

INFORMATICA CORP  
Form 10-Q  
November 07, 2013  
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

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FORM 10-Q

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Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934  
For the quarterly period ended September 30, 2013  
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.)

2100 Seaport Boulevard

Redwood City, California 94063

(Address of principal executive offices and zip code)

(650) 385-5000

(Registrant's telephone number, including area code)

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

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

Large accelerated filer  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  No

As of October 31, 2013, there were approximately 108,513,000 shares of the registrant's Common Stock outstanding.

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## PART I: FINANCIAL INFORMATION

## ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## INFORMATICA CORPORATION

## CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except par value)

|  | September 30,<br>2013<br>(Unaudited) | December 31,<br>2012 |
|--|--------------------------------------|----------------------|
| Assets   |                                      |                      |
| Current assets:  |                                      |                      |
| Cash and cash equivalents  | \$280,355                            | \$190,127            |
| Short-term investments   | 340,263                              | 345,478              |
| Accounts receivable, net of allowances of \$4,691 and \$5,460, respectively  | 162,405                              | 171,893              |
| Deferred tax assets  | 23,768                               | 23,350               |
| Prepaid expenses and other current assets  | 29,035                               | 29,396               |
| Total current assets   | 835,826                              | 760,244              |
| Property and equipment, net  | 150,772                              | 145,474              |
| Goodwill   | 522,124                              | 510,121              |
| Other intangible assets, net   | 48,349                               | 67,260               |
| Long-term deferred tax assets  | 30,713                               | 24,087               |
| Other assets   | 6,382                                | 5,031                |
| Total assets   | \$1,594,166                          | \$1,512,217          |
| Liabilities and Equity   |                                      |                      |
| Current liabilities:   |                                      |                      |
| Accounts payable   | \$7,952                              | \$8,885              |
| Accrued liabilities  | 59,033                               | 64,475               |
| Accrued compensation and related expenses  | 57,620                               | 55,382               |
| Income taxes payable   | 2,418                                | —                    |
| Deferred revenues  | 253,798                              | 241,968              |
| Total current liabilities  | 380,821                              | 370,710              |
| Long-term deferred revenues  | 9,487                                | 8,807                |
| Long-term deferred tax liabilities   | 2,850                                | 2,523                |
| Long-term income taxes payable   | 26,394                               | 21,195               |
| Other liabilities  | 557                                  | 3,459                |
| Total liabilities  | 420,109                              | 406,694              |
| Commitments and contingencies (Note 12)  |                                      |                      |
| Equity:  |                                      |                      |
| Common stock, \$0.001 par value; 200,000 shares authorized; 108,449 shares and 107,301 shares issued and outstanding at September 30, 2013 and December 31, 2012, respectively | 108                                  | 107                  |
| Additional paid-in capital   | 789,058                              | 764,298              |
| Accumulated other comprehensive loss   | (8,316                               | ) (8,030             |
| Retained earnings  | 393,207                              | 346,730              |
| Total Informatica Corporation stockholders' equity   | 1,174,057                            | 1,103,105            |
| Noncontrolling interest  | —                                    | 2,418                |
| Total equity   | 1,174,057                            | 1,105,523            |
| Total liabilities and equity   | \$1,594,166                          | \$1,512,217          |

See accompanying notes to condensed consolidated financial statements.



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CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(In thousands, except per share data)

(Unaudited)

|   | Three Months Ended<br>September 30, |          | Nine Months Ended<br>September 30, |           |
|---|-------------------------------------|----------|------------------------------------|-----------|
|   | 2013                                | 2012     | 2013                               | 2012      |
| Revenues:   |                                     |          |                                    |           |
| Software  | \$99,826                            | \$73,850 | \$279,160                          | \$237,347 |
| Service   | 135,568                             | 116,468  | 392,973                            | 339,483   |
| Total revenues  | 235,394                             | 190,318  | 672,133                            | 576,830   |
| Cost of revenues:   |                                     |          |                                    |           |
| Software  | 2,710                               | 1,511    | 7,353                              | 5,779     |
| Service   | 37,221                              | 30,069   | 109,714                            | 90,195    |
| Amortization of acquired technology                           | 5,625                               | 5,172    | 16,970                             | 16,164    |
| Total cost of revenues  | 45,556                              | 36,752   | 134,037                            | 112,138   |
| Gross profit  | 189,838                             | 153,566  | 538,096                            | 464,692   |
| Operating expenses:   |                                     |          |                                    |           |
| Research and development                                      | 42,167                              | 35,998   | 123,358                            | 105,561   |
| Sales and marketing   | 94,160                              | 73,239   | 267,727                            | 213,615   |
| General and administrative                                    | 23,159                              | 15,692   | 60,827                             | 46,369    |
| Amortization of intangible assets                             | 1,893                               | 1,462    | 5,881                              | 4,690     |
| Facilities restructuring and facility lease termination costs | —                                   | —        | —                                  | 710       |
| Acquisitions and other charges                                | 1,253                               | 2,036    | 2,467                              | 2,389     |
| Total operating expenses                                      | 162,632                             | 128,427  | 460,260                            | 373,334   |
| Income from operations  | 27,206                              | 25,139   | 77,836                             | 91,358    |
| Interest income   | 805                                 | 987      | 2,588                              | 3,342     |
| Interest expense  | (121)                               | ) (126)  | ) (369)                            | ) (379)   |
| Other expense, net  | (295)                               | ) (533)  | ) (754)                            | ) (1,257) |
| Income before income taxes                                    | 27,595                              | 25,467   | 79,301                             | 93,064    |
| Income tax provision  | 17,191                              | 9,966    | 32,824                             | 30,948    |
| Net income  | \$10,404                            | \$15,501 | \$46,477                           | \$62,116  |
| Basic net income per common share                             | \$0.10                              | \$0.14   | \$0.43                             | \$0.58    |
| Diluted net income per common share                           | \$0.09                              | \$0.14   | \$0.42                             | \$0.55    |
| Shares used in computing basic net income per common share    | 108,305                             | 108,091  | 108,039                            | 107,957   |
| Shares used in computing diluted net income per common share  | 111,501                             | 111,776  | 111,372                            | 112,518   |

See accompanying notes to condensed consolidated financial statements.

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CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In thousands)

(Unaudited)

|  | Three Months Ended<br>September 30, |          | Nine Months Ended<br>September 30, |          |
|--|-------------------------------------|----------|------------------------------------|----------|
|  | 2013                                | 2012     | 2013                               | 2012     |
| Net income   | \$10,404                            | \$15,501 | \$46,477                           | \$62,116 |
| Other comprehensive income:  |                                     |          |                                    |          |
| Change in foreign currency translation adjustment, net of tax benefit (expense) of \$(317), \$(50), \$(74) and \$23        | 7,370                               | 3,378    | 1,202                              | (1 )     |
| Available-for-sale investments:  |                                     |          |                                    |          |
| Change in net unrealized gain (loss), net of tax benefit (expense) of \$(187), \$(117), \$183 and \$(322)                  | 304                                 | 191      | (300 )                             | 526      |
| Less: reclassification adjustment for net loss included in net income, net of tax benefit of \$12, \$1, \$22 and \$—       | 19                                  | 2        | 36                                 | —        |
| Net change, net of tax benefit (expense) of \$(199), \$(118), \$161 and \$(322)  | 323                                 | 193      | (264 )                             | 526      |
| Cash flow hedges:  |                                     |          |                                    |          |
| Change in unrealized gain (loss), net of tax benefit (expense) of \$455, \$(135), \$1,149 and \$24                         | (744 )                              | 218      | (1,875 )                           | (41 )    |
| Less: reclassification adjustment for net loss included in net income, net of tax benefit of \$349, \$328, \$398 and \$624 | 571                                 | 536      | 651                                | 1,019    |
| Net change, net of tax benefit (expense) of \$106, \$(463), \$751 and \$(600)  | (173 )                              | 754      | (1,224 )                           | 978      |
| Total other comprehensive income (loss), net of tax effect   | 7,520                               | 4,325    | (286 )                             | 1,503    |
| Total comprehensive income, net of tax effect  | \$17,924                            | \$19,826 | \$46,191                           | \$63,619 |
| See accompanying notes to condensed consolidated financial statements.   |                                     |          |                                    |          |

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CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

|   | Nine Months Ended<br>September 30, |           |
|---|------------------------------------|-----------|
|   | 2013                               | 2012      |
| Operating activities:   |                                    |           |
| Net income  | \$46,477                           | \$62,116  |
| Adjustments to reconcile net income to net cash provided by operating activities: |                                    |           |
| Depreciation and amortization   | 10,773                             | 8,709     |
| Share-based compensation  | 44,248                             | 31,583    |
| Deferred income taxes   | (4,730)                            | (1,830)   |
| Tax benefits from share-based compensation  | 5,312                              | 12,577    |
| Excess tax benefits from share-based compensation                                 | (6,982)                            | (12,470)  |
| Amortization of intangible assets and acquired technology                         | 22,851                             | 20,854    |
| Other operating activities, net   | (352)                              | 939       |
| Changes in operating assets and liabilities:                                      |                                    |           |
| Accounts receivable   | 9,960                              | 54,083    |
| Prepaid expenses and other assets   | 2,893                              | 12,626    |
| Accounts payable and accrued liabilities  | (8,002)                            | (30,616)  |
| Income taxes payable  | 4,588                              | (1,894)   |
| Accrued facilities restructuring charges  | —                                  | (23,977)  |
| Deferred revenues   | 11,688                             | 12,152    |
| Net cash provided by operating activities   | 138,724                            | 144,852   |
| Investing activities:   |                                    |           |
| Purchases of property and equipment   | (16,059)                           | (137,599) |
| Purchases of investments  | (267,618)                          | (204,515) |
| Investment in equity interest, net  | (2,001)                            | (257)     |
| Maturities of investments   | 145,971                            | 47,051    |
| Sales of investments  | 125,576                            | 98,558    |
| Business acquisitions, net of cash acquired                                       | (7,464)                            | (8,438)   |
| Net cash used in investing activities   | (21,595)                           | (205,200) |
| Financing activities:   |                                    |           |
| Net proceeds from issuance of common stock  | 46,661                             | 38,555    |
| Repurchases and retirement of common stock  | (63,936)                           | (58,709)  |
| Withholding taxes related to restricted stock units net share settlement          | (6,412)                            | (6,243)   |
| Payment of contingent consideration   | (3,670)                            | (4,440)   |
| Excess tax benefits from share-based compensation                                 | 6,982                              | 12,470    |
| Purchase of acquiree stock  | (6,365)                            | —         |
| Net cash used in financing activities   | (26,740)                           | (18,367)  |
| Effect of foreign exchange rate changes on cash and cash equivalents              | (161)                              | (729)     |
| Net increase (decrease) in cash and cash equivalents                              | 90,228                             | (79,444)  |
| Cash and cash equivalents at beginning of period                                  | 190,127                            | 316,835   |
| Cash and cash equivalents at end of period  | \$280,355                          | \$237,391 |
| See accompanying notes to condensed consolidated financial statements.            |                                    |           |

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INFORMATICA CORPORATION  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying condensed consolidated financial statements of Informatica Corporation (“Informatica,” or the “Company”) have been prepared in conformity with generally accepted accounting principles (“GAAP”) in the United States of America. However, certain information and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been condensed, or omitted, pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”). In the opinion of management, the financial statements include all normal and recurring adjustments that are necessary to fairly present the results of the interim periods presented. All of the amounts included in this Quarterly Report on Form 10-Q related to the condensed consolidated financial statements and notes thereto as of and for the three and nine months ended September 30, 2013 and 2012 are unaudited. The interim results presented are not necessarily indicative of results for any subsequent interim period, the year ending December 31, 2013, or any other future period.

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

The condensed consolidated financial statements include the accounts of the Company and its wholly-owned and majority-owned subsidiaries. All intercompany accounts and transactions have been eliminated in consolidation. In October 2012, the Company announced its decision to make a voluntary public takeover offer to acquire all the outstanding shares of Heiler Software AG (“Heiler”). In November 2012, the Company acquired a majority interest in the shares of Heiler at the end of the initial acceptance period of the takeover offer. The squeeze-out of the remaining shareholders was effective in the second quarter of 2013, increasing the Company's ownership in Heiler to 100 percent. The noncontrolling interest position is reported as a separate component of consolidated equity from the equity attributable to the Company's stockholders for the period ended December 31, 2012. The noncontrolling interest in the Company's net income was not significant to consolidated results for the nine months ended September 30, 2013 and therefore has been included as a component of other income (expense), net in the condensed consolidated statements of income.

These unaudited, condensed consolidated financial statements should be read in conjunction with the Company's audited consolidated financial statements and notes thereto for the year ended December 31, 2012 included in the Company's Annual Report on Form 10-K filed with the SEC. The consolidated balance sheet as of December 31, 2012 has been derived from the audited consolidated financial statements of the Company. The Company's significant accounting policies are described in Note 2 to the audited consolidated financial statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2012.

Certain reclassifications have been made within the condensed consolidated statement of cash flows to conform to the current year presentation. In addition, during the first quarter of 2013, the Company performed a review of the presentation of certain of its revenue categories and adopted a revised presentation, which the Company believes more accurately reflects its evolving product and service offerings. A change was made to rename other revenues to subscription revenues and to present subscription revenues and license revenues as software revenues. Other revenues were previously presented in services revenues. A corresponding change was made to present cost of license revenues and cost of other revenues as cost of software revenues. This change in presentation will not affect total revenues, total



cost of revenues or total gross margin. Conforming changes have been made for all prior periods presented. Subscription revenues of \$8.0 million and \$20.4 million for the three and nine months ended September 30, 2012, respectively were reclassified from service revenues to software revenues. Cost of subscription revenues of \$0.6 million and \$2.6 million for the three and nine months ended September 30, 2012, respectively were reclassified from cost of service revenues to cost of software revenues.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Recent Accounting Pronouncements

In December 2011, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2011-11, Balance Sheet (Topic 210) - Disclosures about Offsetting Assets and Liabilities, that requires an entity to disclose additional information about offsetting and related arrangements to enable users of the financial statements to understand the effect of those arrangements on the financial position. In January 2013, the FASB issued ASU 2013-01, Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities. ASU 2013-01 clarifies that the scope of ASU 2011-11 applies to derivatives accounted for in accordance with Topic 815, Derivatives and Hedging, including bifurcated embedded derivatives, repurchase agreements and reverse repurchase agreements, and securities borrowing and securities lending transactions that are either offset or subject to an enforceable master netting arrangement or similar agreement. The Company adopted both standards as required on January 1, 2013. Adoption of ASU 2011-11 and ASU 2013-01 did not impact the Company's condensed consolidated financial statements.

In July 2012, the FASB issued ASU No. 2012-02 Testing Indefinite-Lived Intangible Assets, to simplify how entities test indefinite-lived intangible assets other than goodwill for impairment. These amended standards permit an assessment of qualitative factors to determine whether it is more likely than not that the fair value of an indefinite-lived intangible asset is less than its carrying value. For assets in which this assessment concludes it is more likely than not that the fair value is more than its carrying value, these amended standards eliminate the requirement to perform quantitative impairment testing as outlined in the previously issued standards. ASU 2012-02 is effective for the Company's impairment test in October 2013 and early adoption is permitted. The Company does not expect its adoption of ASU 2012-02 to have an impact on the condensed consolidated financial statements and disclosures.

In February 2013, the FASB issued ASU 2013-02, Comprehensive Income (Topic 220) - Reporting of Amounts Reclassified Out Of Accumulated Other Comprehensive Income. ASU 2013-02 requires an entity to present, either parenthetically on the face of its statement where net income is presented or in a note, the effect of significant reclassifications out of accumulated other comprehensive income by the respective income statement line items if the amount being reclassified is required under GAAP to be reclassified in its entirety to net income. For other amounts that are not required under GAAP to be reclassified in their entirety from accumulated other comprehensive income to net income in the same reporting period, an entity is required to cross-reference to the other disclosures where additional details about the effect of the reclassifications are disclosed. The Company adopted ASU 2013-02 prospectively as required on January 1, 2013. The Company has elected to present the required information in a single footnote as this will provide a clearer presentation of the items reclassified from accumulated other comprehensive income to net income. Adoption of this new amended guidance did not have a material impact on the Company's disclosures to its financial statements.

In March 2013, the FASB issued ASU 2013-05, Foreign Currency Matters (Topic 830): Parent's Accounting for the Cumulative Translation Adjustment upon Derecognition of Certain Subsidiaries or Groups of Assets within a Foreign Entity or of an Investment in a Foreign Entity. ASU 2013-05 clarifies that the cumulative translation adjustment (“CTA”) should be released into net income upon the occurrence of certain qualifying events. ASU 2013-05 will be effective for the Company in 2014 with early adoption permitted, which will be applied prospectively. The Company is currently evaluating the impact of its pending adoption of ASU 2013-05 on its consolidated financial statements and disclosures.

There have been no other changes in our critical accounting policies since the end of 2012.

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## INFORMATICA CORPORATION

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

## Fair Value Measurement of Financial Assets and Liabilities

The following table summarizes financial assets and financial liabilities that the Company measures at fair value on a recurring basis as of September 30, 2013 (in thousands):

|   | Total     | Quoted<br>Prices in<br>Active<br>Markets for<br>Identical<br>Assets<br>(Level 1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |
|---|-----------|--|---|--|
| Assets:   |           |  |   |  |
| Money market funds (i)                            | \$12,551  | \$12,551   | \$—   | \$—  |
| Time deposits (ii)                                | 18,196    | 18,196   | —   | —  |
| Marketable debt securities (ii)                   | 322,067   | —  | 322,067   | —  |
| Foreign currency derivatives (iii)                | 4         | —  | 4   | —  |
| Total assets                                      | \$352,818 | \$30,747   | \$322,071   | \$—  |
| Liabilities:                                      |           |  |   |  |
| Foreign currency derivatives (iv)                 | \$2,304   | \$—  | \$2,304   | \$—  |
| Acquisition-related contingent consideration (iv) | 3,579     | —  | —   | 3,579  |
| Total liabilities                                 | \$5,883   | \$—  | \$2,304   | \$3,579  |

The following table summarizes financial assets and financial liabilities that the Company measures at fair value on a recurring basis as of December 31, 2012 (in thousands):

|  | Total     | Quoted<br>Prices in<br>Active<br>Markets for<br>Identical<br>Assets<br>(Level 1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |
|--|-----------|--|---|--|
| Assets:  |           |  |   |  |
| Money market funds (i)                           | \$18,565  | \$18,565   | \$—   | \$—  |
| Time deposits (ii)                               | 17,437    | 17,437   | —   | —  |
| Marketable debt securities (ii)                  | 328,041   | —  | 328,041   | —  |
| Total assets                                     | \$364,043 | \$36,002   | \$328,041   | \$—  |
| Liabilities:                                     |           |  |   |  |
| Foreign currency derivatives (iv)                | \$408     | \$—  | \$408   | \$—  |
| Acquisition-related contingent consideration (v) | 9,230     | —  | —   | 9,230  |
| Total liabilities                                | \$9,638   | \$—  | \$408   | \$9,230  |

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

(ii) Included in short-term investments on the condensed consolidated balance sheets.

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

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

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



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INFORMATICA CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Money Market Funds, Time Deposits, and Marketable Securities

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

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

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

To determine the fair value of its corporate notes and bonds, municipal securities, and U.S. government and agency notes and bonds, the Company uses a third party pricing source for each security. If the market price is not available from the third party source, pricing from the Company's investment custodian is used.

Foreign Currency Derivatives and Hedging Instruments

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

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

There were no transfers between Level 1 and Level 2 categories during the three and nine months ended September 30, 2013 and 2012.

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

Acquisition-related Contingent Consideration

The Company estimated the fair value of the acquisition-related contingent consideration using a probability-weighted discounted cash flow model. This fair value measure was based on significant inputs not observed in the market and thus represented a Level 3 instrument. Level 3 instruments are valued based on unobservable inputs that are supported by little or no market activity and reflect our own assumptions in measuring fair value. There were no transfers into or out of the Level 3 category during the three and nine months ended September 30, 2013 and 2012. The change in fair value of acquisition-related contingent consideration is included in acquisitions and other charges in the condensed

consolidated statements of income.

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## INFORMATICA CORPORATION

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

The changes in the acquisition-related contingent consideration liability for the nine months ended September 30, 2013 consisted of the following (in thousands):

|  |                       |   |
|--|-----------------------|---|
|  | September 30,<br>2013 |   |
| Beginning balance as of December 31, 2012        | \$9,230               |   |
| Change in fair value of contingent consideration | (1,981                | ) |
| Payment of contingent consideration              | (3,670                | ) |
| Ending balance as of September 30, 2013          | \$3,579               |   |

See Note 14. Acquisitions of Notes to Condensed Consolidated Financial Statements for a further discussion.

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

The Company's marketable securities are classified as available-for-sale as of the balance sheet date and are reported at fair value with unrealized gains and losses reported as a separate component of accumulated other comprehensive income in stockholders' equity, net of tax. Realized gains or losses and other-than-temporary impairments, if any, on available-for-sale securities are reported in other income or expense as incurred. Realized gains recognized for the three and nine months ended September 30, 2013 and 2012 were negligible. The cost of securities sold was determined based on the specific identification method.

The following table summarizes the Company's cash, cash equivalents, and short-term investments as of September 30, 2013 (in thousands):

|   | Cost      | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Estimated<br>Fair Value |
|---|-----------|------------------------------|-------------------------------|-------------------------|
| Cash  | \$267,804 | \$—                          | \$—                           | \$267,804               |
| Cash equivalents:   |           |                              |                               |                         |
| Money market funds  | 12,551    | —                            | —                             | 12,551                  |
| Total cash equivalents  | 12,551    | —                            | —                             | 12,551                  |
| Total cash and cash equivalents   | 280,355   | —                            | —                             | 280,355                 |
| Short-term investments:   |           |                              |                               |                         |
| Certificates of deposit   | 1,200     | —                            | —                             | 1,200                   |
| Commercial paper  | 10,663    | —                            | —                             | 10,663                  |
| Corporate notes and bonds   | 166,424   | 134                          | (268                          | ) 166,290               |
| Federal agency notes and bonds  | 72,568    | 56                           | (53                           | ) 72,571                |
| Time deposits   | 18,196    | —                            | —                             | 18,196                  |
| U.S. government notes and bonds   | 1,999     | 2                            | —                             | 2,001                   |
| Municipal notes and bonds   | 69,248    | 100                          | (6                            | ) 69,342                |
| Total short-term investments  | 340,298   | 292                          | (327                          | ) 340,263               |
| Total cash, cash equivalents, and short-term investments <sup>(i)</sup> | \$620,653 | \$292                        | \$(327                        | ) \$620,618             |

<sup>(i)</sup> Total estimated fair value above included \$352.8 million comprised of cash equivalents and short-term investments at September 30, 2013.

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## INFORMATICA CORPORATION

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

The following table summarizes the Company's cash, cash equivalents, and short-term investments as of December 31, 2012 (in thousands):

|   | Cost      | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Estimated<br>Fair Value |
|---|-----------|------------------------------|-------------------------------|-------------------------|
| Cash  | \$171,562 | \$—                          | \$—                           | \$171,562               |
| Cash equivalents:   |           |                              |                               |                         |
| Money market funds  | 18,565    | —                            | —                             | 18,565                  |
| Total cash equivalents  | 18,565    | —                            | —                             | 18,565                  |
| Total cash and cash equivalents   | 190,127   | —                            | —                             | 190,127                 |
| Short-term investments:   |           |                              |                               |                         |
| Certificates of deposit   | 2,246     | 3                            | —                             | 2,249                   |
| Commercial paper  | 6,294     | —                            | —                             | 6,294                   |
| Corporate notes and bonds   | 151,133   | 322                          | (56                           | ) 151,399               |
| Federal agency notes and bonds  | 104,961   | 128                          | (10                           | ) 105,079               |
| Time deposits   | 17,437    | —                            | —                             | 17,437                  |
| U.S. government notes and bonds   | 7,094     | 18                           | —                             | 7,112                   |
| Municipal notes and bonds   | 55,922    | 18                           | (32                           | ) 55,908                |
| Total short-term investments  | 345,087   | 489                          | (98                           | ) 345,478               |
| Total cash, cash equivalents, and short-term investments <sup>(i)</sup> | \$535,214 | \$489                        | \$(98                         | ) \$535,605             |

(i) Total estimated fair value above included \$364.0 million comprised of cash equivalents and short-term investments at December 31, 2012.

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

The following table summarizes the fair value and gross unrealized losses related to the Company's short-term investments, aggregated by investment category that have been in a continuous unrealized loss position for less than twelve months, at September 30, 2013 (in thousands):

|                                | Less Than 12 months |                               |
|--------------------------------|---------------------|-------------------------------|
|                                | Fair<br>Value       | Gross<br>Unrealized<br>Losses |
| Corporate notes and bonds      | \$100,336           | \$(264                        |
| Federal agency notes and bonds | 31,684              | (53                           |
| Municipal notes and bonds      | 4,991               | (6                            |
| Total                          | \$137,011           | \$(323                        |



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## INFORMATICA CORPORATION

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

The following table summarizes the fair value and gross unrealized losses related to the Company's short-term investments, aggregated by investment category that have been in a continuous unrealized loss position for greater than twelve months, at September 30, 2013 (in thousands):

|                           | Greater Than 12 months |                         |
|---------------------------|------------------------|-------------------------|
|                           | Fair Value             | Gross Unrealized Losses |
| Corporate notes and bonds | \$2,180                | \$(4 )                  |
| Total                     | \$2,180                | \$(4 )                  |

The changes in value of these investments are primarily related to changes in interest rates and are considered to be temporary in nature.

The following table summarizes the cost and estimated fair value of the Company's short-term investments by contractual maturity at September 30, 2013 (in thousands):

|                              | Cost      | Fair Value |
|------------------------------|-----------|------------|
| Due within one year          | \$152,300 | \$152,419  |
| Due in one year to two years | 105,671   | 105,686    |
| Due after two years          | 82,327    | 82,158     |
| Total                        | \$340,298 | \$340,263  |

## Note 3. Intangible Assets and Goodwill

The carrying amounts of the intangible assets other than goodwill as of September 30, 2013 and December 31, 2012 are as follows (in thousands, except years):

|   | September 30, 2013 |                          |          | December 31, 2012 |                          |          | Weighted Average Useful Life (Years) |
|---|--------------------|--------------------------|----------|-------------------|--------------------------|----------|--------------------------------------|
|   | Cost               | Accumulated Amortization | Net      | Cost              | Accumulated Amortization | Net      |                                      |
| Developed and core technology                   | \$130,291          | \$(93,690 )              | \$36,601 | \$123,221         | \$(76,721 )              | \$46,500 | 6                                    |
| Other Intangible Assets:                        |                    |                          |          |                   |                          |          |                                      |
| Customer relationships                          | 41,675             | (34,013 )                | 7,662    | 40,952            | (30,063 )                | 10,889   | 6                                    |
| All other <sup>(i)</sup>                        | 17,205             | (13,119 )                | 4,086    | 17,208            | (11,187 )                | 6,021    | 4-11                                 |
| Total other intangible assets                   | 58,880             | (47,132 )                | 11,748   | 58,160            | (41,250 )                | 16,910   |                                      |
| Total intangible assets subject to amortization | 189,171            | (140,822 )               | 48,349   | 181,381           | (117,971 )               | 63,410   |                                      |
| In-process research and development             | —                  | —                        | —        | 3,850             | —                        | 3,850    | N.A.                                 |
|   | \$189,171          | \$(140,822 )             | \$48,349 | \$185,231         | \$(117,971 )             | \$67,260 |                                      |

Total  
intangible  
assets, net

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

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## INFORMATICA CORPORATION

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

Total amortization expense related to intangible assets was \$7.5 million and \$6.6 million for the three months ended September 30, 2013 and 2012, respectively, and \$22.9 million and \$20.9 million for the nine months ended September 30, 2013 and 2012, respectively. Certain intangible assets were recorded in foreign currencies; and therefore, the gross carrying amount and accumulated amortization are subject to foreign currency translation adjustments.

As of September 30, 2013, the amortization expense related to identifiable intangible assets in future periods is expected to be as follows (in thousands):

|   | Acquired<br>Technology | Other<br>Intangible<br>Assets | Total<br>Intangible<br>Assets |
|---|------------------------|-------------------------------|-------------------------------|
| Remaining 2013                                  | \$5,337                | \$1,848                       | \$7,185                       |
| 2014  | 12,931                 | 4,728                         | 17,659                        |
| 2015  | 8,530                  | 2,094                         | 10,624                        |
| 2016  | 5,006                  | 1,298                         | 6,304                         |
| 2017  | 3,090                  | 862                           | 3,952                         |
| Thereafter                                      | 1,707                  | 918                           | 2,625                         |
| Total intangible assets subject to amortization | \$36,601               | \$11,748                      | \$48,349                      |

In the fourth quarter of 2012, the Company recorded in-process research and development (IPR&D) of \$3.8 million associated with the acquisition of a majority interest in Heiler. The IPR&D capitalized costs were associated with software development efforts in process at the time of the business combination that had not yet achieved technological feasibility and no future alternative uses had been identified. Technological feasibility was achieved during the first nine months of 2013 for the IPR&D from the acquisition, which was reclassified to developed technology and will be amortized over the expected useful life of the technology. See Note 14. Acquisitions for further discussion of intangible assets from acquisitions.

The changes in the carrying amount of goodwill for the nine months ended September 30, 2013 are as follows (in thousands):

|   |                       |
|---|-----------------------|
|   | September 30,<br>2013 |
| Beginning balance as of December 31, 2012 | \$510,121             |
| Goodwill from acquisitions                | 7,110                 |
| Subsequent goodwill adjustments           | 4,893                 |
| Ending balance as of September 30, 2013   | \$522,124             |

During the nine months ended September 30, 2013, the Company recorded subsequent goodwill adjustments of \$4.9 million which consist of a \$2.8 million measurement period adjustment related to Heiler accrued liabilities and foreign currency translation adjustments of \$2.3 million, partially offset by income tax related balance sheet adjustments of \$(0.2) million within the measurement period related to prior acquisitions. The goodwill is partially deductible for tax purposes. See Note 14. Acquisitions for a further discussion of goodwill from acquisitions.

## Note 4. Borrowings

## Credit Agreement

On September 29, 2010, the Company entered into a Credit Agreement (the "Credit Agreement") that matures on September 29, 2014. The Credit Agreement provides for an unsecured revolving credit facility in an amount of up to \$220.0 million, with an option for the Company to request to increase the revolving loan commitments by an aggregate amount of up to \$30.0 million with new or additional commitments, for a total credit facility of up to \$250.0 million. No amounts were outstanding under the Credit Agreement as of September 30, 2013, and a total of \$220.0 million remained available for borrowing.

Revolving loans accrue interest at a per annum rate based on either, at our election, (i) the base rate plus a margin ranging from 1.00% to 1.75% depending on the Company's consolidated leverage ratio, or (ii) LIBOR (based on 1-, 2-, 3-, or 6-month interest periods) plus a margin ranging from 2.00% to 2.75% depending on the Company's consolidated leverage ratio. The base rate is equal to the highest of (i) JPMorgan Chase Bank, N.A.'s prime rate, (ii) the federal funds rate plus a margin equal to 0.50%, and (iii) LIBOR for a 1-month interest period plus a margin equal to 1.00%. Revolving loans may be borrowed, repaid and reborrowed until September 29, 2014, at which time all amounts borrowed must be repaid. Accrued interest on the revolving loans is payable quarterly in arrears with respect to base rate loans and at the end of each interest rate period (or at each 3- month interval

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## INFORMATICA CORPORATION

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

in the case of loans with interest periods greater than 3 months) with respect to LIBOR loans. The Company is also obligated to pay other customary closing fees, arrangement fees, administrative fees, commitment fees, and letter of credit fees. A quarterly commitment fee is applied to the average daily unborrowed amount under the credit facility at a per annum rate ranging from 0.35% to 0.50% depending on the Company's consolidated leverage ratio. The Company may prepay the loans or terminate or reduce the commitments in whole or in part at any time, without premium or penalty, subject to certain conditions including minimum amounts in the case of commitment reductions and reimbursement of certain costs in the case of prepayments of LIBOR loans.

The Credit Agreement contains customary representations and warranties, covenants, and events of default, including the requirement to maintain a maximum consolidated leverage ratio of 2.75 to 1.00 and a minimum consolidated interest coverage ratio of 3.50 to 1.00. The occurrence of an event of default could result in the acceleration of the obligations under the Credit Agreement. Under certain circumstances, a default interest rate will apply on all obligations during the existence of an event of default under the Credit Agreement at a per annum rate equal to 2.00% above the applicable interest rate for any overdue principal and 2.00% above the rate applicable for base rate loans for any other overdue amounts. The Company was in compliance with all covenants under the Credit Agreement as of September 30, 2013.

## Note 5. Accumulated Other Comprehensive Income (Loss)

The following table summarizes the changes in accumulated balances for each component of other comprehensive income (loss) for the three months ended September 30, 2013, net of taxes (in thousands):

|  | Cumulative<br>Translation<br>Adjustments | Net Unrealized<br>Gain (Loss) on<br>Available-for-Sale<br>Investments | Net Unrealized<br>Loss on Cash<br>Flow Hedges | Total       |
|--|--|---|---|-------------|
| Accumulated other comprehensive loss as of June 30, 2013   | \$(14,180 )                              | \$ (345 )   | \$(1,311 )                                    | \$(15,836 ) |
| Other comprehensive income (loss):   |  |   |   |             |
| Other comprehensive income (loss) before reclassifications, net of tax benefit (expense) of \$(317), \$(187) and \$455 | 7,370                                    | 304   | (744 )  | 6,930       |
| Net loss reclassified from accumulated other comprehensive income (loss), net of tax benefit of \$ —, \$12 and \$349   | —  | 19  | (i) 571                                       | (ii) 590    |
| Total other comprehensive income (loss), net of tax effect   | 7,370                                    | 323   | (173 )  | 7,520       |
| Accumulated other comprehensive loss as of September 30, 2013  | \$(6,810 )                               | \$ (22 )  | \$(1,484 )                                    | \$(8,316 )  |

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## INFORMATICA CORPORATION

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

The following table summarizes the changes in accumulated balances for each component of other comprehensive income (loss) for the nine months ended September 30, 2013, net of taxes (in thousands):

|   | Cumulative<br>Translation<br>Adjustments | Net Unrealized<br>Gain (Loss) on<br>Available-for-Sale<br>Investments | Net Unrealized<br>Loss on Cash<br>Flow Hedges | Total       |
|---|--|---|---|-------------|
| Accumulated other comprehensive income (loss) as of December 31, 2012   | \$ (8,012 )                              | \$ 242  | \$ (260 )                                     | \$ (8,030 ) |
| Other comprehensive income (loss):  |  |   |   |             |
| Other comprehensive income (loss) before reclassifications, net of tax benefit (expense) of \$(74), \$183 and \$1,149 | 1,202                                    | (300 )  | (1,875 )                                      | (973 )      |
| Net loss reclassified from accumulated other comprehensive income (loss), net of tax benefit of \$ —, \$22 and \$398  | —  | 36  | (i) 651                                       | (ii) 687    |
| Total other comprehensive income (loss), net of tax effect  | 1,202                                    | (264 )  | (1,224 )                                      | (286 )      |
| Accumulated other comprehensive loss as of September 30, 2013   | \$ (6,810 )                              | \$ (22 )  | \$ (1,484 )                                   | \$ (8,316 ) |

(i) Included in other income (expense), net on the condensed consolidated income statements.

(ii) Included in operating expenses on the condensed consolidated income statements.

The Company did not have any other-than-temporary gain or loss reflected in accumulated other comprehensive income (loss) as of September 30, 2013 and December 31, 2012.

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

See Note 1. Summary of Significant Accounting Policies, Note 6. Derivative Financial Instruments, and Note 12.

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

#### Note 6. Derivative Financial Instruments

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

#### Cash Flow Hedges

The Company enters into certain cash flow hedge programs in an attempt to reduce the impact of certain foreign currency fluctuations. These contracts are designated and documented as cash flow hedges. The purpose of these programs is to reduce the volatility of identified cash flow and expenses caused by movement in certain foreign currency exchange rates, in particular, the Indian rupee. The Company is currently using foreign exchange forward contracts to hedge certain non-functional currency anticipated expenses for its subsidiary in India.

The Company releases the amounts accumulated in other comprehensive income into earnings in the same period or periods during which the forecasted hedge transaction affects earnings. The Company will reclassify all amounts accumulated in other comprehensive income into earnings within the next 12 months.

The Company has forecasted the amount of its anticipated foreign currency expenses based on its historical performance and its projected financial plan. As of September 30, 2013, the remaining open foreign exchange contracts, carried at fair value, are



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## INFORMATICA CORPORATION

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

hedging Indian rupee expenses and have a maturity of twelve months or less. These foreign exchange contracts mature monthly as the foreign currency denominated expenses are paid and any gain or loss is offset against operating expense. Once the hedged item is recognized, the cash flow hedge is de-designated and subsequent changes in value are recognized in other income (expense) to offset changes in the value of the resulting non-functional currency monetary liabilities.

The notional amounts of these foreign exchange forward contracts in U.S. dollar equivalents were \$20.8 million and \$23.6 million as of September 30, 2013 and December 31, 2012, respectively.

**Balance Sheet Hedges**

Balance Sheet hedges consist of cash flow hedge contracts that have been de-designated and non-designated balance sheet hedges. These foreign exchange contracts are carried at fair value and either did not or no longer qualify for hedge accounting treatment and are not designated as hedging instruments. Changes in the value of the foreign exchange contracts are recognized in other income (expense) and offset the foreign currency gain or loss on the underlying monetary assets or liabilities. The notional amounts of foreign currency contracts open at period end in US dollar equivalents were \$2.6 million and \$2.7 million to buy at September 30, 2013 and December 31, 2012, respectively.

The following table reflects the fair value amounts for the foreign exchange contracts designated and not designated as hedging instruments at September 30, 2013 and December 31, 2012 (in thousands):

|   | September 30, 2013                        |   | December 31, 2012                         |   |
|---|---|---|---|---|
|   | Fair Value<br>Derivative<br>Assets<br>(i) | Fair Value<br>Derivative<br>Liabilities<br>(ii) | Fair Value<br>Derivative<br>Assets<br>(i) | Fair Value<br>Derivative<br>Liabilities<br>(ii) |
| Derivatives designated as hedging instruments     | \$4                                       | \$2,046   | \$—                                       | \$224   |
| Derivatives not designated as hedging instruments | —   | 258   | —   | 184   |
| Total fair value of derivative instruments        | \$4                                       | \$2,304   | \$—                                       | \$408   |

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

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

The Company presents its derivative assets and derivative liabilities at gross fair values in the condensed consolidated balance sheets. However, under the master netting agreements with the respective counterparties of the foreign exchange contracts, subject to applicable requirements, the Company is allowed to net settle transactions of the same currency with a single net amount payable by one party to the other. As of September 30, 2013, the potential effect of rights to offset the gross derivative asset against the gross derivative liability for the foreign exchange contracts would result in a negligible net derivative liability associated with one counterparty. As of December 31, 2012, there was no potential effect of rights of offset associated with the above foreign exchange contracts that would result in a net derivative asset or net derivative liability. The Company is not required to pledge nor is entitled to receive cash collateral related to the above contracts.

The Company evaluates prospectively as well as retrospectively the effectiveness of its hedge programs using statistical analysis. Prospective testing is performed at the inception of the hedge relationship and quarterly thereafter. Retrospective testing is performed on a quarterly basis. Informatica uses a change in spot price method and excludes the time value of derivative instruments for determination of hedge effectiveness.



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## INFORMATICA CORPORATION

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

The effects of derivative instruments designated as cash flow hedges on the accumulated other comprehensive loss and condensed consolidated statements of income for the three and nine months ended September 30, 2013 and 2012 are as follows (in thousands):

|   | Three Months Ended<br>September 30, |          | Nine Months Ended<br>September 30, |            |
|---|-------------------------------------|----------|------------------------------------|------------|
|   | 2013                                | 2012     | 2013                               | 2012       |
| Amount of gain (loss) recognized in other comprehensive income (effective portion)  | \$(1,199                            | ) \$353  | \$(3,024                           | ) \$(65    |
| Amount of loss reclassified from accumulated other comprehensive income to operating expenses (effective portion)                   | \$(920                              | ) \$(864 | ) \$(1,049                         | ) \$(1,643 |
| Amount of gain recognized in income on derivatives for the amount excluded from effectiveness testing located in operating expenses | \$151                               | \$213    | \$728                              | \$1,018    |

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

The gain (loss) recognized in other income, net for non-designated foreign currency forward contracts for the three and nine months ended September 30, 2013 and 2012 are as follows (in thousands):

|  | Three Months Ended<br>September 30, |        | Nine Months Ended<br>September 30, |          |
|--|-------------------------------------|--------|------------------------------------|----------|
|  | 2013                                | 2012   | 2013                               | 2012     |
| Gain (loss) recognized in interest and other income, net | \$(46                               | ) \$80 | \$(237                             | ) \$(663 |

See Note 1. Summary of Significant Accounting Policies, Note 5. Accumulated Other Comprehensive Income (Loss), and Note 12. Commitments and Contingencies of Notes to Condensed Consolidated Financial Statements for a further discussion.

**Note 7. Stock Repurchase Program**

The Company's Board of Directors has approved a stock repurchase program for the Company to repurchase its common stock. The primary purpose of the program is to enhance shareholder value, including partially offsetting the dilutive impact of stock based incentive plans. The number of shares to be purchased and the timing of the purchases are based on several factors, including the price of the Company's common stock, the Company's liquidity and working capital needs, general business and market conditions, and other investment opportunities. These purchases can be made from time to time in the open market and are funded from the Company's available working capital. In July 2012, the Board of Directors approved the repurchase of up to an additional \$100.0 million of the Company's outstanding common stock.

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

During the three and nine months ended September 30, 2013, the Company repurchased approximately 557,000 shares of its common stock at a cost of \$21.0 million and approximately 1,761,000 shares of its common stock at a cost of \$63.9 million, respectively. During the three and nine months ended September 30, 2012, the Company repurchased approximately 915,000 shares of its common stock at a cost of \$29.1 million and approximately 1,603,000 shares of its common stock at a cost of \$58.7 million, respectively.

As of September 30, 2013, \$32.1 million remained available for share repurchases under this program.

**Note 8. Share-Based Compensation**

The Company grants restricted stock units (“RSUs”) and stock options under its 2009 Equity Incentive Plan. The Company uses the Black-Scholes-Merton option pricing model to determine the fair value of each option award on the date of grant. The Company uses a blend of average historical and market-based implied volatilities for calculating the expected volatilities for

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## INFORMATICA CORPORATION

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

employee stock options, and it uses market-based implied volatilities for its Employee Stock Purchase Plan (“ESPP”). The expected term of employee stock options granted is derived from historical exercise patterns of the options, and the expected term of ESPP is based on the contractual terms. The risk-free interest rate for the expected term of the options and ESPP is based on the U.S. Treasury yield curve in effect at the time of grant.

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

|                                     | Three Months Ended<br>September 30, |       | Nine Months Ended<br>September 30, |          |   |
|-------------------------------------|-------------------------------------|-------|------------------------------------|----------|---|
|                                     | 2013                                | 2012  | 2013                               | 2012     |   |
| Option grants:                      |                                     |       |                                    |          |   |
| Expected volatility                 | 41                                  | % 47  | % 41 - 43%                         | 39 - 47% |   |
| Weighted-average volatility         | 41                                  | % 47  | % 41                               | % 43     | % |
| Expected dividends                  | —                                   | —     | —                                  | —        |   |
| Expected term of options (in years) | 3.3                                 | 3.3   | 3.3                                | 3.3      |   |
| Risk-free interest rate             | 1.1                                 | % 0.5 | % 0.7                              | % 0.5    | % |
| ESPP: <sup>(i)</sup>                |                                     |       |                                    |          |   |
| Expected volatility                 | 37                                  | % 53  | % 37 - 42%                         | 43 - 53% |   |
| Weighted-average volatility         | 37                                  | % 53  | % 40                               | % 49     | % |
| Expected dividends                  | —                                   | —     | —                                  | —        |   |
| Expected term of ESPP (in years)    | 0.5                                 | 0.5   | 0.5                                | 0.5      |   |
| Risk-free interest rate             | 0.1                                 | % 0.1 | % 0.1                              | % 0.1    | % |

(i) ESPP purchases are made on the last day of January and July of each year.

The allocations of the share-based compensation, net of income tax benefit, for the three and nine months ended September 30, 2013 and 2012 are as follows (in thousands):

|  | Three Months Ended<br>September 30, |         | Nine Months Ended<br>September 30, |          |
|--|-------------------------------------|---------|------------------------------------|----------|
|  | 2013                                | 2012    | 2013                               | 2012     |
| Cost of service revenues                           | \$1,283                             | \$1,061 | \$4,046                            | \$3,171  |
| Research and development                           | 5,347                               | 3,861   | 14,765                             | 10,824   |
| Sales and marketing                                | 5,002                               | 3,599   | 15,377                             | 10,078   |
| General and administrative                         | 3,237                               | 2,435   | 10,060                             | 7,510    |
| Total share-based compensation                     | 14,869                              | 10,956  | 44,248                             | 31,583   |
| Tax benefit of share-based compensation            | (4,238)                             | (2,815) | (12,190)                           | (8,066)  |
| Total share-based compensation, net of tax benefit | \$10,631                            | \$8,141 | \$32,058                           | \$23,517 |

## Note 9. Facilities Restructuring Charges

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

In February 2012, the Company purchased the two office buildings located at 2000 and 2100 Seaport Boulevard for approximately \$148.6 million in cash, which reflects a purchase price of \$153.2 million less a rent credit of \$4.6 million. As a result of the transaction, the Company no longer has any further commitments relating to the original lease agreements. The

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## INFORMATICA CORPORATION

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

purchase of the buildings discharges the Company's future lease obligations that were previously accounted for under the 2001 and 2004 Restructuring Plans. The transaction has been accounted for as a purchase of an asset that was previously subject to an operating lease in accordance with ASC 840, Leases. The Company was the sole lessee of both of these buildings. During the first quarter of 2012 the Company reversed the existing accrued facilities restructuring liability of \$20.6 million and recorded a corresponding facilities restructuring benefit on the Condensed Consolidated Statement of Income in accordance with ASC 420, Exit or Disposal Cost Obligations. The Company also recorded a charge of approximately \$21.2 million representing the cost to terminate the operating lease included in facility lease termination costs, net in the Condensed Consolidated Statements of Income. The Company relocated its corporate headquarters to 2000 and 2100 Seaport Boulevard in the third quarter of 2013.

**2004 Restructuring Plan**

In October 2004, the Company announced a restructuring plan ("2004 Restructuring Plan") related to the December 2004 relocation of the Company's corporate headquarters within Redwood City, California. In 2005, the Company subleased the available space at 2000 and 2100 Seaport Boulevard under the 2004 Restructuring Plan. The Company recorded restructuring charges of approximately \$103.6 million, consisting of \$21.6 million in leasehold improvement and asset write-offs and \$82.0 million related to estimated facility lease losses.

**2001 Restructuring Plan**

During 2001, the Company announced a restructuring plan ("2001 Restructuring Plan") and recorded restructuring charges of approximately \$12.1 million, consisting of \$1.5 million in leasehold improvement and asset write-offs and \$10.6 million related to the consolidation of excess leased facilities in the San Francisco Bay Area and Texas. During 2002, the Company recorded additional restructuring charges of approximately \$17.0 million, consisting of \$15.1 million related to estimated facility lease losses and \$1.9 million in leasehold improvement and asset write-offs. The Company calculated the estimated costs for the additional restructuring charges based on current market information and trend analysis of the real estate market in the respective area. In December 2004, the Company recorded additional restructuring charges of \$9.0 million related to estimated facility lease losses. In 2005, the Company subleased the available space at the 2000 and 2100 Seaport Boulevard under the 2001 Restructuring Plan through May 2013, which was subsequently subleased until July 2013 under a December 2007 sublease agreement. For the three months ended March 31, 2012, prior to the purchase of the Company's former corporate headquarters, the Company recorded \$0.1 million of restructuring charges related to the 2004 Restructuring Plan. These charges consist of accretion charges and amortization of tenant improvements and are included in facilities restructuring charges on the Condensed Consolidated Statement of Income. Net cash payments for the three months ended March 31, 2012 for facilities included in the 2004 and 2001 Restructuring Plans amounted to \$2.4 million and \$0.3 million, respectively. There were no further charges after the close of the first quarter of 2012, and no accrued facilities restructuring charges recorded as of September 30, 2013.

**Note 10. Income Taxes**

The Company's effective tax rates were 62% and 39% for the three months ended September 30, 2013 and 2012, respectively, and 41% and 33% for the nine months ended September 30, 2013 and 2012, respectively. The higher tax rates for the three and nine months ended September 30, 2013 were primarily attributable to acquisition integration-related income tax expenses incurred during the third quarter. These acquisition integration-related income tax expenses, together with non-deductible share-based compensation, state income taxes, nondeductible acquisition related costs, and the accrual of reserves related to uncertain tax positions, were partially offset by benefits of certain earnings from operations in lower-tax jurisdictions throughout the world, the impact of the domestic manufacturing deduction pursuant to Section 199 of the Internal Revenue Code, and the recognition of the 2012 and 2013 federal research and development credits. The Company's effective annual tax rate will continue to be very sensitive to the geographic mix of earnings. The effective tax rate for the three and nine months ended September 30, 2012 differed from the federal statutory rate of 35% primarily due to benefits of certain earnings from operations in lower-tax jurisdictions throughout the world, the impact of the domestic manufacturing deduction pursuant to Section 199 of the

Internal Revenue Code, and the benefit of foreign tax credits partially offset by non-deductible share-based compensation, state income taxes, non-deductible acquisition related costs, and the accrual of reserves related to uncertain tax positions. As of September 30, 2013, the Company has not provided for residual U.S. taxes in any of these lower-tax jurisdictions since it intends to indefinitely reinvest the net undistributed earnings of its foreign subsidiaries offshore.

ASC 740, Income Taxes, provides for the recognition of deferred tax assets if realization of such assets is more likely than not. In assessing the need for any additional valuation allowance in the quarter ended September 30, 2013, the Company considered all available evidence both positive and negative, including historical levels of income, legislative developments, expectations and risks associated with estimates of future taxable income, and ongoing prudent and feasible tax planning strategies. As a result of this analysis for the quarter ended September 30, 2013, consistent with prior periods, it was considered more likely than not

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## INFORMATICA CORPORATION

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

that the Company's non-share-based payments related deferred tax assets would be realized except for any increase to the deferred tax asset related to the California research and development credit and certain operating losses incurred outside of the United States in the current year. A valuation allowance has been recorded against this portion of the credit, even though this attribute has an indefinite life. In addition, the Company recorded a valuation allowance related to the deferred tax asset that is attributable to the losses incurred outside of the United States in the current year. The remaining valuation allowance is primarily related to deferred tax assets that were created through the benefit from stock option deductions on a “with” and “without” basis and recorded on the balance sheet with a corresponding valuation allowance prior to the Company’s adoption of ASC 718, Stock Compensation. Pursuant to ASC 718-740-25-10, the benefit of these deferred tax assets will be recorded in stockholders’ equity when they are utilized on an income tax return to reduce the Company’s taxes payable, and as such, they will not impact the Company’s effective tax rate.

The unrecognized tax benefits related to ASC 740, if recognized, would impact the income tax provision by \$21.6 million and \$17.9 million as of September 30, 2013 and 2012, respectively. The Company has elected to include interest and penalties as a component of income tax expenses. Accrued interest and penalties as of September 30, 2013 and 2012 were approximately \$2.8 million and \$2.6 million, respectively. As of September 30, 2013, the gross unrecognized tax benefit was approximately \$24.5 million.

The Company files U.S. federal income tax returns as well as income tax returns in various states and foreign jurisdictions. The Company has been informed by certain state and foreign taxing authorities that it was selected for examination. Most state and foreign jurisdictions have three to six open tax years at any point in time. The field work for certain state and foreign audits has commenced and is at various stages of completion as of September 30, 2013. Although the outcome of any tax audit is uncertain, the Company believes that it has adequately provided in its financial statements for any additional taxes that it may be required to pay as a result of such examinations. The Company regularly assesses the likelihood of outcomes resulting from these examinations to determine the adequacy of its provision for income taxes, and believes its current reserve to be reasonable. If tax payments ultimately prove to be unnecessary, the reversal of these tax liabilities would result in tax benefits in the period that the Company had determined such liabilities were no longer necessary. However, if an ultimate tax assessment exceeds its estimate of tax liabilities, an additional tax provision might be required.

## Note 11. Net Income per Common Share

The following table sets forth the calculation of basic and diluted net income per share for the three and nine months ended September 30, 2013 and 2012 (in thousands, except per share amounts):

|  | Three Months Ended<br>September 30, |          | Nine Months Ended<br>September 30, |          |
|--|-------------------------------------|----------|------------------------------------|----------|
|  | 2013                                | 2012     | 2013                               | 2012     |
| Net income   | \$10,404                            | \$15,501 | \$46,477                           | \$62,116 |
| Weighted-average shares of common stock used to compute basic net income per share (excluding unvested restricted stock) | 108,305                             | 108,091  | 108,039                            | 107,957  |
| Effect of dilutive common stock equivalents:   |                                     |          |                                    |          |
| Dilutive effect of unvested restricted stock units   | 312                                 | 273      | 305                                | 384      |
| Dilutive effect of employee stock options  | 2,884                               | 3,412    | 3,028                              | 4,177    |
| Shares used in computing diluted net income per common share   | 111,501                             | 111,776  | 111,372                            | 112,518  |
| Basic net income per common share  | \$0.10                              | \$0.14   | \$0.43                             | \$0.58   |
| Diluted net income per common share  | \$0.09                              | \$0.14   | \$0.42                             | \$0.55   |
|  | 5,976                               | 4,790    | 5,932                              | 3,412    |

Weighted average stock options and restricted stock units  
excluded from calculation due to anti-dilutive effect

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## INFORMATICA CORPORATION

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

## Note 12. Commitments and Contingencies

## Lease Obligations

In February 2000, the Company entered into lease agreements for two office buildings located at 2000 and 2100 Seaport Boulevard in Redwood City, California, which the Company occupied from August 2001 through December 2004 as its former corporate headquarters. These lease agreements expired in July 2013. As a result of the 2004 Restructuring Plan, the Company relocated the corporate headquarters and subsequently entered into a series of sublease agreements with tenants to occupy a majority of the vacated space. The majority of the subleases expired in June and July 2013. In February 2012, the Company purchased these two buildings for approximately \$148.6 million in cash, which reflects a purchase price of \$153.2 million less a rent credit of \$4.6 million.

In December 2004, the Company relocated its corporate headquarters within Redwood City, California and entered into a new lease agreement for two buildings at 100 and 200 Cardinal Way. The lease term, including executed renewal terms, started in December 2004 and expires in December 2013. In the third quarter of 2013, the Company relocated its corporate headquarters to 2000 and 2100 Seaport Boulevard. As a result of the relocation, the Company recognized the anticipated rental expense for the remainder of the lease term of 100 and 200 Cardinal Way.

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

Future minimum lease payments as of September 30, 2013 under non-cancelable operating leases with original terms in excess of one year are summarized as follows (in thousands):

|   | Operating<br>Leases |
|---|---------------------|
| Remaining 2013                                | \$2,255             |
| 2014  | 8,600               |
| 2015  | 8,441               |
| 2016  | 5,921               |
| 2017  | 4,225               |
| Thereafter                                    | 7,186               |
| Total future minimum operating lease payments | \$36,628            |

## Warranties

The Company generally provides a warranty for its software products and services to its customers for a period of three to six months. The Company's software products' media are generally warranted to be free from defects in materials and workmanship under normal use, and the products are also generally warranted to substantially perform as described in certain Company documentation and the product specifications. The Company's services are generally warranted to be performed in a professional manner and to materially conform to the specifications set forth in a customer's signed contract. In the event there is a failure of such warranties, the Company generally will correct or provide a reasonable work-around or replacement product. To date, the Company's product warranty expense has not been significant. The warranty accrual as of September 30, 2013 and December 31, 2012 was not material.

## Indemnification

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

The Company believes its internal development processes and other policies and practices limit its exposure related to the indemnification provisions of the License Agreement. In addition, the Company requires its employees to sign a proprietary information and inventions agreement, which assigns the rights to its employees' development work to the Company. To date, the

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INFORMATICA CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Company has not had to reimburse any of its customers for any losses related to these indemnification provisions, and no material claims against the Company are outstanding as of September 30, 2013. For several reasons, including the lack of prior indemnification claims and the lack of a monetary liability limit for certain infringement cases under the License Agreement, the Company cannot determine the maximum amount of potential future payments, if any, related to such indemnification provisions.

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

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

Derivative Financial Instruments

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

Litigation

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

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

Note 13. Significant Customer Information and Segment Information

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

No customer accounted for more than 10% of revenue in the three and nine months ended September 30, 2013 and 2012. At September 30, 2013 and December 31, 2012, no customer accounted for more than 10% of the accounts receivable balance. North America revenues include the United States and Canada. Revenue from international customers (defined as those customers outside of North America) accounted for 30% and 29% of total revenues in the third quarter of 2013 and 2012, respectively, and 32% of total revenues for both of the nine-month periods ended September 30, 2013 and 2012.



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## INFORMATICA CORPORATION

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

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

|                                     | Three Months Ended |           | Nine Months Ended |           |
|-------------------------------------|--------------------|-----------|-------------------|-----------|
|                                     | September 30,      |           | September 30,     |           |
|                                     | 2013               | 2012      | 2013              | 2012      |
| Revenues:                           |                    |           |                   |           |
| North America                       | \$164,930          | \$134,613 | \$453,866         | \$389,587 |
| Europe, the Middle East, and Africa | 50,435             | 37,705    | 150,577           | 125,456   |
| Other                               | 20,029             | 18,000    | 67,690            | 61,787    |
| Total revenues                      | \$235,394          | \$190,318 | \$672,133         | \$576,830 |

Property and equipment, net by geographic region are summarized as follows (in thousands):

|                                     | September 30, | December 31, |
|-------------------------------------|---------------|--------------|
|                                     | 2013          | 2012         |
| Property and equipment, net:        |               |              |
| North America                       | \$142,782     | \$135,388    |
| Europe, the Middle East, and Africa | 3,202         | 3,395        |
| Other                               | 4,788         | 6,691        |
| Total property and equipment, net   | \$150,772     | \$145,474    |

## Note 14. Acquisitions

Acquisition during the nine months ended September 30, 2013:

In February 2013, the Company acquired Active Endpoints, Inc. ("Active Endpoints"), a privately-held company, for approximately \$10.0 million in cash. Active Endpoints designs, markets, and supports on-premise and cloud based process automation software solutions. Total assets acquired and liabilities assumed was approximately \$10.0 million of which approximately \$7.1 million was allocated to goodwill, \$3.8 million was allocated to identifiable intangible assets, and \$0.9 million to net liabilities assumed. The goodwill is not deductible for tax purposes.

Approximately \$1.5 million of the consideration otherwise payable to former Active Endpoints stockholders was placed into an escrow and held as partial security for certain indemnification obligations. The escrow fund will remain in place until May 2014.

Acquisitions in 2012:

## Heiler Software AG

In November 2012, the Company acquired a majority interest in the shares of Heiler Software AG ("Heiler"), a publicly-traded German company, at the end of the initial acceptance period of the takeover offer. The Company purchased the majority interest at a price of 7.04 Euro per share in cash, or approximately \$101.9 million. Heiler provides enterprise product information management, master data management and procurement solutions that enable retailers, distributors and manufacturers to manage product information across channels and data sources. As of December 31, 2012, the Company held approximately 97.7% of the outstanding shares of Heiler. During December 2012 and the first half of 2013, the Company acquired other shareholders' interest in Heiler for approximately \$6.8 million, for total cash consideration of approximately \$108.7 million. The squeeze-out of the remaining shareholders was effective in the second quarter of 2013, increasing the Company's ownership in Heiler to 100 percent.

The fair value of the noncontrolling interest in Heiler at the acquisition date was \$2.9 million. The valuation techniques and significant inputs used to measure the fair value of the noncontrolling interest included quoted market prices.

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## INFORMATICA CORPORATION

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

The following table summarizes the fair value of assets acquired and liabilities assumed at the acquisition date (in thousands):

|                                     |            |
|-------------------------------------|------------|
| Net tangible assets                 | \$ 16,400  |
| Identifiable intangible assets:     |            |
| Developed and core technology       | 16,586     |
| Customer relationships              | 5,339      |
| Contract backlog                    | 648        |
| Trade names                         | 298        |
| In-process research and development | 3,784      |
| Noncontrolling interest             | (2,861 )   |
| Total identifiable net assets       | 40,194     |
| Goodwill                            | 61,660     |
| Total cash consideration            | \$ 101,854 |

During the first quarter of 2013, the Company recorded \$2.8 million of additional accrued liabilities. The allocation of the purchase price consideration was based upon a preliminary valuation and the Company's estimates and assumptions are subject to change as the Company obtains additional information for estimates within the measurement period (up to one year from the acquisition date). The primary areas of the preliminary purchase price allocation that are not yet finalized are amounts for income tax assets and liabilities. The goodwill is not deductible for tax purposes.

## Other Acquisitions in 2012

In addition, during 2012 the Company acquired Data Scout Solutions Group Limited and TierData, Inc., both of which were privately-held companies, for an aggregate consideration of approximately \$12.0 million in cash. Total assets acquired and liabilities assumed was approximately \$15.0 million of which approximately \$3.9 million was allocated to identifiable intangible assets, \$3.9 million to net liabilities assumed, and \$15.0 million was allocated to goodwill, which is partially deductible for tax purposes. Total acquiree transaction related costs and other liabilities was approximately \$1.9 million, and include legal, accounting, and consulting fees as of the date of the acquisitions. Approximately \$2.4 million of the consideration otherwise payable to former shareholders was held as partial security for certain indemnification obligations, and will be held back for payment until March 2014.

At the time of these two acquisitions, the Company was obligated to pay up to an additional \$6.0 million for certain variable and deferred earn-out payments based upon the achievement of certain performance targets. The Company determined the fair market value of these earn-outs based on probability analysis. The fair market value and gross amount of these earn-out payments were \$4.9 million and \$6.0 million, respectively. The fair value measurement is based on significant inputs not observed in the market and thus represents a Level 3 measurement, which reflects the Company's own assumptions in measuring fair value. The Company paid \$0.2 million in earn-out payments during the year ended December 31, 2012, and \$0.5 million and \$1.3 million for the three and nine months ended September 30, 2013, respectively. The fair value of the contingent consideration liability associated with these earn-outs was \$3.6 million as of September 30, 2013.

The Company's business combinations completed during the nine months ended September 30, 2013 and 2012 did not have a material impact on the Company's condensed consolidated financial statements, and therefore pro forma disclosures have not been presented.

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

This Quarterly Report on Form 10-Q includes "forward-looking statements" within the meaning of the federal securities laws, particularly statements referencing our expectations relating to the productivity of our sales force, license revenues, service revenues, international revenues, deferred revenues, cost of license revenues, cost of service revenues, operating expenses, amortization of acquired technology, share-based compensation, and provision for income taxes; the growth of our customer base and customer demand for our products and services; the sufficiency of our cash balances and cash flows for the next 12 months; our stock repurchase programs; investment and potential investments of cash or stock to acquire or invest in complementary businesses, products, or technologies; the impact of recent changes in accounting standards; market risk sensitive instruments, contractual obligations; and assumptions underlying any of the foregoing. In some cases, forward-looking statements can be identified by the use of terminology such as "may," "will," "expects," "intends," "plans," "anticipates," "estimates," "potential," or "continue," or the thereof, or other comparable terminology. Although we believe that the expectations reflected in the forward-looking statements contained herein are reasonable, these expectations or any of the forward-looking statements could prove to be incorrect, and actual results could differ materially from those projected or assumed in the forward-looking statements. Our future financial condition and results of operations, as well as any forward-looking statements, are subject to risks and uncertainties, including but not limited to the factors set forth in this Report under Part II, Item 1A. Risk Factors. All forward-looking statements and reasons why results may differ included in this Report are made as of the date of the filing of this Report, and we assume no obligation to update any such forward-looking statements or reasons why actual results may differ.

The following discussion should be read in conjunction with our condensed consolidated financial statements and notes thereto appearing in Part I, Item 1 of this Report.

Overview

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

We receive software 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 also receive an increasing amount of software revenues from our customers and partners under subscription-based licenses for a variety of cloud and address validation offerings. 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. Most of our international sales have been in Europe, the Middle East, and Africa ("EMEA"). Revenues outside of EMEA and North America comprised approximately 10% of total consolidated revenues during the first nine months of 2013, 10% during 2012, and less than 10% during 2011.

During the first quarter of 2013, we performed a review of the presentation of certain of our revenue categories and adopted a revised presentation, which we believe more accurately reflects our evolving product and service offerings. A change was made to rename other revenues to subscription revenues and present subscription revenues and license revenues as software revenues. Other revenues were previously presented in services revenues. A corresponding change was made to present cost of license revenues and cost of other revenues as cost of software revenues. This change in presentation will not affect our total revenues, total cost of revenues or total gross margin. Conforming changes have been made for all prior periods presented. Subscription revenues of \$8.0 million and \$20.4 million for the three and nine months ended September 30, 2012, respectively were reclassified from service revenues to software revenues. Cost of subscription revenues of \$0.6 million and \$2.6 million for the three and nine months ended September 30, 2012, respectively were reclassified from cost of service revenues to cost of software revenues.

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

Total revenues in the third quarter of 2013 increased by 24% to \$235.4 million compared to \$190.3 million for the same period in 2012. Software revenues increased by 35% in the third quarter of 2013 from the same period in 2012 due to a 34% increase in license revenues and a 48% increase in subscription revenues. The increase in license revenues reflected increases in the average transaction size of license orders and number of transactions in the quarter ended September 30, 2013, compared to the same period in 2012. The increase in subscription revenues was due to growth in the installed customer base and higher customer demand of subscription offerings. Services revenues increased by 16% in the third quarter of 2013 from the same period in 2012 due to a 14% growth in maintenance revenues and a 26% increase in consulting and education services. The maintenance revenues growth was attributable to the increased size of our installed customer base, and the increase in consulting and education services revenues was primarily due to an increase in consulting revenues due to higher customer demand.



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In the first nine months of 2013, total revenues increased by 17% to \$672.1 million from \$576.8 million in the comparable period a year ago. Software revenues increased by 18% in the first nine months of 2013 from the same period in 2012 due to an increase of 14% in license revenues and a 61% increase in subscription revenues. The increase in license revenues reflected an increase in the number of transactions and the average transaction size of license orders in the first nine months of 2013, compared to the same period in 2012. The increase in subscription revenues was due to growth in the installed customer base and higher customer demand of subscription offerings. Services revenues increased by 16% in the first nine months of 2013 from the same period in 2012 due to a 13% growth in maintenance revenues and a 27% increase in consulting and education services. The maintenance revenues growth was attributable to the increased size of our installed customer base, and the increase in consulting and education services revenues was primarily due to an increase in consulting revenues due to higher customer demand. Due to our dynamic market, we face both significant opportunities and challenges, and as such, we focus on the following key factors:

**Macroeconomic Conditions:** The United States and many foreign economies, particularly in Europe, continue to experience uncertainty driven by varying macroeconomic conditions. Although some of these economies have shown signs of improvement, including in the United States, the macroeconomic environment remains uncertain and uneven. Uncertainty in the macroeconomic environment and associated global economic conditions have resulted in extreme volatility in credit, equity, and foreign currency markets. In particular, economic concerns continue with respect to the European sovereign debt markets and potential ramifications of any U.S. debt, income tax and budget issues, including future delays in approving the U.S. budget or reductions in government spending. Such uncertainty and associated conditions have also resulted in volatility in several of our vertical markets, particularly the financial services and public sectors. These conditions have also adversely affected the buying patterns of customers and our overall pipeline conversion rate, as well as our revenue growth expectations. Furthermore, we have made incremental investments in Asia-Pacific and Latin America, and have continued investing in 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 poses challenges as competitors market a broader suite of software products or solutions and bundled pricing arrangements to our existing or prospective customers. Moreover, because of current macroeconomic uncertainty, there is increased competition for the allocation of customers' IT budget dollars.

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

**Quarterly and Seasonal Fluctuations:** Historically, purchasing patterns in the software industry have followed quarterly and seasonal trends and are likely to do so in the future. Specifically, it is normal for us to recognize a substantial portion of our new license orders in the last month of each quarter and sometimes in the last few weeks or days of each quarter, though such fluctuations are mitigated somewhat by recognition of backlog orders. In recent years, the fourth quarter has had the highest level of license revenues and license orders, and we generally have weaker demand for our software products and services in the first and third quarters of the year. The first quarter of 2013, and the first and fourth quarters of 2012 followed these seasonal trends. However, license revenues in the third quarter of 2013 were higher as compared to the first and second quarters of 2013, and license revenues in the second and third quarters of 2012 were lower as compared to the first quarter of 2012. The uncertain macroeconomic conditions and recent changes in our sales organization, particularly the recent transition in our EMEA sales leadership, make our future results more difficult to predict based on historical seasonal trends.

We focus on a number of key initiatives to address these factors and other opportunities and challenges. These key initiatives include the strengthening of our partnerships, the broadening of our distribution capability worldwide, the enablement of our sales force and distribution channel to sell both our existing products and technologies as well as new products and technologies, the alignment of our worldwide sales and field operations with company-wide initiatives and the implementation of a more rigorous sales process, and strategic acquisitions of complementary businesses, products, and technologies. If we are unable to execute these key initiatives successfully, we may not be able to continue to grow our business at our historic growth rates.

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We concentrate on maintaining and strengthening our relationships with our existing strategic partners and building relationships with additional strategic partners. These partners include systems integrators, resellers and distributors, and strategic technology partners, including enterprise application providers, database vendors, and enterprise information integration vendors, in the United States and internationally. For example, we are partners with Cloudera, Dun & Bradstreet, EMC, Hewlett-Packard, Intel, Microsoft, MicroStrategy, NetSuite, Oracle, salesforce.com, SAP, and Symantec, among others. See “Risk Factors — We rely on our relationships with our strategic partners. If we do not maintain and strengthen these relationships, our ability to generate revenue and control expenses could be adversely affected, which could cause a decline in the price of our common stock” in Part II, Item 1A of this Report.

We have broadened our distribution efforts, and we have continued to expand our sales both in terms of traditional data warehousing products and more strategic data integration solutions beyond data warehousing, including enterprise data integration, data quality, master data management, B2B data exchange, application information lifecycle management, complex event processing, ultra messaging, and cloud data integration. We also operate the Informatica Marketplace, which allows buyers and sellers to share and leverage data integration solutions. To address the risks of introducing new products or enhancements to our existing products, we have continued to invest in programs to help train our internal sales force and our external distribution channel on new product functionalities, key differentiators, and key business values. These programs include user conferences for customers and partners, our annual sales kickoff conference for all sales and key marketing personnel, “webinars” and other informational seminars and materials for our direct sales force and indirect distribution channel, in-person technical seminars for our pre-sales consultants, the building of product demonstrations, and creation and distribution of targeted marketing collateral. We continue to implement changes in our worldwide sales, marketing and field operations to address recent sales execution challenges and improve performance, particularly with respect to our pipeline generation and management capabilities, the reliability of our pipeline estimates and our pipeline conversion rates. In addition to the leadership transitions in our international sales organizations and continued investment in our sales specialists and domain experts, we have also implemented pipeline generation and management initiatives and more rigorous sales planning and processes. Additionally, we have expanded our international sales presence in recent years by opening new offices, increasing headcount, and through acquisitions. As a result of these changes and our international expansion, as well as the increase in our direct sales headcount in the United States, our sales and marketing expenses have increased. As our products become more complex and we target new customers for our software and services, we expect to broaden our go-to-market initiatives and, as a result, our expenses may increase. In the long term, we expect these investments to result in increased revenues and productivity and ultimately higher profitability. As we continue to implement further changes, we may experience increased sales force turnover and additional disruption to our ongoing operations. These changes may also take longer to implement than expected, which may adversely affect our sales force productivity. If we experience an increase in sales personnel turnover, do not achieve expected increases in our sales pipeline, experience a decline in our sales pipeline conversion ratio, or do not achieve increases in sales productivity and efficiencies from our new sales personnel as they gain more experience, then it is unlikely that we will achieve our expected increases in revenue, sales productivity, or profitability.

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

Critical Accounting Policies and Estimates

Our consolidated financial statements are prepared in accordance with generally accepted accounting principles (“GAAP”) in the United States, which require us to make estimates, judgments, and assumptions. We believe that the estimates, judgments, and assumptions upon which we rely are reasonable based upon information available to us at the time that these assumptions, judgments, and estimates are made. These estimates, judgments, and assumptions can affect the reported amounts of assets and liabilities as of the date of the financial statements as well as the reported amounts of revenues and expenses during the periods presented. Any material differences between these estimates and actual results will impact our consolidated financial statements. On a regular basis, we evaluate our estimates, judgments, and assumptions and make changes accordingly. We also discuss our critical accounting estimates with the Audit Committee of the Board of Directors. We believe that the estimates, judgments, and assumptions involved in the accounting for revenue recognition, income taxes, impairment of goodwill and intangible assets, business combinations, share-based compensation, and allowance for doubtful accounts have the greatest potential impact on

our consolidated financial statements, so we consider these to be our critical accounting policies. The critical accounting estimates associated with these policies are discussed in Part II, Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations, of our Annual Report on Form 10-K for the year ended December 31, 2012.

There have been no changes in our critical accounting policies since the end of 2012.

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## Recent Accounting Pronouncements

For recent accounting pronouncements, see Note 1. Summary of Significant Accounting Policies of Notes to Condensed Consolidated Financial Statements in Part I, Item 1 of this Report.

## Results of Operations

The following table presents certain financial data for the three and nine months ended September 30, 2013 and 2012 as a percentage of total revenues:

|   | Three Months Ended<br>September 30, |      | Nine Months Ended<br>September 30, |      |   |
|---|-------------------------------------|------|------------------------------------|------|---|
|   | 2013                                | 2012 | 2013                               | 2012 |   |
| Revenues:   |                                     |      |                                    |      |   |
| Software  | 42                                  | % 39 | % 42                               | % 41 | % |
| Service   | 58                                  | 61   | 58                                 | 59   |   |
| Total revenues  | 100                                 | 100  | 100                                | 100  |   |
| Cost of revenues:   |                                     |      |                                    |      |   |
| Software  | 1                                   | 1    | 1                                  | 1    |   |
| Service   | 16                                  | 15   | 16                                 | 16   |   |
| Amortization of acquired technology                           | 2                                   | 3    | 3                                  | 2    |   |
| Total cost of revenues  | 19                                  | 19   | 20                                 | 19   |   |
| Gross profit  | 81                                  | 81   | 80                                 | 81   |   |
| Operating expenses:   |                                     |      |                                    |      |   |
| Research and development                                      | 18                                  | 19   | 18                                 | 18   |   |
| Sales and marketing   | 40                                  | 39   | 40                                 | 37   |   |
| General and administrative                                    | 10                                  | 8    | 9                                  | 8    |   |
| Amortization of intangible assets                             | 1                                   | 1    | 1                                  | 1    |   |
| Facilities restructuring and facility lease termination costs | —                                   | —    | —                                  | —    |   |
| Acquisitions and other charges                                | 1                                   | 1    | —                                  | 1    |   |
| Total operating expenses                                      | 70                                  | 68   | 68                                 | 65   |   |
| Income from operations  | 11                                  | 13   | 12                                 | 16   |   |
| Interest income   | —                                   | —    | —                                  | —    |   |
| Interest expense  | —                                   | —    | —                                  | —    |   |
| Other expense, net  | —                                   | —    | —                                  | —    |   |
| Income before income taxes                                    | 11                                  | 13   | 12                                 | 16   |   |
| Income tax provision  | 7                                   | 5    | 5                                  | 5    |   |
| Net income  | 4                                   | % 8  | % 7                                | % 11 | % |

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## Revenues

Total revenues in the third quarter of 2013 increased by 24% to \$235.4 million compared to \$190.3 million for the same period in 2012. Software revenues increased by 35% in the third quarter of 2013 from the same period in 2012 due to a 34% increase in license revenues and a 48% increase in subscription revenues. The increase in license revenues reflected increases in the average transaction size of license orders and number of transactions in the quarter ended September 30, 2013, compared to the same period in 2012. The increase in subscription revenues was due to growth in the installed customer base and higher customer demand of subscription offerings. Services revenues increased by 16% in the third quarter of 2013 from the same period in 2012 due to a 14% growth in maintenance revenues and a 26% increase in consulting and education services. The maintenance revenues growth was attributable to the increased size of our installed customer base, and the increase in consulting and education services revenues was primarily due to an increase in consulting revenues due to higher customer demand.

In the first nine months of 2013, total revenues increased by 17% to \$672.1 million from \$576.8 million in the comparable period a year ago. Software revenues increased by 18% in the first nine months of 2013 from the same period in 2012 due to an increase of 14% in license revenues and a 61% increase in subscription revenues. The increase in license revenues reflected an increase in the number of transactions and the average transaction size of license orders in the first nine months of 2013, compared to the same period in 2012. The increase in subscription revenues was due to growth in the installed customer base and higher customer demand of subscription offerings. Services revenues increased by 16% in the first nine months of 2013 from the same period in 2012 due to a 13% growth in maintenance revenues and a 27% increase in consulting and education services. The maintenance revenues growth was attributable to the increased size of our installed customer base, and the increase in consulting and education services revenues was primarily due to an increase in consulting revenues due to higher customer demand. The following table and discussion compare our revenues by type for the three and nine months ended September 30, 2013 and 2012 (in thousands, except percentages):

|                          | Three Months Ended September 30, |           |                   | Nine Months Ended September 30, |           |                   |   |  |
|--------------------------|----------------------------------|-----------|-------------------|---------------------------------|-----------|-------------------|---|--|
|                          | 2013                             | 2012      | Percentage Change | 2013                            | 2012      | Percentage Change |   |  |
| Software revenues:       |                                  |           |                   |                                 |           |                   |   |  |
| License                  | \$88,012                         | \$65,891  | 34                | % \$246,239                     | \$216,935 | 14                | % |  |
| Subscription             | 11,814                           | 7,959     | 48                | % 32,921                        | 20,412    | 61                | % |  |
| Total software revenues  | 99,826                           | 73,850    | 35                | % 279,160                       | 237,347   | 18                | % |  |
| Service revenues:        |                                  |           |                   |                                 |           |                   |   |  |
| Maintenance              | 104,505                          | 91,872    | 14                | % 300,109                       | 266,345   | 13                | % |  |
| Consulting and education | 31,063                           | 24,596    | 26                | % 92,864                        | 73,138    | 27                | % |  |
| Total service revenues   | 135,568                          | 116,468   | 16                | % 392,973                       | 339,483   | 16                | % |  |
| Total revenues           | \$235,394                        | \$190,318 | 24                | % \$672,133                     | \$576,830 | 17                | % |  |

## Software Revenues

## License Revenues

Our license revenues increased to \$88.0 million (or 37% of total revenues) and \$246.2 million (or 37% of total revenues) for the three and nine months ended September 30, 2013, respectively, from \$65.9 million (or 35% of total revenues) and \$216.9 million (or 38% of total revenues) for the three and nine months ended September 30, 2012, respectively. The increase in license revenues of \$22.1 million (or 34%) for the three months ended September 30, 2013 compared to the same period in 2012 was primarily due to increases in the average transaction size of license orders and the number of transactions in the quarter ended September 30, 2013, compared to the same period in 2012. The increase in license revenues of \$29.3 million (or 14%) for the nine months ended September 30, 2013 compared to the same period in 2012 was primarily due to an increase in the number of transactions and the average transaction size of license orders.

The average transaction amount for orders greater than \$100,000 in the third quarter of 2013, including upgrades for which we charge customers an additional fee, increased to \$589,000 from \$443,000 in the third quarter of 2012. The

average transaction amount for orders greater than \$100,000 for the nine months ended September 30, 2013, including upgrades for which we charge our customers an additional fee, increased to \$482,000 from \$448,000 in the same period of 2012.

The number of transactions greater than \$1.0 million increased to 23 in the third quarter of 2013 from 13 in the same period of 2012. The number of transactions greater than \$1.0 million increased to 57 for the nine months ended September 30, 2013 from

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39 in the same period of 2012. The total number of new customers that we added in the third quarter and first nine months of 2013, including the number of customers added through acquisitions, was 47 and 249, respectively, compared to 68 and 191, respectively, in the same periods of 2012. We had license transactions with 282 and 825 existing customers in the third quarter and first nine months of 2013, respectively, compared to 267 and 801, respectively, in the same periods of 2012.

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.

**Subscription Revenues**

Subscription revenues, which primarily represent revenues from customers and partners under subscription-based licenses for a variety of cloud and address validation offerings, increased to \$11.8 million (or 5% of total revenues) for the three months ended September 30, 2013 compared to \$8.0 million (or 4% of total revenues) for the three months ended September 30, 2012. Subscription revenues increased to \$32.9 million (or 5% of total revenues) for the nine months ended September 30, 2013 compared to \$20.4 million (or 4% of total revenues) for nine months ended September 30, 2012. The increases of \$3.9 million (or 48%) and \$12.5 million (or 61%) in subscription revenues for the three and nine months ended September 30, 2013, respectively, compared to the same periods in 2012 were primarily due to an increase in the installed base of subscription customers and higher customer demand.

For the remainder of 2013, we expect our revenues from subscriptions to increase from the comparable 2012 levels primarily due to our growing installed customer base and an anticipated increase in demand for subscription offerings.

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

Maintenance revenues increased to \$104.5 million (or 44% of total revenues) for the three months ended September 30, 2013 compared to \$91.9 million (or 48% of total revenues) for the three months ended September 30, 2012. Maintenance revenues increased to \$300.1 million (or 45% of total revenues) for the nine months ended September 30, 2013 compared to \$266.3 million (or 46% of total revenues) for the nine months ended September 30, 2012. The increases of \$12.6 million (or 14%) and \$33.8 million (or 13%) in maintenance revenues for the three and nine months ended September 30, 2013, respectively, compared to the same periods in 2012 were primarily due to the increasing size of our installed customer base, including those customers acquired through our recent acquisitions. See Note 14. Acquisitions of Notes to Condensed Consolidated Financial Statements in Part I, Item 1 of this Report. For the remainder of 2013, we expect maintenance revenues to increase from the comparable 2012 levels due to our growing installed customer base.

**Consulting and Education Revenues**

Consulting and education revenues increased to \$31.1 million (or 13% of total revenues) for the three months ended September 30, 2013 compared to \$24.6 million (or 13% of total revenues) for the three months ended September 30, 2012. Consulting and education revenues increased to \$92.9 million (or 14% of total revenues) for the nine months ended September 30, 2013 compared to \$73.1 million (or 13% of total revenues) for the nine months ended September 30, 2012. The increases of \$6.5 million (or 26%) and \$19.7 million (or 27%) in consulting and education revenues for the three and nine months ended September 30, 2013, respectively, compared to the same periods in 2012 were primarily due to an increase in consulting revenues as a result of higher customer demand.

For the remainder of 2013, we expect our revenues from consulting and education revenues to increase from the comparable 2012 levels primarily due to an anticipated increase in demand for consulting services.

**International Revenues**

Our international revenues were \$70.5 million (or 30% of total revenues) and \$55.7 million (or 29% of total revenues) for the three months ended September 30, 2013 and 2012, respectively. Our international revenues were \$218.3 million (or 32% of total revenues) and \$187.2 million (or 32% of total revenues) for the nine months ended September 30, 2013 and 2012, respectively. The increase of \$14.8 million (or 26%) in international revenues for the three months ended September 30, 2013 compared to the same period in 2012 was primarily due to an increase in software revenues in EMEA, Latin America, and Asia, and an increase in service revenues in EMEA and Latin America. The increase of \$31.0 million (or 17%) in international revenues for the nine months ended September 30, 2013 compared to the same



period in 2012 was primarily due to increases in service revenues in EMEA and Latin America and an increase in software revenues in EMEA, Asia and Latin America.

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For the remainder of 2013, we expect our international revenues as a percentage of total revenues to be relatively consistent with the first nine months of 2013, subject to the continued macroeconomic uncertainty in EMEA.

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

Our potential future revenues include backlog consisting primarily of (1) product orders (both on a perpetual and subscription basis) that have not shipped as of the end of a given quarter, (2) product orders received from certain distributors, resellers, OEMs, and end users not included in deferred revenues, where revenue is recognized after cash receipt (collectively (1) and (2) above are referred as “aggregate backlog”), and (3) deferred revenues. Our deferred revenues consist primarily of the following: (1) maintenance revenues that we recognize over the term of the contract, typically one year, (2) license product orders that have shipped but where the terms of the license agreement contain acceptance language or other terms that require that the license revenues be deferred until all revenue recognition criteria are met or recognized ratably over an extended period, (3) subscription offerings that are recognized over the period of performance as services are provided, and (4) consulting and education services revenues that have been prepaid but for which services have not yet been performed.

We typically ship products shortly after the receipt of an order, which is common in the software industry, and historically our backlog of license orders awaiting shipment at the end of any given quarter has varied. However, our backlog historically decreases from the prior quarter at the end of the first and third quarters and increases at the end of the fourth quarter. Aggregate backlog and deferred revenues at September 30, 2013 were approximately \$301.6 million compared to \$251.5 million at September 30, 2012 and \$297.1 million at December 31, 2012. The change in the third quarter of 2013 from the comparable period of 2012 was primarily due to increases in deferred software and service revenues, as well as increases in aggregate backlog. The international portion of aggregate backlog and deferred revenues may fluctuate with changes in foreign currency exchange rates. Aggregate backlog and deferred revenues as of any particular date are not necessarily indicative of future results.

**Cost of Revenues**

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

|   | Three Months Ended September 30, |          |                   | Nine Months Ended September 30, |           |                   |   |
|---|----------------------------------|----------|-------------------|---------------------------------|-----------|-------------------|---|
|   | 2013                             | 2012     | Percentage Change | 2013                            | 2012      | Percentage Change |   |
| Cost of software revenues                                       | \$2,710                          | \$1,511  | 79                | % \$7,353                       | \$5,779   | 27                | % |
| Cost of service revenues  | 37,221                           | 30,069   | 24                | % 109,714                       | 90,195    | 22                | % |
| Amortization of acquired technology                             | 5,625                            | 5,172    | 9                 | % 16,970                        | 16,164    | 5                 | % |
| Total cost of revenues  | \$45,556                         | \$36,752 | 24                | % \$134,037                     | \$112,138 | 20                | % |
| Cost of software revenues, as a percentage of software revenues | 3                                | % 2      | % 1               | % 3                             | % 2       | % 1               | % |
| Cost of service revenues, as a percentage of service revenues   | 27                               | % 26     | % 1               | % 28                            | % 27      | % 1               | % |

**Cost of Software Revenues**

Our cost of software revenues is a combination of costs of license and subscription revenues. Cost of license revenues consists primarily of software royalties, product packaging, documentation, and production costs. Cost of subscription revenues consists primarily of fees paid to third party vendors for hosting services related to our subscription services and royalties paid to postal authorities. Cost of software revenues increased to \$2.7 million (or 3% of software revenues) for the three months ended September 30, 2013 compared to \$1.5 million (or 2% of software revenues) in the same period of 2012. The increase of \$1.2 million (or 79%) in cost of software revenues for the three months ended September 30, 2013 compared to the same period in 2012, was primarily due to a \$0.9 million increase in software royalties and a \$0.3 million increase in fees paid to third party vendors for hosting services. Cost of software revenues increased to \$7.4 million (or 3% of software revenues) for the nine months ended September 30, 2013 compared to \$5.8 million (or 2% of software revenues) in the same period of 2012. The increase of \$1.6 million (or 27%) in cost of software revenues for the nine months ended September 30, 2013 compared to the same period in

2012, was primarily due to a \$0.9 million increase in fees paid to third party vendors for hosting services and a \$0.7 million increase in software royalties.

For the remainder of 2013, we expect that our cost of software revenues as a percentage of software revenues to be relatively consistent with the first nine months of 2013.

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## Cost of Service Revenues

Our cost of service revenues is a combination of costs of maintenance, consulting and education 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 service revenues increased to \$37.2 million (or 27% of service revenues) in the third quarter of 2013 compared to \$30.1 million (or 26% of service revenues) in the same period of 2012. Cost of service revenues increased to \$109.7 million (or 28% of service revenues) for the nine months ended September 30, 2013 compared to \$90.2 million (or 27% of service revenues) in the same period of 2012. The \$7.2 million (or 24%) increase in the third quarter of 2013 compared to the same period of 2012 was primarily due to a \$4.2 million increase in personnel related costs (including share-based compensation), a \$2.3 million increase in subcontractor fees, and a \$0.7 million increase in general overhead costs. The \$19.5 million (or 22%) increase in the first nine months of 2013 compared to the same period of 2012 was primarily due to a \$13.7 million increase in personnel related costs (including share-based compensation), a \$4.9 million increase in subcontractor fees, and a \$1.0 million increase in general overhead costs, partially offset by a \$0.1 million decrease in reimbursable expenses.

For the remainder of 2013, we expect that our cost of service revenues, in absolute dollars, to increase from the 2012 levels, mainly due to headcount increases to support and deliver increased service revenues. We expect the cost of service revenues as a percentage of service revenues for the remainder of 2013 to remain relatively consistent with or decrease slightly from the first nine months of 2013.

## Amortization of Acquired Technology

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

|                                     | Three Months Ended September 30, |         |                   | Nine Months Ended September 30, |          |                   |   |
|-------------------------------------|----------------------------------|---------|-------------------|---------------------------------|----------|-------------------|---|
|                                     | 2013                             | 2012    | Percentage Change | 2013                            | 2012     | Percentage Change |   |
| Amortization of acquired technology | \$5,625                          | \$5,172 | 9                 | % \$16,970                      | \$16,164 | 5                 | % |

Amortization of acquired technology is the amortization of technologies acquired through business acquisitions and technology licenses. Amortization of acquired technology slightly increased to \$5.6 million for the three months ended September 30, 2013 compared to \$5.2 million in the same period of 2012. Amortization of acquired technology slightly increased to \$17.0 million for the nine months ended September 30, 2013 compared to \$16.2 million in the same period of 2012. The increase of \$0.5 million (or 9%) for the three months ended September 30, 2013, compared to the same period of 2012 was primarily due to \$1.4 million increase in amortization of certain technologies from the acquisitions of Data Scout Solutions, TierData and Heiler after August 2012, and Active Endpoints in the first quarter of 2013, partially offset by a \$0.9 million decrease in amortization of developed technology acquired before 2012.

The increase of \$0.8 million (or 5%) for the nine months ended September 30, 2013, compared to the same period of 2012 was primarily due to \$4.0 million increase in amortization of certain technologies from the acquisitions of Data Scout Solutions, TierData and Heiler in the second half of 2012, and Active Endpoints in the first quarter of 2013, partially offset by a \$3.2 million decrease in amortization of developed technology acquired before 2012.

For the remainder of 2013, we expect the amortization of acquired technology to be approximately \$5.3 million before the effect of any potential future acquisitions subsequent to September 30, 2013.

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## Operating Expenses

## Research and Development

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

|                          | Three Months Ended September 30, |          |                   | Nine Months Ended September 30, |           |                   |   |
|--------------------------|----------------------------------|----------|-------------------|---------------------------------|-----------|-------------------|---|
|                          | 2013                             | 2012     | Percentage Change | 2013                            | 2012      | Percentage Change |   |
| Research and development | \$42,167                         | \$35,998 | 17                | % \$123,358                     | \$105,561 | 17                | % |

Our research and development expenses consist primarily of salaries and other personnel-related expenses, consulting services, facilities, and related overhead costs associated with the development of new products, enhancement and localization of existing products, quality assurance, and development of documentation for our products. Research and development expenses increased to \$42.2 million (or 18% of total revenues) and \$123.4 million (or 18% of total revenues) for the three and nine months ended September 30, 2013, respectively, compared to \$36.0 million (or 19% of total revenues) and \$105.6 million (or 18% of total revenues) for the three and nine months ended September 30, 2012, respectively. All software development costs for software intended to be marketed to customers have been expensed in the period incurred since the costs incurred subsequent to the establishment of technological feasibility have not been significant.

The \$6.2 million (or 17%) increase in the third quarter of 2013 compared to the same period of 2012 was primarily due to a \$5.1 million increase in personnel-related costs (including share-based compensation) as a result of increased headcount and a \$1.1 million increase in general overhead costs. The \$17.8 million (or 17%) increase for the nine months ended September 30, 2013 compared to the same period of 2012 was primarily due to a \$15.3 million increase in personnel-related costs (including share-based compensation) as a result of increased headcount and a \$2.5 million increase in general overhead costs.

For the remainder of 2013, we expect research and development expenses as a percentage of total revenues to be relatively consistent with or decrease slightly from the first nine months of 2013.

## Sales and Marketing

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

|                     | Three Months Ended September 30, |          |                   | Nine Months Ended September 30, |           |                   |   |
|---------------------|----------------------------------|----------|-------------------|---------------------------------|-----------|-------------------|---|
|                     | 2013                             | 2012     | Percentage Change | 2013                            | 2012      | Percentage Change |   |
| Sales and marketing | \$94,160                         | \$73,239 | 29                | % \$267,727                     | \$213,615 | 25                | % |

Our sales and marketing expenses consist primarily of personnel costs, including commissions and bonuses, as well as costs of public relations, seminars, marketing programs, lead generation, travel, and trade shows. Sales and marketing expenses increased to \$94.2 million (or 40% of total revenues) and \$267.7 million (or 40% of total revenues) for the three and nine months ended September 30, 2013, respectively, compared to \$73.2 million (or 39% of total revenues) and \$213.6 million (or 37% of total revenues) for the three and nine months ended September 30, 2012, respectively. The \$20.9 million (or 29%) increase for the three months ended September 30, 2013 compared to the same period in 2012 was primarily due to a \$17.5 million increase in personnel-related costs, a \$1.8 million increase in general overhead costs, a \$1.2 million increase in marketing programs, and a \$0.4 million increase in outside services. The \$54.1 million (or 25%) increase for the nine months ended September 30, 2013 compared to the same period in 2012 was primarily due to \$47.3 million increase in personnel-related costs, a \$4.1 million increase in general overhead costs, a \$1.5 million increase in marketing programs, and a \$1.2 million increase in outside services. Personnel-related costs include salaries, employee benefits, sales commissions, and share-based compensation. Sales and marketing headcount increased from 982 in September 2012 to 1,045 in September 2013.

For the remainder of 2013, we expect sales and marketing expenses as a percentage of total revenues to be relatively consistent with the first nine months of 2013. The sales and marketing expenses as a percentage of total revenues may fluctuate from one period to the next due to the timing of hiring new sales and marketing personnel, our spending on marketing programs, and the level of the commission expenditures, in each period.



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## General and Administrative

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

|                            | Three Months Ended September 30, |          |                   | Nine Months Ended September 30, |          |                   |
|----------------------------|----------------------------------|----------|-------------------|---------------------------------|----------|-------------------|
|                            | 2013                             | 2012     | Percentage Change | 2013                            | 2012     | Percentage Change |
| General and administrative | \$23,159                         | \$15,692 | 48 %              | \$60,827                        | \$46,369 | 31 %              |

Our general and administrative expenses consist primarily of personnel costs for finance, human resources, legal, and general management, as well as professional service expenses associated with recruiting, legal, tax and accounting services. General and administrative expenses increased to \$23.2 million (or 10% of total revenues) for the three months ended September 30, 2013 compared to \$15.7 million (or 8% of total revenues) for the three months ended September 30, 2012. General and administrative expenses increased to \$60.8 million (or 9% of total revenues) for the nine months ended September 30, 2013 compared to \$46.4 million (or 8% of total revenues) for the nine months ended September 30, 2012.

The \$7.5 million (or 48%) increase for the three months ended September 30, 2013 compared to the same period in 2012 was primarily due to a \$3.0 million increase in personnel-related costs (including share-based compensation) as a result of increased headcount, a \$2.1 million increase for facilities related expenses, a \$1.4 million increase in general overhead costs, and a \$1.0 million increase in outside services. The \$14.5 million (or 31%) increase for the nine months ended September 30, 2013 compared to the same period in 2012 was primarily due to a \$8.0 million increase in personnel-related costs (including share-based compensation) as a result of increased headcount, a \$3.0 million increase in general overhead costs, a \$2.1 million increase for facilities related expenses, and a \$1.4 million increase in outside services.

For the remainder of 2013, we expect general and administrative expenses as a percentage of total revenues to be relatively consistent with or decrease slightly from the first nine months of 2013.

## Amortization of Intangible Assets

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

|                                   | Three Months Ended September 30, |         |                   | Nine Months Ended September 30, |         |                   |
|-----------------------------------|----------------------------------|---------|-------------------|---------------------------------|---------|-------------------|
|                                   | 2013                             | 2012    | Percentage Change | 2013                            | 2012    | Percentage Change |
| Amortization of intangible assets | \$1,893                          | \$1,462 | 29 %              | \$5,881                         | \$4,690 | 25 %              |

Amortization of intangible assets is the amortization of customer relationships, vendor relationships, trade names, and covenants not to compete acquired through prior business acquisitions, and patents acquired. Amortization of intangible assets increased to \$1.9 million (or 1% of total revenues) for the three months ended September 30, 2013 compared to \$1.5 million (or 1% of total revenues) for the three months ended September 30, 2012. Amortization of intangible assets increased to \$5.9 million (or 1% of total revenues) for the nine months ended September 30, 2013 compared to \$4.7 million (or 1% of total revenues) for the nine months ended September 30, 2012.

The increases of \$0.4 million (or 29%) and \$1.2 million (or 25%) in amortization of intangible assets for the three and nine months ended September 30, 2013, respectively, compared to the same periods in 2012 were primarily due to increases of \$0.6 million and \$1.8 million, respectively, of amortization of intangible assets from the acquisitions of Data Scout Solutions, TierData and Heiler in the second half of 2012, and Active Endpoints in the first quarter of 2013, partially offset by a \$0.2 million and a \$0.6 million decrease in amortization of customer relationships acquired before 2012, respectively.

For the remainder of 2013, we expect amortization of the remaining intangible assets to be approximately \$1.8 million, before the impact of any amortization for any possible intangible assets acquired as part of any potential future acquisitions subsequent to September 30, 2013.

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## Facilities Restructuring and Facility Lease Termination Costs

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

|   | Three Months Ended September 30, |      |                   | Nine Months Ended September 30, |       |                   |
|---|----------------------------------|------|-------------------|---------------------------------|-------|-------------------|
|   | 2013                             | 2012 | Percentage Change | 2013                            | 2012  | Percentage Change |
| Facilities restructuring and facility lease termination costs | \$—                              | \$—  | — %               | \$—                             | \$710 | (100) %           |

In February 2012, we purchased the property associated with our current corporate headquarters in Redwood City, California. As a result of the transaction, we no longer have any further commitments relating to the original lease agreements. The purchase of the buildings discharges our future lease obligations that were previously accounted for under the 2001 and 2004 Restructuring Plans. During the first quarter of 2012 we reversed the existing accrued facilities restructuring liability of \$20.6 million and recorded a corresponding facilities restructuring benefit on the Condensed Consolidated Statement of Income in accordance with ASC 420, Exit or Disposal Cost Obligations. We also recorded a charge of approximately \$21.2 million representing the cost to terminate the operating lease included in facility lease termination costs, net in the Condensed Consolidated Statements of Income. See Note 9. Facilities Restructuring Charges of Notes to Condensed Consolidated Financial Statements in Part I, Item 1 of this Report. For the three months ended March 31, 2012, we recorded a net facilities restructuring and facility lease termination costs of \$0.7 million, for accretion charges related to the 2004 Restructuring Plan of \$0.1 million and an expense of \$21.2 million related to the net cost to settle an existing lease obligation, partially offset by a benefit as a result of the reversal of the existing accrued facilities restructuring liability of \$20.6 million. There were no further activities after the first quarter of 2012.

2004 Restructuring Plan. Net cash payments for facilities included in the 2004 Restructuring Plan amounted to \$2.4 million for the three months ended March 31, 2012.

2001 Restructuring Plan. Net cash payments for facilities included in the 2001 Restructuring Plan amounted to \$0.3 million for the three months ended March 31, 2012.

## Acquisitions and Other Charges

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

|                                | Three Months Ended September 30, |         |                   | Nine Months Ended September 30, |         |                   |
|--------------------------------|----------------------------------|---------|-------------------|---------------------------------|---------|-------------------|
|                                | 2013                             | 2012    | Percentage Change | 2013                            | 2012    | Percentage Change |
| Acquisitions and other charges | \$1,253                          | \$2,036 | (38) %            | \$2,467                         | \$2,389 | 3 %               |

For the three months ended September 30, 2013, acquisition and other charges of \$1.3 million primarily consisted of \$0.6 million in charges for legal, accounting, tax, bankers' and other professional services fees, \$0.5 million of accretion charges associated with prior acquisitions, and \$0.2 million of severance liabilities to former employees of an acquiree.

For the nine months ended September 30, 2013, acquisition and other charges of \$2.5 million primarily consisted of \$2.9 million in charges for legal, accounting, tax, bankers' and other professional services fees, and \$1.2 million of severance liabilities to former employees of acquirees. This was partially offset by \$1.6 million of earn-out related adjustments and accretion charges associated with prior acquisitions.

For the three and nine months ended September 30, 2012, acquisition and other charges of \$2.0 million and \$2.4 million, respectively, primarily consisted of legal, accounting and tax fees, and earn-out accretion relating to acquisitions.



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## Interest and Other Income, Net

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

|                                | Three Months Ended September 30, |       |                   | Nine Months Ended September 30, |         |                   |
|--------------------------------|----------------------------------|-------|-------------------|---------------------------------|---------|-------------------|
|                                | 2013                             | 2012  | Percentage Change | 2013                            | 2012    | Percentage Change |
| Interest income                | \$805                            | \$987 | (18)%             | \$2,588                         | \$3,342 | (23)%             |
| Interest expense               | (121)                            | (126) | (4)%              | (369)                           | (379)   | (3)%              |
| Other expense, net             | (295)                            | (533) | 45%               | (754)                           | (1,257) | 40%               |
| Interest and other income, net | \$389                            | \$328 | 19%               | \$1,465                         | \$1,706 | (14)%             |

Interest and other income, 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.

## Income Tax Provision

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

|                      | Three Months Ended September 30, |         |                   | Nine Months Ended September 30, |          |                   |
|----------------------|----------------------------------|---------|-------------------|---------------------------------|----------|-------------------|
|                      | 2013                             | 2012    | Percentage Change | 2013                            | 2012     | Percentage Change |
| Income tax provision | \$17,191                         | \$9,966 | 72%               | \$32,824                        | \$30,948 | 6%                |
| Effective tax rate   | 62%                              | 39%     | 23%               | 41%                             | 33%      | 8%                |

Our effective tax rates were 62% and 39% for the three months ended September 30, 2013 and 2012, respectively, and 41% and 33% for the nine months ended September 30, 2013 and 2012, respectively. The higher tax rates for the three and nine months ended September 30, 2013 were primarily attributable to acquisition integration-related income tax expenses incurred during the quarter. These acquisition integration-related income tax expenses, together with non-deductible share-based compensation, state income taxes, non-deductible acquisition related costs, and the accrual of reserves related to uncertain tax positions, were partially offset by the benefits of certain earnings from operations in lower-tax jurisdictions throughout the world, the impact of the domestic manufacturing deduction pursuant to Section 199 of the Internal Revenue Code, and the recognition of the 2012 and 2013 federal research and development credits. The effective tax rates for the three and nine months ended September 30, 2012 differed from the federal statutory rate of 35% primarily due to benefits of certain earnings from operations in lower-tax jurisdictions throughout the world, the impact of the domestic manufacturing deduction pursuant to Section 199 of the Internal Revenue Code, and the benefit of foreign tax credits partially offset by non-deductible share-based compensation, state income taxes, non-deductible acquisition related costs, and the accrual of reserves related to uncertain tax positions. As of September 30, 2013, we have not provided for residual U.S. taxes in any of these lower-tax jurisdictions since we intend to indefinitely reinvest the net undistributed earnings of our foreign subsidiaries offshore. We are a United States-based multinational company subject to tax in multiple U.S. and foreign tax jurisdictions. This fact causes our tax rate to be very sensitive to the geographic mix of business. A significant portion of our foreign earnings for the current fiscal year were earned by our Netherlands and other European subsidiaries. Our results of operations will continue to be adversely affected to the extent that our geographical mix of income becomes more weighted toward jurisdictions with higher tax rates and will be favorably affected to the extent the relative geographic mix shifts to lower tax jurisdictions. Any further change in our mix of earnings is dependent upon many factors and is therefore difficult to predict.

Our effective tax rate in 2013 continues to be highly dependent on the result of our international operations, the execution of business combinations, the outcome of various tax audits, and the possibility of changes in tax law. For example, our effective tax rate has historically benefited from a U.S. research and development tax credit. Due to the expiration of this credit in 2012, we were unable to recognize any benefit during 2012. In January of 2013, the U.S. research and development tax credit was reinstated retroactively. Due to the timing of the enactment, we recognized the entire benefit of the 2012 credit in the quarter ended March 31, 2013. The 2013 U.S. research and development credit has been restored on a prospective basis and will be recognized through our overall effective tax rate over the

entire year. In addition, we expect to incur additional acquisition integration-related income tax expenses during the fourth quarter of 2013 which will cause our effective tax rate to be closer to 40% for the full year 2013 as compared to 32% for 2012.

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ASC 740, Income Taxes, provides for the recognition of deferred tax assets if realization of such assets is more likely than not. In assessing the need for any additional valuation allowance in the quarter ended September 30, 2013, we considered all available evidence both positive and negative, including historical levels of income, legislative developments, expectations and risks associated with estimates of future taxable income, and ongoing prudent and feasible tax planning strategies. As a result of this analysis for the quarter ended September 30, 2013, consistent with prior periods, it was considered more likely than not that our non-share-based payments related deferred tax assets would be realized except for any increase to the deferred tax asset related to the California research and development credit and certain operating losses incurred outside of the United States in the current year. A valuation allowance has been recorded against this portion of the credit, even though this attribute has an indefinite life. In addition, we have recorded a valuation allowance related to the deferred tax asset that is attributable to the losses incurred outside of the United States in the current year. The remaining valuation allowance is primarily related to deferred tax assets that were created through the benefit from stock option deductions on a “with” and “without” basis and recorded on the balance sheet with a corresponding valuation allowance prior to our adoption of ASC 718, Stock Compensation. Pursuant to ASC 718-740-25-10, the benefit of these deferred tax assets will be recorded in stockholders’ equity when they are utilized on an income tax return to reduce our taxes payable, and as such, they will not impact our effective tax rate.

The unrecognized tax benefits related to ASC 740, if recognized, would impact the income tax provision by \$21.6 million and \$17.9 million as of September 30, 2013 and 2012, respectively. We have elected to include interest and penalties as a component of income tax expenses. Accrued interest and penalties as of September 30, 2013 and 2012 were approximately \$2.8 million and \$2.6 million, respectively. As of September 30, 2013, the gross unrecognized tax benefit was approximately \$24.5 million.

Liquidity and Capital Resources

We have funded our operations primarily through cash flows from operations and equity and debt offerings in the past. As of September 30, 2013, we had \$620.6 million in available cash and cash equivalents and short-term investments. Our primary sources of cash are the collection of accounts receivable from our customers and proceeds from the exercise of stock options and stock purchased under our employee stock purchase plan. In addition, as of September 30, 2013, we had \$220.0 million available for borrowing under the credit agreement discussed below. Our uses of cash include payroll and payroll-related expenses and operating expenses such as marketing programs, travel, professional services, and facilities and related costs. We have also used cash to purchase property and equipment, repurchase common stock from the open market to reduce the dilutive impact of stock option issuances, and acquire businesses and technologies to expand our product offerings. In February 2012, we purchased the property associated with our current corporate headquarters located in Redwood City, California, for approximately \$148.6 million in cash.

The following table summarizes our cash flows for the nine months ended September 30, 2013 and 2012 (in thousands):

|                                       | Nine Months Ended<br>September 30, |             |
|---------------------------------------|------------------------------------|-------------|
|                                       | 2013                               | 2012        |
| Cash provided by operating activities | \$138,724                          | \$144,852   |
| Cash used in investing activities     | \$(21,595)                         | \$(205,200) |
| Cash used in financing activities     | \$(26,740)                         | \$(18,367)  |

Operating Activities: Cash provided by operating activities for the nine months ended September 30, 2013 was \$138.7 million, representing a decrease of \$6.1 million from the nine months ended September 30, 2012. This decrease resulted primarily from a \$44.1 million increase in accounts receivable, a \$15.6 million decrease in net income, a \$9.7 million increase in prepaid expenses and other assets, a \$0.5 million decrease in deferred revenues, which were partially offset by a \$23.5 million change in accrued facilities restructuring charges related to the purchase of our former corporate headquarters in the first quarter of 2012, a \$23.1 million increase in accounts payable and accrued liabilities, a \$10.8 million increase in adjustments for non-cash expenses, and a \$6.5 million increase in income taxes payable. We recognized excess tax benefits from share-based compensation of \$7.0 million during the

nine months ended September 30, 2013. This amount is recorded as a use of cash from operating activities and an offsetting amount is recorded as a source of cash provided by financing activities. We made net cash payments for taxes in different jurisdictions of \$27.7 million during the nine months ended September 30, 2013. Our “days sales outstanding” in accounts receivable increased from 58 days at September 30, 2012 to 63 days at September 30, 2013 due to a higher amount of billings which occurred toward the end of the third quarter of 2013 compared to end of the third quarter of 2012.

Investing Activities: Net cash used in investing activities was \$21.6 million and \$205.2 million for the nine months ended September 30, 2013 and 2012, respectively. In February 2012, we purchased the property associated with our current corporate headquarters located in Redwood City, California, for approximately \$148.6 million in cash, of which \$127.5 million was capitalized under Property and Equipment in the Condensed Consolidated Balance Sheet, and approximately \$21.2 million was recorded in our Condensed Consolidated Statement of Income as the net cost to terminate the facility lease.

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

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

We have used cash to acquire businesses and technologies that enhance and expand our product offerings, and we anticipate that we will continue to do so in the future. Due to the nature of these transactions, it is difficult to predict the amount and timing of such cash requirements to complete such transactions. We may be required to raise additional funds to complete future acquisitions. In addition, we may be obligated to pay certain variable and deferred earn-out payments based upon achievement of certain performance targets.

In February 2013, we acquired Active Endpoints, Inc. (“Active Endpoints”) for approximately \$10.0 million in cash. Approximately \$1.5 million of the consideration otherwise payable to former Active Endpoints stockholders was placed into an escrow and held as partial security for certain indemnification obligations. The escrow will remain in place until May 2014.

Financing Activities: Net cash used in financing activities for the nine months ended September 30, 2013 was \$26.7 million due to repurchases and retirement of our common stock of \$63.9 million, purchase of Heiler securities of \$6.4 million, withholding taxes for restricted stock units net share settlement of \$6.4 million, and payment of contingent consideration of \$3.7 million. These amounts were partially offset by proceeds received from the issuance of common stock to option holders and participants of our ESPP program of \$46.7 million and excess tax benefits from share-based compensation of \$7.0 million.

Net cash used in financing activities for the nine months ended September 30, 2012 was \$18.4 million due to repurchases and retirement of our common stock of \$58.7 million, withholding taxes for restricted stock units net share settlement of \$6.2 million, and payment of contingent consideration of \$4.4 million. These amounts were partially offset by proceeds received from the issuance of common stock to options holders and participants of our ESPP program of \$38.6 million and \$12.5 million of excess tax benefits from share-based compensation.

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

Our Board of Directors has approved a stock repurchase program for the repurchase of our common stock. Purchases can be made from time to time in the open market and will be funded from our available cash. The primary purpose of this program is to enhance shareholder value, including partially offsetting the dilutive impact of stock based incentive plans. The number of shares to be purchased and the timing of purchases are based on several factors, including the price of our common stock, our liquidity and working capital needs, general business and market conditions, and other investment opportunities. The repurchased shares are retired and reclassified as authorized and unissued shares of common stock. We may continue to repurchase shares from time to time, as determined by management as authorized by the Board of Directors. We had \$32.1 million available to repurchase additional shares of our common stock under this program as of September 30, 2013. See Part II, Item 2 of this Report for information regarding the number of shares purchased under the stock repurchase program.

In connection with our acquisitions, we are obligated to pay up to an additional \$6.1 million for certain variable and deferred earn-out payments based upon the achievement of certain performance targets.

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, including with respect to our data center and corporate headquarters relocations. However, we may be required to raise or desire

additional funds for selective purposes, such as acquisitions or other investments in complementary businesses, products, or technologies, and may raise such additional funds through public or private equity or debt financing or from other sources.

Less than 26% of our cash, cash equivalents, and short-term investments are held by our foreign subsidiaries. Our intent is to permanently reinvest our earnings from foreign operations and current plans do not anticipate that we will need funds generated from foreign operations to fund our domestic operations. In the event funds from foreign operations are needed to fund operations

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in the United States and if U.S. tax has not already been previously provided, we would be required to accrue and pay additional U.S. taxes in order to repatriate these funds.

Credit Agreement

In September 2010, we entered into a Credit Agreement (the "Credit Agreement") that matures in September 2014. The Credit Agreement provides for an unsecured revolving credit facility in an amount of up to \$220.0 million, with an option for us to request to increase the revolving loan commitments by an aggregate amount of up to \$30.0 million with new or additional commitments, for a total credit facility of up to \$250.0 million. No amounts were borrowed during the nine months ended September 30, 2013. No amounts were outstanding under the Credit Agreement as of September 30, 2013, and a total of \$220.0 million remained available for borrowing. The Credit Agreement contains customary representations and warranties, covenants and events of default, including the requirement to maintain a maximum consolidated leverage ratio of 2.75 to 1.00 and a minimum consolidated interest coverage ratio of 3.50 to 1.00. We were in compliance with all covenants under the Credit Agreement as of September 30, 2013. For further information, see Note 4. Borrowings of Notes to Condensed Consolidated Financial Statements in Part I, Item 1 of this Report.

Contractual Obligations and Operating Leases

The following table summarizes our significant contractual obligations, including future minimum lease payments at September 30, 2013, under non-cancelable operating leases with original terms in excess of one year, and the effect of such obligations on our liquidity and cash flows in the future periods (in thousands):

|                          | Payment Due by Period |                   |                     |                     |                       |
|--------------------------|-----------------------|-------------------|---------------------|---------------------|-----------------------|
|                          | Total                 | Remaining<br>2013 | 2014<br>and<br>2015 | 2016<br>and<br>2017 | 2018<br>and<br>Beyond |
| Operating lease payments | \$36,628              | \$2,255           | \$17,041            | \$10,146            | \$7,186               |
| Other obligations*       | 2,712                 | 466               | 2,034               | 212                 | —                     |
| Total                    | \$39,340              | \$2,721           | \$19,075            | \$10,358            | \$7,186               |

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

The above commitment table does not include approximately \$26.4 million of long-term income tax liabilities recorded in accordance with ASC 740, Income Taxes. We are unable to make a reasonably reliable estimate of the timing of these potential future payments in individual years beyond 12 months due to uncertainties in the timing of tax audit outcomes. As a result, this amount is not included in the table above. For further information, see Note 10. Income Taxes of Notes to Condensed Consolidated Financial Statements in Part I, Item 1 of this Report.

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, which expire at various dates through 2021.

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

In December 2004, the Company relocated its corporate headquarters within Redwood City, California and entered into a new lease agreement for two buildings at 100 and 200 Cardinal Way. The lease term, including executed renewal terms, started in December 2004 and expires in December 2013. In the third quarter of 2013, the Company relocated its corporate headquarters to 2000 and 2100 Seaport Boulevard. As a result of the relocation, the Company recognized the anticipated rental expense for the remainder of the lease term of 100 and 200 Cardinal Way.

The purchase of the buildings discharged our future lease obligations that were previously accounted for under the 2001 and 2004 Restructuring Plans. See Note 9. Facilities Restructuring Charges and Note 12. Commitments and Contingencies of Notes to Condensed Consolidated Financial Statements in Part I, Item 1 of this Report.

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

**Off-Balance Sheet Arrangements**

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

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

During the three and nine months ended September 30, 2013, there were no significant changes to our quantitative and qualitative disclosures about market risk. Please refer to Part II, Item 7A. Quantitative and Qualitative Disclosures about Market Risk included in our Annual Report on Form 10-K for our year ended December 31, 2012 for a more complete discussion of the market risks we encounter.

**ITEM 4. CONTROLS AND PROCEDURES**

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

**Change in internal control over financial reporting.** There were no changes in our internal controls over financial reporting that occurred during the three months ended September 30, 2013 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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PART II: OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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

ITEM 1A. RISK FACTORS

In addition to the other information contained in this Form 10-Q, we have identified the following risks and uncertainties that may have a material adverse effect on our business, financial condition, or results of operation. Investors should carefully consider the risks described below before making an investment decision. The trading price of our common stock could decline due to any of these risks, and investors may lose all or part of their investment. In assessing these risks, investors should also refer to the information contained in our other SEC filings, including our Form 10-K for the year ended December 31, 2012.

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

As our business has grown, we have become increasingly subject to the risks arising from adverse changes in the domestic and global economies, particularly Europe. Revenues from Europe, the Middle East, and Africa ("EMEA") accounted for approximately 21% and 20% of our total revenues in the third quarter of 2013 and 2012, respectively, and 22% of our total revenues for both of the nine-month periods ended September 30, 2013 and 2012. 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. In particular, economic concerns continue with respect to the European sovereign debt markets and potential ramifications of any U.S. debt, income tax and budget issues, including future delays in approving the U.S. budget or reductions in government spending. Such uncertainty and associated conditions have also resulted in volatility in various vertical markets, particularly the financial services and public sectors, which are typically two of the larger vertical sectors that we serve. For example, in 2010 and through the first three quarters of 2012, we experienced a decline in European public sector transactions, and we continue to expect uncertainty in Europe at least until the sovereign debt issues are resolved. In addition, we experienced a decline in financial services transactions in the fourth quarter of 2012 as compared to the fourth quarter of 2011. We expect public sector transactions to continue to be volatile in the near term, and as a result, growth in our business becomes more dependent on growth in the financial services and other sectors in the U.S. and internationally.

These conditions have also adversely affected the buying patterns of our customers and prospective customers and have adversely affected our overall pipeline conversion rate as well as our revenue growth expectations. For example, in the second and third quarters of 2012, the macroeconomic uncertainty in Europe contributed to a delay in customer purchasing decisions, stricter customer purchasing controls and approval processes, and a decline in our pipeline conversion rate. In addition, in the third quarter of 2013, we experienced weaker than expected results in Asia-Pacific. We expect these macroeconomic conditions, together with our recent sales execution challenges and our international sales leadership transitions will continue to adversely affect our international results in the near term. If macroeconomic conditions continue to deteriorate or if the pace of economic recovery is slower or more uneven, our overall results of operations could be adversely affected, we may not be able to grow at the rates we have experienced in the past, 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 continue to invest in our international operations. There are significant risks with overseas investments, and our growth prospects in these regions are uncertain. Increased volatility or further declines in the European credit, equity and foreign currency markets could cause delays in or cancellations of European orders. Deterioration of economic conditions in the countries in which we do business could also cause slower or impaired collections on accounts receivable. In addition, we could experience delays in the payment obligations of our worldwide reseller customers if

they experience weakness in the end-user market, which would increase our credit risk exposure and harm our financial condition.

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

The market for our products is highly competitive, quickly evolving, and subject to rapidly changing technology, which may expand the alternatives to our current and potential customers for their data integration or data quality requirements. Our competition consists of hand-coded, custom-built data integration solutions developed in-house by various companies in the industry segments

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

Many of our competitors have longer operating histories, substantially greater financial, technical, marketing, and other resources, greater name recognition, specialized sales or domain expertise, broader product portfolios and stronger customer relationships than we do and may be able to exert greater influence on customer purchase decisions. Our competitors may be able to respond more quickly than we can to new or emerging technologies, technological trends and changes in customer requirements. Our current and potential competitors may develop and market new technologies that render our existing or future products obsolete, unmarketable, or less competitive. In addition, new products or enhancements of existing products that we introduce may not adequately address or respond to new or emerging technologies, technological trends or changes in customer requirements. Also, new or emerging technologies, technological trends or changes in customer requirements may result in certain of our strategic partners becoming potential competitors in the future.

We believe we currently compete on the basis of the breadth and depth of our products' functionality, as well as on the basis of price. We may have difficulty competing on the basis of price in circumstances where our competitors develop and market products with similar or superior functionality and pursue an aggressive pricing strategy. For example, some of our competitors may provide guarantees of prices and product implementation, offer data integration and data quality products at no cost in order to charge a premium for additional functionality, or bundle data integration and data quality products at no cost to the customer or at deeply discounted prices for promotional purposes or as a long-term pricing strategy. These difficulties may increase as larger companies target the data integration and data quality markets. A customer may be unwilling to pay a separate cost for our data integration and data quality products if the customer has a bundled pricing arrangement with a larger company that offers a wider variety of products than us. As a result, increased competition, alternate pricing models and bundling strategies could seriously impede our ability to sell additional products and services on terms favorable to us.

In addition, consolidation among vendors in the software industry is continuing at a rapid pace. Our current and potential competitors may make additional strategic acquisitions, consolidate their operations, or establish cooperative relationships among themselves or with other solution providers, thereby increasing their ability to provide a broader suite of software products or solutions and more effectively address the needs of our current and prospective customers. Such acquisitions could cause customers to defer their purchasing decisions. Our current and potential competitors may also establish or strengthen cooperative relationships with our current or future strategic partners, thereby limiting our ability to sell products through these channels. If any of this were to occur, our ability to market and sell our software products would be impaired. In addition, competitive pressures could reduce our market share or require us to reduce our prices, either of which could harm our business, results of operations, and financial condition. Furthermore, during periods of U.S. and global economic slowdowns or uncertainty, as we are currently experiencing, our customers' capital spending is significantly reduced. As a result, there is significantly increased competition for the allocation of IT budget dollars.

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

Rapid technological changes, including changes in customer requirements and preferences, are characteristic in the software industry. In order to address the expanding enterprise data integration needs of our customers and prospective customers, we introduce new products and technology enhancements on a regular basis, including products we acquire. For example, in the past few years, we delivered a version upgrade to our entire data integration platform by delivering the generally available version of Informatica 9, and introduced Informatica Vibe, an embedded virtual data machine, designed to embed data integration into the next generation of applications. In addition, we extended our existing master data management ("MDM") offerings through the acquisitions of Siperian and Heiler Software, and we introduced various solutions for the cloud market, among others. The introduction of new products, integration of acquired products and enhancement of existing products, is a complex and costly process involving inherent risks, such as:

- the failure to accurately anticipate changes in technological trends;
- the failure to accurately anticipate changes in customer requirements and preferences;
- delays in completion, launch, delivery, or availability;
- delays in customer adoption or market acceptance;
- delays in customer purchases in anticipation of products not yet released;
- product quality issues, including the possibility of defects and the costs of remediating any such defects;

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market confusion based on changes to the product packaging and pricing as a result of a new product release;  
interoperability and integration issues between our existing products and newly acquired products or technologies, and the costs of remediating any such issues;  
interoperability and integration issues with third-party technologies and the costs of remediating any such issues;  
customer issues with migrating or upgrading from previous product versions and the costs of remediating any such issues;  
loss of existing customers that choose a competitor's product instead of upgrading or migrating to the new or enhanced product; and  
loss of maintenance revenues from existing customers that do not upgrade or migrate.

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

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

Our quarterly operating results, particularly our license revenues, have fluctuated in the past and may do so in the future. These fluctuations have caused our stock price to decline and could cause our stock price to significantly fluctuate or decline in the future. Our license revenues, which are primarily sold on a perpetual license basis, are difficult to forecast accurately and are vulnerable to short-term shifts in customer demand. Also, we may experience order deferrals by customers in anticipation of future new product introductions or product enhancements, as well as a result of their particular budgeting and purchase cycles. The continued global economic uncertainty is also likely to cause further customer order deferrals or reductions, stricter customer purchasing controls and approval processes, and adversely affect budgeting and purchase cycles. By comparison, our short-term expenses are relatively fixed and based in part on our expectations of future revenues. In addition, our backlog of license orders at the end of a given fiscal period has tended to vary. Historically, our backlog typically decreases from the prior quarter at the end of the first and third quarters and increases from the prior quarter at the end of the fourth quarter. Furthermore, we generally recognize a substantial portion of our license revenues in the last month of each quarter and, sometimes in the last few weeks or days of each quarter. As a result, we cannot predict the adverse impact caused by cancellations or delays in prospective orders until the end of each quarter. Moreover, the expansion of our product portfolio through the introduction of new product and enhancements has increased the complexity and size of our transactions. The likelihood of an adverse impact may be greater if we experience increased average transaction sizes due to a mix of relatively larger deals in our sales pipeline.

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

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 potential sales of our products and estimate when a customer will make a purchase decision and the potential dollar amount of the sale. We aggregate these estimates periodically in order to generate a sales pipeline. We assess the pipeline at various points in time to look for trends in our business. While this pipeline analysis may provide us with some guidance in business planning and budgeting, these pipeline estimates are necessarily speculative. Our pipeline estimates may not consistently correlate to revenues in a particular quarter or over a longer period of time, particularly in a weak or uncertain global macroeconomic environment. In addition, our pipeline estimates can prove to be unreliable in a particular quarter or over a longer period of time, in part because both the "conversion rate" of the pipeline into contracts and the quality and timing of pipeline generation can be very

difficult to estimate. For example, in the second and third quarters of 2012, continued changes in our sales organization and challenges in our sales execution generally, together with the macroeconomic uncertainty in Europe, adversely affected our pipeline management capabilities, the reliability of our pipeline estimates, and, consequently, our pipeline conversion rate. In particular, in the third quarter of 2012, our pipeline conversion rate was significantly lower as compared to the second quarter of 2012. In response, we made further changes to our sales, marketing and field operations organizations, including the implementation of pipeline generation initiatives, more rigorous sales planning and process measures; however, in the near term, such actions may decrease the predictive value of our pipeline in assessing near term trends in our business or in comparison to historical trends.

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The conversion of the sales pipeline into license revenues may also be affected by the tendency of some of our customers to wait until the end of a fiscal period in the hope of obtaining more favorable terms, which can also impede our ability to negotiate, execute and deliver on these contracts in a timely manner. Because we have historically recognized a substantial portion of our license revenues in the last month of each quarter and sometimes in the last few weeks of each quarter, we may not be able to adjust our cost structure in a timely manner in response to variations in the pipeline conversion rate. In addition, for newly acquired companies, we have limited ability to predict how their pipelines will convert into sales or revenues following acquisition. Any change in the conversion rate of the pipeline into customer sales or in the pipeline itself could cause us to improperly budget for future expenses that are in line with our expected future revenues, which would adversely affect our operating margins and results of operations and could cause the price of our common stock to decline.

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

In the past and recently, we have experienced a reduced conversion rate of our overall license pipeline, primarily as a result of general economic slowdowns and general macroeconomic uncertainty, which caused the amount of customer purchases to be reduced, deferred, or cancelled. Although the size of our sales pipeline and our pipeline conversion rate generally have increased as a result of our additional investments in sales personnel and a gradually improving IT spending environment, they are not consistent on a quarter-to-quarter basis. The recent global economic recession and continued macroeconomic uncertainty has had and will continue to have an adverse effect on our pipeline conversion rate in the near future. Our pipeline conversion rate declined in 2008, remained depressed in certain geographies in 2009, increased in 2010 and decreased in certain geographies and vertical industry sectors in 2011 and 2012. If we are unable to continue to increase the size of our sales pipeline and our pipeline conversion rate, our results of operations could fail to meet the expectations of stock analysts and investors, which could cause the price of our common stock to decline.

Furthermore, we have expanded our international operations and opened new sales offices in other countries. We have also experienced leadership transitions in our international sales organizations, continued to make investments in our sales specialists and domain experts, and implemented changes in our worldwide sales, marketing and field operations to address recent sales execution challenges and improve performance, particularly with respect to our pipeline generation and management capabilities, the reliability of our pipeline estimates and our pipeline conversion rates. As a result of our international expansion and these changes, as well as the increase in our direct sales headcount in the United States, our sales and marketing expenses have increased. As our products become more complex and we target new customers for our software and services, we expect to broaden our go-to-market initiatives and, as a result, our expenses may increase. We expect these investments to increase our revenues, sales productivity, and eventually our profitability. However, if we experience an increase in sales personnel turnover, do not achieve expected increases in our sales pipeline, experience a decline in our sales pipeline conversion ratio, or do not achieve increases in productivity and efficiencies from our new sales personnel as they gain more experience, then we may not achieve our expected increases in revenue, sales productivity, and profitability.

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

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

Further, our sales cycle may lengthen as we continue to focus our sales efforts on large corporations. As a result of these factors, the length of time from our initial contact with a customer to the customer's decision to purchase our



products typically ranges from three to nine months. We are subject to a number of significant risks as a result of our lengthy sales cycle that could delay, reduce or otherwise adversely affect the purchase of our products, including:

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

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

If our sales cycles lengthen unexpectedly, they could adversely affect the timing of our revenues or increase costs, which may independently cause fluctuations in our revenues and results of operations, adversely affecting the price of our common stock. Finally, if we are unsuccessful in closing sales of our products after spending significant funds and management resources, our operating margins and results of operations could be adversely impacted, and the price of our common stock could decline.

Our international operations expose us to increased risks that could limit our future growth.

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

• general economic and political conditions in these foreign markets;

• fluctuations in exchange rates between the U.S. dollar and foreign currencies;

• increased operating costs and wage inflation, particularly in India and Brazil;

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

• higher risk of unexpected changes in regulatory practices, tariffs, and tax laws and treaties;

• greater risk of a failure of our employees to comply with both U.S. and foreign laws, including antitrust regulations, the U.S. Foreign Corrupt Practices Act, the U.K. Bribery Act of 2010, and any trade regulations ensuring fair trade practices;

• increased expenses, delays and our limited experience in developing, testing and marketing localized versions of our products;

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

• potential conflicts with our established distributors in countries in which we elect to establish a direct sales presence, or the inability to enter into or maintain strategic distributor relationships with companies in certain international markets where we do not have a local presence;

• our limited experience in establishing a sales, marketing and support presence and the appropriate internal systems, processes, and controls, particularly in Brazil, Russia, and Asia-Pacific (especially China, Japan, South Korea, and Taiwan);

• difficulties in recruiting, training, managing, and retaining our international staff, particularly our international sales management and sales personnel, which have adversely affected our ability to increase sales productivity, and the costs and expenses associated with such activities;

• differing business practices, which may require us to enter into software license agreements that include

- non-standard terms related to payment, maintenance rates, warranties, or performance obligations that may affect our ability to recognize revenue ratably; and

• communication delays between our main development center in California and our international development centers, which may delay the development, testing or release of new products, and communication delays between our operations in the U.S. and India.

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

The loss of our key personnel, an increase in our sales force personnel turnover rate or decrease in sales force productivity, or the inability to attract and retain additional personnel could adversely affect our ability to grow our company successfully and may negatively impact our results of operations.

We believe our success depends upon our ability to attract and retain highly skilled personnel and key members of our management team. Historically, there has been a significant level of competition to attract these individuals, and we have recently experienced significant changes in our senior management team. For example, we announced the appointment of a new executive vice president of worldwide field operations and new chief marketing officer in 2012 and a new chief product officer in 2013. As

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new senior personnel join our company and become familiar with our business strategy and systems, their integration could result in disruption to our ongoing operations.

The market for talent has become increasingly competitive and hiring has become more difficult and costly, and our personnel-related costs are likely to increase as we compete to attract and retain employees. Our employees are increasingly becoming more attractive to other companies. Many of our competitors have greater financial and other resources than us for attracting experienced personnel. Our plan for continued growth requires us to add personnel to meet our growth objectives and places increased importance on our ability to attract, train, and retain new personnel, in particular, new sales personnel. For example, recent changes we implemented in customer segmentation and sales territories adversely affected the quality of our pipeline estimates in 2012. In addition, the leadership transition in our EMEA sales organization adversely affected our pipeline management capabilities in the second and third quarters of 2012. Continued leadership transitions in our international sales, marketing and field operations may adversely affect our ability to manage and grow our business. As we continue to implement further changes to our worldwide sales, marketing and field operations organizations, including the implementation of more rigorous sales planning and process measures and continued investment in sales specialists and domain experts, we may experience increased sales force turnover and additional disruption to our ongoing operations, and we may not experience the increases in sales force productivity that we anticipate, particularly in EMEA. These changes may also take longer to implement than expected, which may adversely affect our sales force productivity. If we are unable to effectively attract and train new personnel on a timely basis, or if we experience an increase in the level of turnover, our results of operations may be negatively affected.

Furthermore, from time to time, we have experienced an increased level of turnover in our direct sales force, particularly in the first quarter of a fiscal year. Such increase in the turnover rate affected our ability to generate license revenues. Although we have hired replacements in our sales force and are continuing to hire additional sales personnel to grow our business, we typically experience lower productivity from newly hired sales personnel for a period of six to twelve months. We continue to invest in training for our sales personnel, including updates to cover new, acquired, or enhanced products, as we broaden our product platform. In addition, we periodically make adjustments to our sales organization in response to a variety of internal and external factors, such as market opportunities, competitive threats, management changes, product introductions or enhancements, acquisitions, sales performance, increases in sales headcount and cost levels. Such adjustments may be temporarily disruptive and result in reduced productivity. If we are unable to effectively attract, train and retain new sales personnel, particularly sales specialists or domain experts, or if we experience an increase in the level of sales force turnover or decrease in sales force productivity, our ability to generate license revenues and our growth rate may be negatively affected.

We currently do not have any key-man life insurance relating to our key personnel, and the employment of the key personnel in the United States is at will and not subject to employment contracts.

We have relied on our ability to grant equity awards as one mechanism for recruiting and retaining highly skilled talent. If we are unable to grant such awards, we may not be able to attract and retain outstanding and highly skilled individuals in the extremely competitive labor markets in which we compete.

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

Our international sales and operations expose us to fluctuations in foreign currency exchange rates. An unfavorable change in the exchange rate of foreign currencies against the U.S. dollar would result in lower revenues when translated into U.S. dollars, although operating expenditures would be lower as well. Historically, the effect of changes in foreign currency exchange rates on our revenues and operating expenses has been immaterial, although on occasion exchange rates have been particularly volatile and have affected quarterly revenue and profitability. We have attempted to reduce the impact of certain foreign currency exchange rate fluctuations through hedging programs where we do not have a natural hedge. However, as our international operations grow, or if the current dramatic fluctuations in foreign currency exchange rates continue or increase or if our hedging programs become ineffective, the effect of changes in the foreign currency exchange rates could become material to revenue, operating expenses, and income.

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

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

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vendors, for the promotion and implementation of our products. Among others, we are partners with Cloudera, Dun & Bradstreet, EMC, Hewlett Packard, Intel, Microsoft, MicroStrategy, NetSuite, Oracle, salesforce.com, SAP, and Symantec.

Our strategic partners offer products from several different companies, including, in some cases, products that compete with our products. We have limited control, if any, as to whether these strategic partners devote adequate resources to promoting, selling, and implementing our products as compared to our competitors' products. Also, new or emerging technologies, technological trends or changes in customer requirements may result in certain of our strategic partners becoming potential competitors in the future.

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

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

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

From time to time, we evaluate potential acquisitions or investments in complementary businesses, products, or technologies. For example, we acquired Active Endpoints in February 2013, Data Scout and TierData in 2012, ActiveBase and WisdomForce Technologies in 2011, and 29West and Siperian in 2010. In addition, in 2011, we purchased certain assets from Sand Technology relating to their Information Lifecycle Management for SAP product line. Also, in December 2012, we completed the takeover offer for Heiler Software AG, a publicly-traded German company. The squeeze-out of the remaining shareholders was effective in the second quarter of 2013, increasing our ownership to 100 percent. Certain minority shareholders of Heiler Software have initiated appraisal proceedings before the Stuttgart District Court for review of the adequacy of the cash compensation paid in connection with the squeeze-out. These proceedings may result in an increase of the cash compensation to be paid to minority shareholders if the court finds that the valuation underlying the cash compensation was too low.

Acquisitions and investments involve a number of risks, including:

the failure to capture the value of the business we acquired, including the loss of any key personnel, customers and business relationships, including strategic partnerships, or the failure of the transaction to advance our business strategy as anticipated;

the difficulties in and costs associated with successfully integrating or incorporating the acquired company's products, technologies, services, employees, customers, partners, business operations and administrative systems with ours, particularly when the acquired company operates in international jurisdictions;

the disruption of our ongoing business and the diversion of management's attention by transition or integration issues;

any difficulties in consolidating the acquired company's financial results with ours, in particular as a result of different accounting principles or financial reporting standards, and the adverse consequences to us of any delay in obtaining

the necessary financial information for such consolidation, any unanticipated change in financial information

previously reported to us, or the impact the acquired company's financial performance has on our financial performance as a result of such consolidation;

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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;

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

We may not be successful in overcoming these risks or any other problems encountered in connection with our acquisitions or investments. To the extent that we are unable to successfully manage these risks, our business, operating results, or financial condition could be adversely affected, and the price of our common stock could decline. Due to the complexity and scope of the Heiler Software transaction, the foregoing risks may be exacerbated. Our ability to realize any benefits of the transaction, including any potential synergies, will depend on our ability to fully integrate Heiler Software's business with ours.

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

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

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

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

- not fully value the benefits of using our products;
- not achieve favorable results using our products;



- use their IT budgets for other products that have priority over our products;
- defer or decrease product purchases due to the macroeconomic uncertainty and global economic conditions;
- experience technical difficulties in implementing our products; or
- use alternative methods to solve the problems addressed by our products.

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

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

Historically, a significant portion of our revenues have been derived from our data integration products such as PowerCenter and PowerExchange and related services. We expect sales of our data integration software and related services to comprise a significant portion of our revenues for the foreseeable future. If any of these products does not maintain market acceptance, our revenues and stock price could decrease.

More recently, we have broadened our platform with additional products in the areas of MDM, B2B data exchange, application information lifecycle management, complex event processing, ultra messaging, and cloud data integration. The introduction of products beyond our traditional data integration products such as PowerCenter and PowerExchange may result in increased competition and may not be successful, and early stage interest and adoption of these new products may not result in long term success or significant revenue. In addition, in order to enable our sales personnel and our external distribution channel to sell these new products effectively, we have continued to invest resources in training programs on new product functionalities, key differentiators, and key business values. Our efforts to expand beyond our traditional data integration products may not succeed and new products may not achieve market acceptance. If these new products do not achieve market acceptance, our revenues could be adversely affected and our revenue growth rate and stock price could decrease. Market acceptance of our products could be affected if, among other things, competition substantially increases in the enterprise data integration market or transactional applications suppliers integrate their products to such a degree that the utility of the data integration functionality that our products provide is minimized or rendered unnecessary.

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

The market for our products is characterized by continuing technological development, the emergence of new technologies, evolving industry standards, changing customer needs, and frequent new product introductions and enhancements. The introduction of products by our direct competitors or others incorporating new technologies, the emergence of new industry standards, or changes in customer requirements could render our existing products obsolete, unmarketable, or less competitive. In addition, industry-wide adoption or increased use of hand-coding, open source standards or other uniform open standards across heterogeneous applications could minimize the importance of the integration functionality of our products and materially adversely affect the competitiveness and market acceptance of our products. Furthermore, the standards on which we choose to develop new products or enhancements may not allow us to compete effectively for business opportunities.

Our success depends upon our ability to enhance existing products, to respond to changing customer requirements, and to develop and introduce in a timely manner new products that keep pace with technological and competitive developments and emerging industry standards. We have in the past experienced delays in releasing new products and product enhancements and may experience similar delays in the future. As a result, in the past, some of our customers deferred purchasing our products until the next upgrade was released. Future delays or problems in the installation or implementation of our new releases may cause customers to forgo purchases of our products and purchase those of our competitors instead. Additionally, even if we are able to develop new products and product enhancements, we cannot ensure that they will achieve market acceptance.

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

The software products we offer are inherently complex and, despite extensive testing and quality control, have in the past and may in the future contain errors or defects, especially when first introduced. These defects and errors could cause damage to our reputation, loss of revenue, product returns, order cancellations, or lack of market acceptance of our products. As the use of our products, including products recently acquired or developed, expands to more sensitive, secure, or mission critical uses by our customers, we may be subject to increased scrutiny, potential reputational risk, or potential liability should our products fail to perform as contemplated in such deployments. We have in the past and may in the future need to issue corrective releases of our software products to fix these defects or errors, which could require us to allocate significant customer support resources to address these problems.

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

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

As is common in the software industry, we have received and may continue from time to time receive notices from third parties claiming infringement by our products of third-party patent and other proprietary rights. As the number of software products in our target markets increases and the functionality of these products further overlaps, we may become increasingly subject to claims by a third party that our technology infringes such party's proprietary rights. In addition, there is a growing occurrence of patent suits being brought by organizations that use patents to generate revenue without manufacturing, promoting, or marketing products or investing in research and development in bringing products to market. These organizations have been increasingly active in the enterprise software market and have targeted whole industries as defendants. For example, in 2007, JuxtaComm Technologies filed a complaint alleging patent infringement against us and various defendants, and in 2008 and 2010, Data Retrieval Technologies LLC filed complaints alleging patent infringement against us and another company. While we settled both these matters, we continue to defend ourselves against additional claims of patent infringement. For example, in September 2013, Protegrity filed a complaint alleging patent infringement against us.

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

- we could be and have been obligated to incur significant legal costs and expenses defending the patent infringement suit;
- we may be forced to enter into royalty or licensing agreements, which may not be available on terms favorable to us;
- we may be required to indemnify our customers or obtain replacement products or functionality for our customers;
- we may be forced to significantly increase our development efforts and resources to redesign our products as a result of these claims; and
- we may be forced to discontinue the sale of some or all of our products.

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

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

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. In addition, 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.

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.

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A breach of security in our products or computer systems may compromise the integrity of our products or allow unauthorized access to our customers' data, harm our reputation, create additional liability and adversely impact our financial results.

We make significant efforts to maintain the security and integrity of our product source code and computer systems. There appears to be an increasing number of computer “hackers” developing and deploying a variety of destructive software programs (such as viruses, worms, and other malicious software programs) that could attack our products and computer systems, including our internal network. Despite significant efforts to create security barriers to such programs, it is virtually impossible for us to entirely mitigate this risk. Like all software products, our software is vulnerable to such attacks. The impact of such an attack could disrupt the proper functioning of our software products, cause errors in the output of our customers' work, allow unauthorized access to sensitive, proprietary or confidential information of ours or our customers and other destructive outcomes. If this were to occur, our reputation may suffer, customers may stop buying our products, we could face lawsuits and potential liability and our financial performance could be negatively affected. In addition, we may need to devote more resources to address security vulnerabilities in our products, and the cost of addressing these vulnerabilities could reduce our operating margins. If we do not address security vulnerabilities or otherwise provide adequate security features in our products, certain customers, particularly government and other public sector customers, may delay or stop purchasing our products. Furthermore, the risks related to security breaches will increase as we continue to develop our cloud products and services, which may store, transmit and process our customers' sensitive, proprietary or confidential data, including personal or identifying information, in cloud-based IT environments. Unauthorized access or security breaches could expose us to loss of this data, litigation, indemnity obligations and significant other liabilities, which may adversely affect our business. In addition, we also have acquired a number of companies, products, services and technologies over the years. As a result, we may inherit additional IT security issues when we integrate these acquisitions.

Our cloud strategy may not be successful and may increase the difficulty of evaluating our future financial position. We offer a variety of cloud data integration products and services, which provide our customers with functionality within a cloud-based IT environment that we manage and offer via a subscription-based model. Our cloud strategy and our cloud business model, which differs from our traditional perpetual license-based model for our on-premise software products, continue to evolve. We may not be able to compete effectively or generate significant demand for or revenues from our cloud products and services. In addition, demand for our cloud products and services may unfavorably impact demand for certain of our other products and services. Our cloud strategy will require continued investment in product development and cloud operations, and we may incur costs at a higher than expected rate as we expand our cloud business, adversely affecting our profitability. Furthermore, we generally recognize revenue from customers ratably over the terms of their subscription agreements. As a result, most of the subscription revenue we report in each quarter is the result of subscription agreements entered into during previous quarters. Consequently, a decline in subscriptions in any one quarter may not affect our results in that quarter, but could reduce revenue in future quarters. We may not be able to adjust our cost structure in response to changes in revenue. Accordingly, the effect of significant downturns in sales of our cloud products and services may not be fully reflected in our results of operations until future periods.

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. Furthermore, the continued U.S. debt, income tax and budget issues, including future delays in approving the U.S. budget or reductions in government spending, may adversely impact future U.S. public sector transactions. Such budgetary constraints or shifts in spending priorities of government entities may adversely affect sales of our products and services to such entities. We expect these conditions to continue to adversely affect public sector transactions in the near-term.

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.

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

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

Based on limited credit history, we recognize revenue from direct end users, resellers, distributors, and OEMs that have not been deemed creditworthy when we receive payment for our products and when all other criteria for revenue recognition have been met, rather than at the time of sale. We have seen certain customers lengthen their payment cycles as a result of the continued difficult macroeconomic environment. As our business grows, if these customers and partners do not make timely payment for our products, our revenues could decrease. If our revenues decrease, the price of our common stock may fall.

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

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

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

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

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 actually preparing the returns. We also determine the need to record deferred tax liabilities and the recoverability of deferred tax assets. A valuation allowance is established to the extent recovery of deferred tax assets is not likely based on our estimation of future taxable income and other factors in each jurisdiction.

Furthermore, our overall effective income tax rate and tax expenses may be affected by various factors in our business, including acquisitions, changes in our legal structure, changes in the geographic mix of income and expenses, changes in valuation allowances, changes in tax laws and applicable accounting pronouncements and



variations in the estimated and actual level of annual profits before income tax. For example, our effective tax rate has historically benefited from the U.S. research and development tax credit. As of December 31, 2012, the credit had not been extended resulting in no tax benefit in 2012. This credit was extended retroactively for 2012 and prospectively for 2013 in January of 2013. We have recognized the entire benefit of the 2012 U.S. research and development credit of approximately \$2.0 million during the three months ended March 31, 2013. The benefit of the 2013 U.S. research and development credit will be recognized through our overall effective tax rate over the entire year. In addition, we incurred significant acquisition integration-related income tax expenses during the third quarter of 2013, which impacted our effective tax rate significantly in the third quarter. We expect to incur additional acquisition integration-related

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income tax expenses in the fourth quarter of 2013, which will impact our effective tax rate in the fourth quarter. These acquisition integration-related income tax expenses will cause our effective tax rate to increase for the full year 2013 compared to 2012. Further, the geographic mix of income and expense is impacted by the fluctuation in exchange rates between the U.S. dollar and the functional currencies of our subsidiaries.

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

Although we believe we currently have adequate internal control over financial reporting, we are required to assess our internal control over financial reporting on an annual basis, and any future adverse results from such assessment could result in a loss of investor confidence in our financial reports and have an adverse effect on our stock price. Pursuant to Section 404 of the Sarbanes-Oxley Act of 2002 (“SOX 404”), and the rules and regulations promulgated by the SEC to implement SOX 404, we are required to furnish a report in our Form 10-K regarding the effectiveness of our internal control over financial reporting. The report's assessment of our internal control over financial reporting as of the end of our fiscal year must include disclosure of any material weaknesses in our internal control over financial reporting identified by management. Management's assessment of internal control over financial reporting requires management to make subjective judgments and some of our judgments will be in areas that may be open to interpretation.

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

As our business expands, we are subject to increasingly complex regulatory and compliance obligations and differing business practices, both foreign and domestic, which may strain our resources and divert management's attention. During the past few years, our organizational structure has increased in complexity due to compliance with tax regulations and tax accounting requirements, acquisitions, and other regulatory and compliance requirements, including compliance with anti-corruption and anti-bribery laws such as the U.S. Foreign Corrupt Practices Act (the “FCPA”) and the UK Bribery Act of 2010 (the “UK Bribery Act”). In addition, new or changing rules and regulations, including those relating to corporate governance, securities laws and public disclosure, often create uncertainty for public companies, increasing legal and financial compliance costs and making some activities more time consuming. These practices may evolve over time upon new guidance from regulatory or governing bodies, resulting in continued uncertainty regarding compliance and higher costs to adopt or modify our practices accordingly. Also, as we expand internationally, we become subject to the various rules and regulations of foreign jurisdictions. Our efforts to comply with these requirements may result in an increase in expenses and a diversion of management's time and attention from other business activities. If our efforts to comply differ from those intended by regulatory or governing bodies, such authorities may initiate proceedings against us and our business may be harmed. Further, we have expanded our presence in the Asia-Pacific region, where business practices can differ from those in other regions of the world and can create internal control risks. To address potential risks, we recognize revenue on transactions derived in this region (except for direct sales in Japan and Australia) only when the cash has been received and all other revenue recognition criteria have been met. We also provide 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 employees in the United States and internationally. We may not be able to successfully manage the growth of our business if we are unable to scale our operations and improve our internal systems, processes, and controls.

We continue to experience growth in our customer base and operations, which may place a strain on our management, administrative, operational and financial infrastructure. We anticipate that additional investments in our infrastructure will be necessary to scale our operations and increase productivity. These additional investments will increase our costs, and may adversely affect our operating margins if we are unable to sufficiently increase revenues to cover these additional costs. If we are unable to successfully scale our operations and increase productivity, we may be unable to execute our business strategies. Also, we have substantial real estate commitments, both leased and owned, in the United States and internationally. Our business has grown in recent years through internal expansion and through acquisitions, and we expect such growth to continue. As a result, we may need to enter into additional lease commitments, expand existing facilities, or purchase new facilities or undeveloped real estate,

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which may adversely affect our cash flows and results of operations. For example, in February 2012 we purchased the property associated with our former corporate headquarters in Redwood City, California, for approximately \$148.6 million, which reflects a purchase price of \$153.2 million less a rent credit of \$4.6 million. We relocated our corporate headquarters to these facilities in the third quarter of 2013.

In advance of our relocation, we also moved our existing data center from our corporate headquarters to an external third party facility. We also utilize other third party data center facilities to host certain of our services, systems and data. If any of these third party facilities become unavailable due to outages, interruptions or other unanticipated problems, or because they are no longer available on commercially reasonable terms or prices, our costs may increase and our operations may be impaired, which would adversely affect our business.

In addition, we need to continue to improve our internal systems, processes, and controls to effectively manage our operations and growth, including our international growth into new geographies, particularly the Asia-Pacific and Latin American markets. We are continually investing resources to upgrade and improve our internal systems, processes and controls in order to meet the growing requirements of our business. For example, we have recently upgraded our human resources information systems and our enterprise resource planning systems. Upgrades or improvements to our internal systems, processes, and controls may require us to implement incremental reconciliation or additional reporting measures to evaluate the effectiveness of such upgrade or improvement, or to adopt new processes or procedures in connection with the upgrade or improvement. We may not be able to successfully implement upgrades and improvements to our systems, processes, and controls in an efficient or timely manner, and we may discover deficiencies in existing systems, processes, and controls, which could adversely affect our business. We have licensed technology and utilized support services from various third parties to help us implement upgrades and improvements. We may experience difficulties in managing upgrades and improvements to our systems, processes, and controls or in connection with third-party software, which could disrupt existing customer relationships, causing us to lose customers, limit us to smaller deployments of our products, or increase our technical support costs. The support services available for such third-party technology also may be negatively affected by mergers and consolidation in the software industry, and support services for such technology may not be available to us in the future. In addition, we use both on-premise and cloud resources, and any security or other flaws in such resources could have a negative impact on our internal systems, processes, or controls.

We may also need to realign resources from time to time to more efficiently address market or product requirements. To the extent any realignment requires changes to our internal systems, processes, and controls or organizational structure, we could experience disruption in customer relationships, increases in cost, and increased employee turnover. Furthermore, as we expand our geographic presence and capabilities, we may also need to implement additional or enhance our existing systems, processes and controls to ensure compliance with U.S. and international laws.

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

In addition, the FASB is currently working together with the International Accounting Standards Board ("IASB") to converge certain accounting principles and facilitate more comparable financial reporting between companies who are required to follow generally accepted accounting principles ("GAAP") and those who are required to follow International Financial Reporting Standards ("IFRS"). These projects may result in different accounting principles under GAAP, which may have a material impact on the way in which we report financial results in areas including, but not

limited to, principles for revenue recognition, lease accounting, and financial statement presentation. The SEC issued a Staff Paper on its IFRS Work Plan in July 2012, but has not yet made a determination as to whether and, if so, when and how IFRS should be incorporated into the financial reporting system for U.S. companies. A change in accounting principles from GAAP to IFRS may have a material impact on our financial statements. A change in existing financial accounting standards or practices may even retroactively adversely affect previously reported transactions. It is not clear if or when these potential changes in accounting principles may become effective or whether we have the proper systems and controls in place to accommodate such changes.

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

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

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

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

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

In September 2010, we entered into a credit agreement for an unsecured revolving credit facility in an amount of up to \$220.0 million, with an option for us to request to increase the revolving loan commitments by an aggregate amount of up to \$30.0 million with new or additional commitments, for a total credit facility of up to \$250.0 million. No amounts were outstanding under the credit agreement as of September 30, 2013. The credit agreement contains affirmative and negative covenants, including covenants that may limit or restrict our ability to, among other things, incur indebtedness, grant liens, merge or consolidate, dispose of assets, make investments, make acquisitions, enter into hedging agreements, enter into certain transactions with affiliates, pay dividends or make distributions, repurchase stock, enter into restrictive agreements and enter into sale and leaseback transactions, in each case subject to certain exceptions. We are also required to maintain compliance with a consolidated leverage ratio and a consolidated interest coverage ratio. We were in compliance with all covenants under the credit agreement as of September 30, 2013. Our ability to comply with these covenants is dependent on our future performance, which will be subject to many factors, some of which are beyond our control, including prevailing economic conditions. The breach of any of these covenants for any reason could result in an event of default under our credit facility. If such a default occurs, all of our outstanding debt thereunder, if any, could become immediately due and payable, which could result in a default under any other outstanding debt that we may have incurred and could lead to an acceleration of the obligations related to such other outstanding debt. The existence of such a default could preclude us from borrowing funds under our credit facility. Any such default under our credit facility, if not cured or waived, could have a material adverse effect on us. If our cash is utilized to repay any outstanding debt, depending on the amount of debt outstanding, we could experience an immediate and significant reduction in working capital available to operate our business. Even if we are able to comply with all of the applicable covenants under our credit facility, the restrictions on our ability to operate our business could adversely affect our business by, among other things, limiting our ability to take advantage of financings, mergers, acquisitions, investments and other corporate opportunities that may be beneficial to the business.

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

We maintain an investment portfolio, which consists primarily of certificates of deposit, commercial paper, corporate notes and bonds, money market funds, time deposits, municipal securities, U.S. government and agency notes and bonds and equity securities. Although we follow an established investment policy, which specifies credit quality standards for our investments and limits the amount of credit exposure to any single issue, issuer, or type of investment, and other criteria in order to help mitigate our exposure to interest rate and credit risk, the assets in our

investment portfolio may lose value or become impaired, or our interest income may decline. We may be required to record impairment charges for other-than-temporary declines in fair market value in our investments. Future fluctuations in economic and market conditions could adversely affect the market value of our investments, and we could record additional impairment charges and lose some of the principal value of investments in our portfolio. A total loss of an investment or a significant decline in the value of our investment portfolio could adversely affect our operating results and financial condition. For information regarding interest rate risk, see “Quantitative and Qualitative Disclosures About Market Risk” in Part I, Item 3 of this Report. In addition, from time to time we make investments in private companies. Our investments in private companies are subject to risk of loss of investment capital. Some of these investments may have been made to further our strategic objectives and support our key business initiatives. Our investments in private companies are inherently

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

Business interruptions could adversely affect our business.

Our operations are vulnerable to interruption by fire, earthquake, power loss, telecommunications or network failure, and other events beyond our control. We have prepared a detailed disaster recovery plan which includes the use of internal and external resources and will continue to expand the scope over time. Disasters or disruptions, such as the March 2011 earthquake and tsunami off the coast of Japan and the December 2006 earthquake off the coast of Taiwan, can negatively affect our operations given necessary interaction among our international facilities. For example, the December 2006 Taiwan earthquake resulted in a major fiber outage, which affected network connectivity in some of our facilities in Asia. In the event such an earthquake or any other natural disaster or man-made failure occurs, it could disrupt the operations of our affected facilities and recovery of our resources. In addition, we do not carry sufficient business interruption insurance to compensate us for losses that may occur, and any losses or damages incurred by us could have a material adverse effect on our business.

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

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



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

## Repurchases of Equity Securities

The following table provides information about the repurchase of our common stock for the quarter ended September 30, 2013.

| Period                            | Total<br>Number of<br>Shares Purchased | Average Price<br>Paid Per<br>Share | Total Number<br>of Shares<br>Purchased as<br>Part of<br>Publicly<br>Announced<br>Plans or<br>Programs | Approximate<br>Dollar<br>Value of Shares<br>That May Yet Be<br>Purchased<br>Under the<br>Plans or<br>Programs<br>(in thousands) |
|-----------------------------------|--|------------------------------------|---|---|
| July 1 — July 31                  |  |                                    |   |   |
| From employees <sup>(1)</sup>     | —                                      | —                                  | —   | —   |
| Repurchase program <sup>(2)</sup> | 36,964                                 | \$37.87                            | 36,964  | \$51,686  |
| August 1 — August 31              |  |                                    |   |   |
| From employees <sup>(1)</sup>     | 21,495                                 | \$39.18                            | —   | —   |
| Repurchase program <sup>(2)</sup> | 405,539                                | \$37.88                            | 405,539   | \$36,323  |
| September 1 — September 30        |  |                                    |   |   |
| From employees <sup>(1)</sup>     | —                                      | —                                  | —   | —   |
| Repurchase program <sup>(2)</sup> | 114,500                                | \$36.60                            | 114,500   | \$32,132  |
| Total                             | 578,498                                | \$37.68                            | 557,003   |   |

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

We repurchased shares in the third quarter of 2013 under our 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 July 2012, we announced that our Board authorized an additional \$100 million increase to the program. All stock repurchased pursuant to the repurchase program in the quarter ended September 30, 2013 were purchased in open market transactions. As of September 30, 2013, \$32.1 million remained under the program for future share repurchases. For further information about our stock repurchase program, see Note 7. Stock Repurchase Program of Notes to Condensed Consolidated Financial Statements in Part I, Item 1 of this Report.

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

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ITEM 6. EXHIBITS

| Exhibit Number | Document   |
|----------------|--|
| 10.1           | Offer Letter for Anil Chakravarthy dated August 4, 2013  |
| 31.1           | Certification of Chief Executive Officer pursuant to Rule 13a-14(a)/15d-15(a).   |
| 31.2           | Certification of Chief Financial Officer pursuant to Rule 13a-14(a)/15d-15(a).   |
| 32.1 *         | Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 101.INS        | XBRL Instance.   |
| 101.SCH        | XBRL Taxonomy Extension Schema.  |
| 101.CAL        | XBRL Taxonomy Extension Calculation Linkbase.  |
| 101.LAB        | XBRL Taxonomy Extension Label Linkbase.  |
| 101.PRE        | XBRL Taxonomy Extension Presentation Linkbase.   |
| 101.DEF        | XBRL Taxonomy Extension Definition Linkbase.   |

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\* Furnished, not filed.

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SIGNATURE

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

November 7, 2013

INFORMATICA CORPORATION

/s/ EARL FRY

Earl Fry

Chief Financial Officer, Chief

Administration Officer and EVP, Global

Customer Support and Services (Duly

Authorized Officer and Principal Financial

and Accounting Officer)

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INFORMATICA CORPORATION  
EXHIBITS TO FORM 10-Q QUARTERLY REPORT  
For the Quarter Ended September 30, 2013

| Exhibit<br>Number | Document  |
|-------------------|---|
| 10.1              | Offer Letter for Anil Chakravarthy dated August 4, 2013   |
| 31.1              | Certification of Chief Executive Officer pursuant to Rule 13a-14(a)/15d-15(a).  |
| 31.2              | Certification of Chief Financial Officer pursuant to Rule 13a-14(a)/15d-15(a).  |
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