leases and certain liabilities and commitments. The escrow fund will remain in place until July 28, 2011, although a portion of the escrow funds were paid out in February 2011.

In February 2010, we made a $1.5 million investment in the preferred stock of another privately-held company, which was classified as Level 3 for fair value measurement purposes.

In March 2010, we acquired 29West, a privately-held company, in a stock purchase transaction valued at approximately $50 million, of which approximately $7 million was placed in an escrow fund as security for losses accrued by Informatica in the event of certain breaches of the merger agreement by 29West. The escrow fund will remain in place until September 22, 2011.

In December 2010, we paid $2.0 million to acquire the software technology assets of a privately-held company, and we may pay up to an additional $1.2 million in consideration if certain license order thresholds are met by December 31, 2011.

Financing Activities: We receive cash from the exercise of common stock options and the sale of common stock under our employee stock purchase plan ("ESPP"). Net cash provided by financing activities in 2010 was $52.8 million due to the proceeds received from the issuance of common stock to option holders and participants of our ESPP program for $57.6 million and $22.9 million of excess tax benefits from stock-based compensation. These amounts were offset by repurchases and retirement of our common stock for $23.8 million, withholding taxes for restricted stock units net share settlement of $2.0 million, and payment of issuance costs on the credit facility of $1.9 million.

Net cash provided by financing activities in 2009 was $18.3 million due to the proceeds we received from the issuance of common stock to option holders and participants of our ESPP program for $41.7 million and $8.7 million of excess tax benefits from stock-based compensation. These amounts were offset by repurchases and retirement of our Convertible Senior Notes and our common stock for $19.2 million and $12.8 million, respectively.

Net cash used in financing activities in 2008 was $32.1 million due to repurchases and retirement of our common stock for $57.0 million and our Convertible Senior Notes for $7.8 million. These repurchases were offset by the issuance of common stock to option holders and to participants of our ESPP program for $27.6 million, and $5.1 million of excess tax benefits from stock-based compensation.

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.

In April 2007, Informatica’s Board of Directors authorized a stock repurchase program for up to an additional $50.0 million of our common stock. In April 2008, Informatica’s Board of Directors authorized an additional $75.0 million of its common stock for the stock repurchase program. In October 2008, Informatica’s Board of Directors approved expanding the repurchase program to include the repurchase, from time to time, of a portion of its outstanding Convertible Senior Notes (the "Notes") due in 2026

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in privately negotiated transactions with holders of the Notes. In January 2010, our Board of Directors authorized an additional $50.0 million for the repurchase of our common stock and Notes. This repurchase program does not have an expiration date.

From April 2007 to December 31, 2010, the Company repurchased 7,232,715 shares of its common stock at a cost of $121.2 million and $29.0 million of its outstanding Notes at a cost of $27.3 million. We have $26.5 million available to repurchase additional shares of our common stock or redeem our Convertible Senior Notes under this program as of December 31, 2010. In January 2011, our Board of Directors authorized the repurchase of up to an additional $50 million of our outstanding common stock and Notes under the repurchase program.

Purchases can be made from time to time in the open market and will be funded from our available cash. The primary purpose of these programs is to enhance shareholder value by 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. See Part II, Item 5 of this Report for more information regarding the stock repurchase program. We may continue to repurchase shares and Convertible Senior Notes from time to time, as determined by management as authorized by the Board of Directors.

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, and may raise such additional funds through public or private equity or debt financing or from other sources. After March 15, 2011, we may from time to time redeem the Notes, in whole or in part, for cash, at a redemption price equal to the full principal amount of the Notes, plus any accrued and unpaid interest. Further, on March 15, 2011 and then upon March 15, 2016, and March 15, 2021, or upon the occurrence of certain events including a change in control, holders of the Notes may require the Company to repurchase all or a portion of their Notes at a purchase price in cash equal to the full principal amount of the Notes plus any accrued and unpaid interest as of the relevant date. In February 2011, we called for redemption on March 18, 2011 all of the remaining Notes. While we expect holders to convert the Notes into shares prior to the redemption date, if our stock price declines and the interest rates rise significantly, we may be required to settle the Notes in cash. If we are unable to meet the obligations out of cash flows from operations or other available funds, we may need to raise additional funds through public or private debt or equity financings. We may not be able to borrow money or sell more of our equity securities to meet our cash needs for reasons including the tightening of the capital markets. Even if we are able to do so, it may not be on terms that are favorable or reasonable to us.

Credit Agreement

In September 2010, we entered into a Credit Agreement (the Credit Agreement) that matures in September 2014. The Credit Agreement provides for an unsecured revolving credit facility in an amount of up to $220.0 million, with an option for us to request to increase the revolving loan commitments by an aggregate amount of up to $30.0 million with new or additional commitments, for a total credit facility of up to $250.0 million. No amounts were outstanding under the Credit Agreement as of December 31, 2010 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 December 31, 2010. For further information, see Note 6. Borrowings of Notes to Consolidated Financial Statements in Part II, Item 8 of this Report.

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Contractual Obligations and Operating Leases

The following table summarizes our significant contractual obligations, including future minimum lease payments at December 31, 2010, 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	2011	2012 and 2013	2014 and 2015	2016 and Beyond
Operating lease obligations:					
Operating lease payments	$87,395	$28,031	$49,518	$8,044	$1,802
Future sublease income	(5,850)	(3,423)	(2,427)	—	—
Net operating lease obligations	81,545	24,608	47,091	8,044	1,802
Debt obligations:					
Principal payments*	200,693	—	—	—	200,693
Interest payments	93,322	6,021	12,042	12,042	63,217
Other obligations**	1,736	881	855	—	—
Total	$377,296	$31,510	$59,988	$20,086	$265,712

* Holders of the Notes may require us to repurchase all or a portion of their Notes at a purchase price in cash equal to the full principle amount of the Notes plus any accrued and unpaid interest on March 15, 2011, March 15, 2016, and March 15, 2021, or upon the occurrence of certain events including a change in control. We have the right to redeem some or all of the Notes after March 15, 2011. In February 2011, we called for redemption on March 18, 2011 all of the remaining Notes.

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

Our contractual obligations at December 31, 2010 include the lease term for our headquarters office in Redwood City, California, which is from December 15, 2004 to December 31, 2013. Minimum contractual lease payments are $3.4 million, $3.5 million, and $3.6 million for the years ending December 31, 2011, 2012, and 2013, respectively.

The above commitment table does not include approximately $12.7 million of long-term income tax liabilities recorded in accordance with ASC 740, Income Taxes. We are unable to make a reasonably reliable estimate of the timing of these potential future payments in individual years beyond 12 months due to uncertainties in the timing of tax audit outcomes. As a result, this amount is not included in the table above. For further information, see Note 13. Income Taxes of Notes to Consolidated Financial Statements in Part II, Item 8 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. During 2004, we recorded facilities restructuring charges related to the consolidation of excess leased facilities in Redwood City, California. Operating lease payments in the table above include approximately $44.9 million, net of actual sublease income, for operating lease commitments for those facilities that are included in accrued facilities restructuring charges. See Note 11. Facilities Restructuring Charges and Note 15. Commitments and Contingencies of Notes to Consolidated Financial Statements in Part II, Item 8 of this Report.

Of these future minimum lease payments, we have $38.9 million recorded in accrued facilities restructuring charges at December 31, 2010. This accrual, in addition to minimum lease payments of $44.9 million, includes estimated operating expenses of $11.9 million, is net of estimated sublease income of $15.0 million, and is net of the present value impact of $2.9 million recorded in accordance with ASC 420-10, Accounting for Costs Associated with Exit or Disposal Activities. We estimated sublease income and the related timing thereof based on existing sublease agreements and current market conditions, among other factors. Our estimates of sublease income may vary significantly from actual amounts realized depending, in part, on factors that may be beyond our control, such as the time periods required to locate and contract suitable subleases and the market rates at the time of such subleases.

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

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

We have sublease agreements for leased office space at the Pacific Shores Center in Redwood City, California. In the event the sublessees are unable to fulfill their obligations, we would be responsible for rent due under the leases. We expect at this time that the sublessees will fulfill their obligations under the terms of the current lease agreements.

In February 2000, we entered into two lease agreements for two buildings at the Pacific Shores Center in Redwood City, California (our former corporate headquarters), which we occupied from August 2001 through December 2004. These two lease agreements will expire in July 2013.

Off-Balance Sheet Arrangements

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

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Foreign Currency Exchange Rate Risk

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

Our results of operations and cash flows are subject to fluctuations due to changes in foreign currency exchange rates, particularly changes in the Australian dollar, Brazilian real, British pound sterling, Canadian dollar, euro, Indian rupee, Israeli shekel, Japanese yen, and Swiss franc.

Cash Flow Hedge Activities

We have attempted to minimize the impact of certain foreign currency fluctuations through initiation of certain cash flow hedge programs starting in the fourth quarter of 2008. The purpose of these programs is to reduce volatility in cash flows and expenses caused by movement in certain foreign currency exchange rates, in particular the euro, Indian rupee, and Israeli shekel. Under these programs, the effective portion of the gain or loss on the derivative instrument is reported as a component of other

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comprehensive income (loss) and is reclassified into earnings in the same period or periods during which the hedged forecasted transaction affects earnings.

The foreign exchange contracts initiated in the fourth quarter of 2009 expired in January 2011, and the Company entered into additional foreign exchange contracts in December 2010 under the Company's hedging programs with monthly expiration dates through January 2012.

The table below presents the notional amounts of the foreign exchange forward contracts that Informatica committed to purchase in the fourth quarter of 2010 for euros, Indian rupees, and Israeli shekels, which were outstanding as of December 31, 2010 (in thousands):

Functional currency	Foreign Amount Notional Amount Sold	Notional Amount Purchased	USD Equivalent Notional Amount Sold	Notional Amount Purchased	Weighted Average Rate
Euro	20,160	—	$26,300	$—	0.7665
Indian rupee	—	932,000	—	20,032	46.5256
Israeli shekel	—	16,944	—	4,635	3.6557
	20,160	948,944	$26,300	$24,667	

See Note 2. Summary of Significant Accounting Policies, Note 9. Accumulated Other Comprehensive Income, Note 10. Derivative Financial Instruments, and Note 15. Commitments and Contingencies of Notes to Consolidated Financial Statements for a further discussion.

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

Interest Rate Risk

Our exposure to market risk for changes in interest rates relates primarily to our investment portfolio. We do not use derivative financial instruments in our investment portfolio. The primary objective of our investment activities is to preserve principal while maximizing yields without significantly increasing risk. Our investment policy specifies credit quality standards for our investments and limits the amount of credit exposure to any single issue, issuer, or type of investment. Our investments consist primarily of U.S. government and agency notes and bonds, corporate bonds, commercial paper and municipal securities. All investments are carried at market value, which approximates cost. See Note 3. Cash, Cash Equivalents, and Short-Term Investments of Notes to Consolidated Financial Statements in Part II, Item 8 of this Report.

The following table presents the fair value of cash equivalents and short-term investments that are subject to interest rate risk and the average interest rate as of December 31, 2010 and 2009 (dollars in thousands):

	December 31, 2010	2009
Cash equivalents and short-term investments	$273,777	$317,178
Average rate of return	1.0 %	1.4 %

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 December 31, 2010, we had net unrealized gains of $0.3 million associated with these securities. If market interest rates were to change immediately and uniformly by 100 basis points from levels as of December 31, 2010, the fair market value of the portfolio would change by approximately $2.5 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 in 2011.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The following consolidated financial statements, and the related notes thereto, of Informatica Corporation and the Reports of Independent Registered Public Accounting Firm are filed as a part of this Form 10-K.

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REPORT OF MANAGEMENT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Management of Informatica is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934. Informatica's internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Internal control over financial reporting includes those policies and procedures that:

- pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company;
- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and
- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements due to human error, or the improper circumvention or overriding of internal controls. In addition, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions and that the degree of compliance with the policies or procedures may change over time.

Management assessed the effectiveness of Informatica's internal control over financial reporting as of December 31, 2010. In making this assessment, management used the criteria set forth in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Based on its assessment of internal control over financial reporting, management has concluded that, as of December 31, 2010, Informatica's internal control over financial reporting was effective to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

Informatica's independent registered public accounting firm, Ernst & Young LLP, has issued an attestation report on the effectiveness of Informatica's internal control over financial reporting. Its report appears immediately after this report.

/s/ SOHAIB ABBASI
Sohaib Abbasi
Chief Executive Officer and President
February 25, 2011

/s/ EARL FRY
Earl Fry
Chief Financial Officer, Chief Administration Officer
and EVP, Global Customer Support
February 25, 2011

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders of Informatica Corporation

We have audited Informatica Corporation's internal control over financial reporting as of December 31, 2010, based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Informatica Corporation's management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Report of Management on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Informatica Corporation maintained, in all material respects, effective internal control over financial reporting as of December 31, 2010, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Informatica Corporation as of December 31, 2010 and 2009, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2010 of Informatica Corporation and our report dated February 25, 2011 expressed an unqualified opinion thereon.

/s/ ERNST & YOUNG LLP

San Jose, California
February 25, 2011

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders of Informatica Corporation

We have audited the accompanying consolidated balance sheets of Informatica Corporation as of December 31, 2010 and 2009, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2010. Our audits also included the financial statement schedule listed in the Index at Item 15(a). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Informatica Corporation at December 31, 2010 and 2009, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2010, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

As discussed in Note 2 to the consolidated financial statements, the Company changed its method of accounting for business combinations in 2009.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Informatica Corporation's internal control over financial reporting as of December 31, 2010, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 25, 2011 expressed an unqualified opinion thereon.

/s/ ERNST & YOUNG LLP

San Jose, California
February 25, 2011

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INFORMATICA CORPORATION
CONSOLIDATED BALANCE SHEETS
(In thousands, except par value)

	December 31, 2010	2009
Assets		
Current assets:		
Cash and cash equivalents	$208,899	$159,197
Short-term investments	262,047	305,283
Accounts receivable, net of allowances of $4,289 in 2010 and $3,454 in 2009	147,534	110,653
Deferred tax assets	22,664	23,673
Prepaid expenses and other current assets	32,321	15,251
Total current assets	673,465	614,057
Property and equipment, net	9,866	7,928
Goodwill	400,726	287,068
Other intangible assets, net	77,927	63,586
Long-term deferred tax assets	18,314	8,259
Other assets	9,343	8,724
Total assets	$1,189,641	$989,622
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$5,948	$4,274
Accrued liabilities	50,199	37,367
Accrued compensation and related expenses	56,315	41,523
Income taxes payable	—	12,949
Accrued facilities restructuring charges	18,498	19,880
Deferred revenues	172,559	139,629
Convertible senior notes	200,693	—
Total current liabilities	504,212	255,622
Convertible senior notes	—	201,000
Accrued facilities restructuring charges, less current portion	20,410	32,845
Long-term deferred revenues	6,987	4,531
Long-term deferred tax liabilities	311	516
Long-term income taxes payable	12,739	11,995
Total liabilities	544,659	506,509
Commitments and contingencies (Note 15)		
Stockholders' equity:		
Common stock, $0.001 par value; 200,000 shares authorized; 94,461 shares and 90,092 shares issued and outstanding at December 31, 2010 and 2009, respectively	94	90
Additional paid-in capital	514,365	434,262
Accumulated other comprehensive loss	(5,530)	(968)
Retained earnings	136,053	49,729
Total stockholders' equity	644,982	483,113
Total liabilities and stockholders' equity	$1,189,641	$989,622

See accompanying notes to consolidated financial statements.

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

	Year Ended December 31, 2010	2009	2008
Revenues:			
License	$295,110	$214,322	$195,769
Service	354,966	286,371	259,930
Total revenues	650,076	500,693	455,699
Cost of revenues:			
License	4,485	3,135	3,291
Service	100,602	76,549	80,287
Amortization of acquired technology	13,342	7,950	4,125
Total cost of revenues	118,429	87,634	87,703
Gross profit	531,647	413,059	367,996
Operating expenses:			
Research and development	106,043	78,352	72,522
Sales and marketing	245,498	192,747	177,339
General and administrative	46,273	41,449	37,411
Amortization of intangible assets	9,539	10,051	4,575
Facilities restructuring charges	1,133	1,661	3,018
Acquisitions and other	1,326	(570)	390
Patent related litigation proceeds net of patent contingency accruals	—	—	(11,495)
Total operating expenses	409,812	323,690	283,760
Income from operations	121,835	89,369	84,236
Interest income	3,904	5,867	14,092
Interest expense	(6,568)	(6,602)	(7,221)
Other income, net	1,978	1,184	866
Income before income taxes	121,149	89,818	91,973
Income tax provision	34,825	25,607	35,993
Net income	$86,324	$64,211	$55,980
Basic net income per common share	$0.93	$0.73	$0.64
Diluted net income per common share	$0.83	$0.66	$0.58
Shares used in computing basic net income per common share	92,361	87,991	88,109
Shares used in computing diluted net income per common share	109,083	103,312	103,278

See accompanying notes to consolidated financial statements.

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INFORMATICA CORPORATION
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(In thousands)

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings (Accumulated Deficit)	Total Stockholders' Equity
Balances, December 31, 2007	87,475	$87	$377,277	$5,640	$(70,462)	$312,542
Components of comprehensive income:						
Net income	—	—	—	—	55,980	55,980
Foreign currency translation adjustment	—	—	—	(10,090)	—	(10,090)
Unrealized gain on investments	—	—	—	658	—	658
Cash flow hedging gains	—	—	—	51	—	51
Comprehensive income						46,599
Common stock options exercised	2,313	3	19,112	—	—	19,115
Common stock issued under employee stock purchase plan	669	1	8,466	—	—	8,467
Stock-based compensation	—	—	16,321	—	—	16,321
Tax benefit of stock-based compensation	—	—	9,907	—	—	9,907
Repurchase and retirement of common stock	(3,797)	(4)	(56,992)	—	—	(56,996)
Balances, December 31, 2008	86,660	87	374,091	(3,741)	(14,482)	355,955
Components of comprehensive income:						
Net income	—	—	—	—	64,211	64,211
Foreign currency translation adjustment	—	—	—	3,562	—	3,562
Unrealized loss on investments	—	—	—	(647)	—	(647)
Cash flow hedging loss	—	—	—	(142)	—	(142)
Comprehensive income						66,984
Common stock options exercised	3,473	3	33,150	—	—	33,153
Common stock issued under employee stock purchase plan	791	1	8,543	—	—	8,544
Stock-based compensation	—	—	17,926	—	—	17,926
Tax benefit of stock-based compensation	—	—	13,386	—	—	13,386
Repurchase and retirement of common stock	(832)	(1)	(12,834)	—	—	(12,835)
Balances, December 31, 2009	90,092	90	434,262	(968)	49,729	483,113
Components of comprehensive income:						
Net income	—	—	—	—	86,324	86,324
Foreign currency translation adjustment	—	—	—	(4,294)	—	(4,294)
Unrealized loss on investments	—	—	—	(75)	—	(75)
Cash flow hedging loss	—	—	—	(193)	—	(193)

Comprehensive income						81,762
Common stock options exercised	4,250	4	46,324	—	—	46,328
Common stock issued under employee stock purchase plan	625	1	11,230	—	—	11,231
Restricted stock units vested	290	—	—	—	—	—
Withholding taxes related to restricted stock units net share settlement	(76)	—	(1,990)	—	—	(1,990)
Stock-based compensation	—	—	23,438	—	—	23,438
Tax benefit of stock-based compensation	—	—	24,580	—	—	24,580
Repurchase and retirement of common stock	(735)	(1)	(23,782)	—	—	(23,783)
Conversion of convertible senior notes	15	—	303	—	—	303
Balances, December 31, 2010	94,461	$94	$514,365	$(5,530)	$136,053	$644,982

See accompanying notes to consolidated financial statements.

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INFORMATICA CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	Year Ended December 31,		
	2010	2009	2008
Operating activities:			
Net income	$86,324	$64,211	$55,980
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	6,095	5,513	5,618
Allowance for (recovery of) doubtful accounts	(30)	320	1,268
Gain on sale of investment in equity interests	(1,824)	—	—
Gain on early extinguishment of debt	—	(337)	(1,015)
Stock compensation	23,438	17,926	16,321
Deferred income taxes	3,847	(8,189)	(10,874)
Tax benefits from stock compensation	24,580	13,386	9,907
Excess tax benefits from stock compensation	(22,881)	(8,670)	(5,094)
Amortization of intangible assets and acquired technology	22,881	18,001	8,700
Non-cash facilities restructuring charges	1,133	1,661	3,018
Other non-cash items	(2,146)	504	370
Changes in operating assets and liabilities:			
Accounts receivable	(27,585)	(19,631)	(5,959)
Prepaid expenses and other assets	555	(2,988)	3,298
Accounts payable and accrued liabilities	3,317	(11,742)	7,153
Accrued compensation and related expenses	12,814	7,264	(4,907)
Income taxes payable	(16,944)	3,617	13,210
Accrued facilities restructuring charges	(14,789)	(13,239)	(12,628)
Deferred revenues	33,043	9,262	15,529
Net cash provided by operating activities	131,828	76,869	99,895
Investing activities:			
Purchases of property and equipment	(7,226)	(3,303)	(4,728)
Purchases of investments	(347,240)	(462,440)	(468,880)
Purchases of patent	—	(2,420)	(1,300)
Purchase of investment in equity interest	(1,500)	—	(3,000)
Sale of investment in equity interest	4,824	—	—
Maturities of investments	281,422	382,791	394,469
Sales of investments	108,927	54,364	75,536
Business acquisitions, net of cash acquired	(171,272)	(86,024)	(86,980)
Transfer from restricted cash	—	—	12,016
Net cash used in investing activities	(132,065)	(117,032)	(82,867)
Financing activities:			
Net proceeds from issuance of common stock	57,559	41,697	27,582
Repurchases and retirement of common stock	(23,783)	(12,835)	(56,996)
Repurchases of convertible senior notes	—	(19,200)	(7,774)
Withholding taxes related to restricted stock units net share settlement	(1,990)	—	—
Payment of issuance costs on credit facility	(1,881)	—	—
Excess tax benefits from stock compensation	22,881	8,670	5,094
Net cash provided by (used in) financing activities	52,786	18,332	(32,094)
Effect of foreign exchange rate changes on cash and cash equivalents	(2,847)	1,154	(8,721)

Net increase (decrease) in cash and cash equivalents	49,702	(20,677)	(23,787)
Cash and cash equivalents at beginning of the year	159,197	179,874	203,661
Cash and cash equivalents at end of the year	$208,899	$159,197	$179,874
Supplemental disclosures:			
Interest paid	$6,030	$6,290	$6,952
Income taxes paid, net of refunds	$23,342	$17,162	$25,537
Supplemental disclosures of non-cash investing and financing activities:			
Unrealized gain (loss) on investments	$(75)	$(647)	$658
Conversion of convertible senior notes	$303	$—	$—

See accompanying notes to consolidated financial statements.

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INFORMATICA CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Organization and Business

Informatica Corporation ("Informatica" or the "Company") was incorporated in California in February 1993 and reincorporated in Delaware in April 1999. The Company is the leading independent provider of enterprise data integration and data quality software and services. The Company's mission is to enable organizations to gain a competitive advantage from all their information assets to drive their top business imperatives and information technology initiatives. The Company's software solutions include a comprehensive set of technologies to enable a wide variety of complex enterprise-wide data integration initiatives, 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.

2. Summary of Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All intercompany accounts and transactions have been eliminated.

Use of Estimates

The Company’s consolidated financial statements are prepared in accordance with generally accepted accounting principles (“GAAP”) in the United States, which require the Company to make certain estimates, judgments, and assumptions. The Company believes that the estimates, judgments, and assumptions upon which it relies are reasonable based upon information available to it at the time that these estimates, judgments, and assumptions are made. These estimates, judgments, and assumptions can affect the reported amounts of assets and liabilities as of the date of the financial statements as well as the reported amounts of revenues and expenses during the periods presented. Any material differences between these estimates and actual results will impact the Company's consolidated financial statements. In many cases, the accounting treatment of a particular transaction is specifically dictated by GAAP and does not require management’s judgment in its application. There are also areas in which management’s judgment in selecting any available alternative would not produce a materially different result.

Cash and Cash Equivalents

The Company considers highly liquid investment securities with maturities of 90 days or less at the date of purchase to be cash equivalents. Cash equivalents consist primarily of commercial paper, money market funds, and federal agency and U.S. government notes and bonds with insignificant interest rate risk. Cash and cash equivalents are stated at cost, which approximates fair value.

Allowance for Doubtful Accounts

The Company makes estimates as to the overall collectability of accounts receivable and provides an allowance for accounts receivable considered uncollectible. The Company specifically analyzes its accounts receivable based on historical bad debt experience, customer concentrations, customer credit-worthiness, the age of the receivable, current economic trends, and changes in its customer payment terms when evaluating the adequacy of the allowance for doubtful accounts. The Company records the adjustment in general and administrative expense. At December 31, 2010 and 2009, the Company’s allowance for doubtful accounts was $4.3 million and $3.5 million, respectively.

Investments

Investments are comprised of marketable debt securities, which consist primarily of commercial paper, corporate notes and bonds, U.S. government and agency notes and bonds, and municipal securities with original maturities beyond 90 days. All marketable debt securities are held in the Company’s name and managed by external investment managers. The Company’s marketable debt securities are classified as available-for-sale and are reported at fair value, with unrealized gains and losses, net of tax, reported as a separate component of accumulated other comprehensive income (loss) in stockholders’ equity. The Company classifies all available-for-sale marketable debt securities, including those with original maturity dates greater than one year, as short-term investments. Realized gains or losses and permanent declines in value, if any, on available-for-sale securities are reported in other income or expense as incurred. The Company recognizes realized gains and losses upon sales of investment and reclassifies unrealized gains and losses out of accumulated other comprehensive income (loss) into earnings using the specific identification method.

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INFORMATICA CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

The Company also has investments in privately-held companies that are accounted for under the cost method and included in other non-current assets. The carrying value of these investments was $1.5 million and $3.0 million at December 31, 2010 and 2009, respectively. The Company made a $1.5 million investment in the preferred stock of a privately-held company in February 2010. During the first quarter of 2010, the Company received $4.8 million for its $3.0 million investment in another privately-held company due to the acquisition of such company by a third party. As a result of this transaction, the Company recorded a gain of $1.8 million in other income for the year ended December 31, 2010.

Property and Equipment

Property and equipment are stated at cost, net of accumulated depreciation. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets, which range from one to seven years. Leasehold improvements are amortized using the straight-line method over the shorter of the lease term or the estimated useful life of the asset.

Software Development Costs

The Company accounts for software development costs in accordance with Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) 985-20, Costs of Software to Be Sold, Leased, or Marketed. Software development costs are expensed as incurred until the establishment of technological feasibility, at which time those costs are capitalized until the product is available for general release to customers and amortized over the estimated life of the product. Technological feasibility is established upon completion of a working model. Through December 31, 2010, costs incurred subsequent to the establishment of technological feasibility have not been significant, and all software development costs have been charged to research and development expense in the accompanying consolidated statements of operations.

Pursuant to the ASC 350-40, Intangibles - Goodwill and Other, Internal - Use Software, the Company capitalizes certain costs relating to software acquired, developed, or modified solely to meet the Company’s internal requirements and for which there are no substantive plans to market the software. The Company did not have any capitalized software developments costs for the years ended December 31, 2010, 2009, and 2008.

Goodwill

The Company tests goodwill for impairment annually on October 31 of each year and whenever events or changes in circumstances indicate that the carrying value of the asset may not be recoverable in accordance with ASC 350, Intangibles - Goodwill and Other. Consistent with the Company’s assessment that it has only one reporting segment, the Company has determined that it has only one reporting unit and tests goodwill for impairment at the entity level. The Company tests its goodwill using the two-step process required by ASC 350. In the first step, the Company compares the carrying amount of the reporting unit to the fair value based on quoted market prices of the Company’s common stock. If the fair value of the reporting unit exceeds the carrying value, goodwill is not considered impaired and no further testing is required. If the carrying value of the reporting unit exceeds the fair value, goodwill is potentially impaired and the second step of the impairment test must be performed. In the second step, the Company compares the implied fair value of the goodwill, as defined by ASC 350, to its carrying amount to determine the impairment loss, if any.

The Company performed its annual goodwill impairment tests as of October 31, 2010 and 2009, and concluded that there was no impairment.

Impairment of Long-Lived Assets

The Company evaluates long-lived assets, other than goodwill, for impairment whenever events or changes in circumstances indicate that the carrying value of these assets may not be recoverable. Recoverability of these assets is measured by comparison of the carrying amount of an asset to the future undiscounted cash flows attributable to that asset. The Company measures any amount of impairment based on the difference between the carrying value and the fair value of the impaired asset. The Company did not recognize any impairment charges of long-lived assets in 2010, 2009, or 2008.

Business Combinations

In 2009, the Company adopted ASC 805, Business Combinations, which revised the accounting guidance for acquisitions in comparison to prior years. The guidance requires the Company to allocate the purchase price of acquired companies to the tangible and intangible assets acquired and liabilities assumed based on their estimated fair values at the acquisition date. Goodwill as of the acquisition date is measured as the excess of consideration transferred and the net of the acquisition fair values of the assets acquired and the liabilities assumed. The purchase price allocation process requires management to make significant estimates and assumptions, especially at the acquisition date with respect to intangible assets, support obligations assumed, estimated restructuring liabilities, and pre-acquisition contingencies.

In connection with the purchase price allocations for acquisitions, the Company estimates the fair value of the support obligations assumed. The estimated fair value of the support obligations is determined utilizing a cost build-up approach by estimating the costs related to fulfilling the obligations plus a normal profit margin. The estimated costs to fulfill the support obligations are based on the historical costs related to fulfilling the obligations. The sum of these costs and operating profit approximates, in theory, the amount that we would be required to pay a third party to assume the support obligations.

As a result of the adoption of the revised accounting guidance in ASC 805, the Company's accounting for acquisitions in 2009 and after in comparison to the accounting for acquisitions prior to 2009 differ. Under the new accounting pronouncement, the Company expenses transaction costs and restructuring expenses related to the acquisition as incurred. Prior to 2009, direct transaction costs were included as part of the purchase price, and restructuring expenses were included as part of the assumed obligations in deriving the purchase price allocation. Further, pursuant to ASC 805, the Company identifies pre-acquisition contingencies and determines their respective fair values as of the end of the purchase price allocation period. The Company records any adjustments to pre-acquisition contingencies in the Company's operating results in the period in which the adjustment is determined. Furthermore, any adjustments to estimates of acquisition related tax contingencies are recorded to goodwill during the measurement period and in the Company's operating results after the conclusion of the measurement period. Prior to 2009, any such adjustments were included as part of the purchase price allocation. Moreover, the Company identifies in-process research and development costs, determines their respective fair values, and includes them as part of the purchase price allocation. In-process research and development costs, under the new guidance, meet the definition of an asset, and the Company classifies them as an indefinite lived intangible asset until the asset is put to use or deemed to be impaired. Prior to 2009, in-process research and development was expensed at the acquisition date.

Fair Value Measurement of Financial Assets and Liabilities

ASC 820, Fair Value Measurements and Disclosures, establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value as follows:

- Level 1. Unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2. Inputs other than quoted prices included within Level 1 that are either directly or indirectly observable through correlation with market data; and
- Level 3. Unobservable inputs that are supported by little or no market data, which require the reporting entity to develop its own assumptions.

Further, ASC 820 allows the Company to measure the fair value of its financial assets and liabilities based on one or more of the three following valuation techniques:

- Market approach. Prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities;
- Cost approach. Amount that would be required to replace the service capacity of an asset (replacement cost); and
- Income approach. Techniques to convert future amounts to a single present amount based on market expectations (including present value techniques, option-pricing, and excess earnings models).

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INFORMATICA CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

The following table summarizes the fair value measurement classification of Informatica as of December 31, 2010 (in thousands):

	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Money market funds (1)	$2,231	$2,231	$—	$—
Marketable debt securities (2)	271,546		271,546	—
Total money market funds and marketable debt securities	273,777	2,231	271,546	—
Foreign currency derivatives (3)	152	—	152	—
Total	$273,929	$2,231	$271,698	$—
Liabilities:				
Foreign currency derivatives (4)	$569	$—	$569	$—
Convertible senior notes	452,663	452,663	—	—
Total	$453,232	$452,663	$569	$—

The following table summarizes the fair value measurement classification of Informatica as of December 31, 2009 (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 (1)	$10,895	$10,895	$—	$—
Marketable debt securities (2)	306,283	—	306,283	—
Total money market funds and marketable debt securities	317,178	10,895	306,283	