INFORMATICA CORP
Form 10-Q
August 06, 2009

Table of Contents

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

FORM 10-Q

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

For the quarterly period ended June 30, 2009

OR

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

Commission File Number: 0-25871

INFORMATICA CORPORATION
(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	77-0333710 (I.R.S. Employer Identification No.)

100 Cardinal Way
Redwood City, California 94063
(Address of principal executive offices, including 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 R No £

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, 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 R Accelerated filer £ Non-accelerated filer £ Smaller reporting company £

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

As of July 31, 2009, there were approximately 88,365,000 shares of the registrant’s common stock outstanding.

Table of Contents

INFORMATICA CORPORATION

Table of Contents

	Page No.
PART I. FINANCIAL INFORMATION	
Item 1. Condensed Consolidated Financial Statements:	3
Condensed Consolidated Balance Sheets as of June 30, 2009 and December 31, 2008	3
Condensed Consolidated Statements of Income for the three and six months ended June 30, 2009 and 2008	4
Condensed Consolidated Statements of Cash Flows for the six months ended June 30, 2009 and 2008	5
Notes to Condensed Consolidated Financial Statements	6
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	31
Item 3. Quantitative and Qualitative Disclosures About Market Risk	49
Item 4. Controls and Procedures	50
PART II. OTHER INFORMATION	51
Item 1. Legal Proceedings	51
Item 1A. Risk Factors	51
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	64
Item 4. Submission of Matters to a Vote of Security Holders	65
Item 6. Exhibits	66
Signature	67
Exhibit Index	68

EXHIBIT 10.2
EXHIBIT 10.3
EXHIBIT 31.1
EXHIBIT 31.2
EXHIBIT 32.1

Table of Contents

PART I: FINANCIAL INFORMATION

ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

INFORMATICA CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands)

	June 30, 2009 (Unaudited)	December 31, 2008
Assets		
Current assets:		
Cash and cash equivalents	$ 134,220	$ 179,874
Short-term investments	287,101	281,055
Accounts receivable, net of allowances of $3,127 and $2,558, respectively	78,896	87,492
Deferred tax assets	23,777	22,336
Prepaid expenses and other current assets	13,848	12,498
Total current assets	537,842	583,255
Property and equipment, net	8,260	9,063
Goodwill	263,857	219,063
Other intangible assets, net	57,684	35,529
Long-term deferred tax assets	2,550	7,294
Other assets	8,414	8,908
Total assets	$ 878,607	$ 863,112
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 6,836	$ 7,376
Accrued liabilities	32,425	34,541
Accrued compensation and related expenses	32,691	29,365
Income taxes payable	7,707	—
Accrued facilities restructuring charges	20,476	19,529
Deferred revenues	122,656	120,892
Total current liabilities	222,791	211,703
Convertible senior notes	201,000	221,000
Accrued facilities restructuring charges, less current portion	39,007	44,939
Long-term deferred revenues	5,269	8,847
Long-term income taxes payable	12,721	20,668
Total liabilities	480,788	507,157
Commitments and contingencies (Note 12)		
Stockholders' equity:		
Common stock	87	87
Additional paid-in capital	390,317	374,091
Accumulated other comprehensive loss	(1,151)	(3,741)
Retained earnings (accumulated deficit)	8,566	(14,482)
Total stockholders' equity	397,819	355,955

Total liabilities and stockholders' equity	$	878,607	$	863,112

See accompanying notes to condensed consolidated financial statements.

Table of Contents

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

	Three Months Ended June 30, 2009	2008	Six Months Ended June 30, 2009	2008
Revenues:				
License	$ 48,730	$ 48,523	$ 92,789	$ 92,732
Service	68,614	65,237	133,613	124,738
Total revenues	117,344	113,760	226,402	217,470
Cost of revenues:				
License	628	897	1,376	1,590
Service	18,374	21,380	36,846	41,165
Amortization of acquired technology	1,859	951	3,416	1,571
Total cost of revenues	20,861	23,228	41,638	44,326
Gross profit	96,483	90,532	184,764	173,144
Operating expenses:				
Research and development	18,928	18,497	37,111	36,221
Sales and marketing	46,444	45,966	87,882	88,753
General and administrative	10,995	9,146	21,801	17,515
Amortization of intangible assets	2,434	993	4,485	1,355
Facilities restructuring charges	595	921	1,404	1,868
Purchased in-process research and development	—	390	—	390
Total operating expenses	79,396	75,913	152,683	146,102
Income from operations	17,087	14,619	32,081	27,042
Interest income	1,566	3,650	3,356	8,507
Interest expense	(1,581)	(1,799)	(3,252)	(3,601)
Other income (expense), net	8	(86)	775	417
Income before provision for income taxes	17,080	16,384	32,960	32,365
Provision for income taxes	5,091	4,881	9,912	9,638
Net income	$ 11,989	$ 11,503	$ 23,048	$ 22,727
Basic net income per common share	$ 0.14	$ 0.13	$ 0.26	$ 0.26
Diluted net income per common share	$ 0.13	$ 0.12	$ 0.25	$ 0.24
Shares used in computing basic net income per common share	87,198	88,565	87,378	88,347
Shares used in computing diluted net income per common share	100,692	104,457	101,019	104,403

See accompanying notes to condensed consolidated financial statements.

Table of Contents

INFORMATICA CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)
(Unaudited)

	Six Months Ended June 30,	
	2009	2008
Operating activities:		
Net income	$23,048	$22,727
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	2,698	2,813
Allowance for doubtful accounts	297	215
Gain on early extinguishment of debt	(337)	—
Share-based payments	8,763	7,946
Deferred income taxes	(404)	(1,377)
Tax benefits from stock option plans	1,621	5,124
Excess tax benefits from share-based payments	(1,366)	(4,375)
Amortization of intangible assets and acquired technology	7,901	2,926
Non-cash facilities restructuring charges	1,404	1,868
Other non-cash items	116	262
Changes in operating assets and liabilities:		
Accounts receivable	10,538	14,618
Prepaid expenses and other assets	(1,289)	(14,718)
Accounts payable and other current liabilities	(9,330)	645
Income taxes payable	379	1,309
Accrued facilities restructuring charges	(6,308)	(6,036)
Deferred revenues	(5,779)	7,891
Net cash provided by operating activities	31,952	41,838
Investing activities:		
Purchases of property and equipment	(1,800)	(1,921)
Purchases of investments	(222,874)	(152,784)
Purchase of investment in equity interest	—	(3,000)
Maturities of investments	191,394	168,368
Sales of investments	25,138	38,257
Business acquisitions, net of cash acquired	(58,963)	(79,844)
Transfer from restricted cash	—	12,016
Net cash used in investing activities	(67,105)	(18,908)
Financing activities:		
Net proceeds from issuance of common stock	13,793	18,782
Repurchases and retirement of common stock	(9,021)	(15,838)
Repurchases of convertible senior notes	(19,200)	—
Excess tax benefits from share-based payments	1,366	4,375
Net cash provided by (used in) financing activities	(13,062)	7,319
Effect of foreign exchange rate changes on cash and cash equivalents	2,561	1,244
Net increase (decrease) in cash and cash equivalents	(45,654)	31,493
Cash and cash equivalents at beginning of period	179,874	203,661
Cash and cash equivalents at end of period	$134,220	$235,154

See accompanying notes to condensed consolidated financial statements.

Table of Contents

INFORMATICA CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

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 adjustments necessary, which are of a normal and recurring nature for the fair presentation of the results of the interim periods presented. All of the amounts included in this Report related to the condensed consolidated financial statements and notes thereto as of and for the three and six months ended June 30, 2009 and 2008 are unaudited. The interim results presented are not necessarily indicative of results for any subsequent interim period, the year ending December 31, 2009, or any 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 were made. These estimates, judgments, and assumptions can affect the reported amounts of assets and liabilities as of the date of the financial statements as well as the reported amounts of revenues and expenses during the periods presented. To the extent there are material differences between these estimates and actual results, Informatica's financial statements would be affected. In many cases, the accounting treatment of a particular transaction is specifically dictated by GAAP and does not require management's judgment in its application. There are also instances that management's judgment in selecting an available alternative would not produce a materially different result.

These unaudited, condensed consolidated financial statements should be read in conjunction with the Company's audited consolidated financial statements and notes thereto for the year ended December 31, 2008 included in the Company's Annual Report on Form 10-K filed with the SEC. The condensed consolidated balance sheet as of December 31, 2008 has been derived from the audited consolidated financial statements of the Company.

In May 2009, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 165 ("SFAS No. 165"), Subsequent Events, which established general accounting standards and disclosure for subsequent events. The Company adopted SFAS No. 165 during the second quarter of 2009. In accordance with SFAS No. 165, Informatica has evaluated subsequent events through the date and time the financial statements were issued on August 6, 2009.

Revenue Recognition

The Company derives its revenues from software license fees, maintenance fees, and professional services, which consist of consulting and education services. The Company recognizes revenue in accordance with American Institute of Certified Public Accountants Statement of Position No. 97-2 ("SOP No. 97-2"), Software Revenue Recognition, as amended and modified by American Institute of Certified Public Accountants Statement of Position No. 98-9 ("SOP No. 98-9"), Modification of SOP No. 97-2, Software Revenue Recognition, With Respect to Certain Transactions, American Institute of Certified Public Accountants Statement of Position No. 81-1 ("SOP No. 81-1"),

Accounting for Performance of Construction-type and Certain Production-type Contracts, the Securities and Exchange Commission's Staff Accounting Bulletin No. 104 ("SAB No. 104"), Revenue Recognition, and other authoritative accounting literature.

Under SOP No. 97-2, revenue is recognized when persuasive evidence of an arrangement exists, delivery has occurred, the fee is fixed or determinable, and collection is probable.

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

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

Table of Contents

INFORMATICA CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Fee is fixed or determinable. The Company considers arrangements with extended payment terms not to be fixed or determinable. If the license fee in an arrangement is not fixed or determinable, revenue is recognized as payments become due. Revenue arrangements with resellers and distributors require evidence of sell-through, that is, persuasive evidence that the products have been sold to an identified end user. The Company's standard agreements do not contain product return rights.

Collection is probable. The Company assesses first the credit-worthiness and collectibility at a country level based on the country's overall economic climate and general business risk. Then, for the customers in the countries that are deemed credit-worthy, it assesses credit and collectibility based on their payment history and credit profile. When a customer is not deemed credit-worthy, revenue is recognized at the time that payment is received.

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

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

The Company's software license arrangements include the following multiple elements: license fees from our core software products and/or product upgrades that are not part of post-contract services, maintenance fees, consulting, and/or education services. The Company uses the residual method to recognize license revenue when the license arrangement includes elements to be delivered at a future date and vendor-specific objective evidence ("VSOE") of fair value exists to allocate the fee to the undelivered elements of the arrangement. VSOE is based on the price charged when an element is sold separately. If VSOE does not exist for undelivered elements, all revenue is deferred and recognized as delivery occurs or when VSOE is established. Consulting services, if included as part of the software arrangement, generally do not require significant modification or customization of the software. If the software arrangement includes significant modification or customization of the software, software license revenue is recognized as the consulting services revenue is recognized.

The Company recognizes maintenance revenues, which consist of fees for ongoing support and product updates, ratably over the term of the contract, typically one year.

Consulting revenues are primarily related to implementation services and product configurations performed on a time-and-materials basis and, occasionally, on a fixed fee basis. Education services revenues are generated from classes offered at both Company and customer locations. Revenues from consulting and education services are recognized as the services are performed.

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

Investments

Investments are comprised of marketable securities, which consist primarily of commercial paper, Federal agency and U.S. government notes and bonds, corporate bonds and municipal securities with original maturities beyond 90 days. All marketable securities are held in the Company's name and managed by four major financial institutions. The Company's marketable securities are classified as available- for-sale and are reported at fair value, with unrealized gains and losses, net of tax, recorded in stockholders' equity. Informatica has classified its debt securities as available-for-sale since they would be available for sale due to any changes in market conditions or needs for liquidity. Further, the Company has classified all available for sale marketable securities, including those with original maturity dates greater than one year, as short-term investments.

Informatica applies the provisions of FASB Staff Position No. 115-2 ("FSP No. 115-2") and 124-2, Recognition and Presentation of Other-Than-Temporary Impairments to its debt securities classified as available-for-sale and evaluates them for other-than-temporary impairment based on the following three criteria: (i) Informatica has decided to sell the debt security, (ii) it is more likely than not that the Company will be required to sell the security before recovery of its amortized cost basis, and (iii) the Company does

not expect to recover the security's entire amortized cost basis from the present value of cash flows expected to be collected from the debt security (FSP No. 115-2 refers to this shortfall as "credit loss"). In determining the amount of FSP No. 115-2 credit loss, the Company compares its best estimate of the present value of the cash flows expected to be collected from the security with the amortized cost basis of the security. Any shortfall resulted from this comparison (credit loss) is reflected as other income or expense in the condensed consolidated statement of income. Further, Informatica also considers other factors such as industry analysts' reports and credit ratings, in addition to the above three criteria to determine the other-than-temporary impairment status of its investments.

If Informatica intends to sell an impaired debt security and is more likely than not that it will be required to sell the security before recovery of its amortized cost basis less any current-period credit loss, the impairment is considered other-than-temporary and should be recognized in current earnings in an amount equal to the entire difference between fair value and amortized cost.

If a credit loss exists, but Informatica does not intend to sell the impaired debt security and is not more likely than not to be required to sell before recovery, the impairment is other than temporary and should be separated into (i) the estimated amount relating to credit loss and (ii) the amount relating to all other factors. Only the estimated credit loss amount is recognized currently in earnings, with the remainder of the loss amount recognized in other comprehensive income.

Realized gains or losses and other-than-temporary impairments, if any, on available-for-sale securities will be reported in other income or expense as incurred. The Company recognizes realized gains and losses upon sales of investment and reclassifies unrealized gains and losses out of accumulated other comprehensive income into earnings using the specific identification method.

Fair Value Measurement of Financial Assets and Liabilities

Statement of Financial Accounting Standards No. 157, Fair Value Measurements ("SFAS No. 157"), establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value as follows:

Level 1. Observable inputs such as quoted prices in active markets;

Level 2. Inputs, other than the quoted prices in active markets, that are observable either directly or indirectly; and

Level 3. Unobservable inputs in which there is little or no market data, which require the reporting entity to develop its own assumptions.

SFAS No. 157 allows the Company to measure the fair value of its financial assets and liabilities based on one or more of the three following valuation techniques:

Market approach. Prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities;

Cost approach. Amount that would be required to replace the service capacity of an asset (replacement cost); and

Income approach. Techniques to convert future amounts to a single present amount based on market expectations (including present value techniques, option-pricing, and excess earnings models).

Table of Contents

INFORMATICA CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following table summarizes the fair value measurement classification of Informatica as of June 30, 2009 (in thousands):

	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Money market funds (1)	$48,046	$48,046	$—	$ —
Marketable securities (2)	287,101	—	287,101	—
Total money market funds and marketable securities	335,147	48,046	287,101	—
Investment in equity interest (3)	3,000	—	—	3,000
Foreign currency derivatives (4)	179	—	179	—
Total	$338,326	$48,046	$287,280	$ 3,000
Liabilities:				
Foreign currency derivatives (5)	$34	$—	$34	$ —
Convertible senior notes	209,241	209,241	—	—
Total	$209,275	$209,241	$34	$ —

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

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

(3) Included in other non-current assets on the condensed consolidated balance sheets.

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

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

The following table summarizes the fair value measurement classification of Informatica as of December 31, 2008 (in thousands):

	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				

Money market funds (1)	$25,542	$25,542	$—	$ —
Marketable securities (2)	322,796	—	322,796	—
Total money market funds and marketable securities	348,338	25,542	322,796	—
Investment in equity interest (3)	3,000	—	—	3,000
Foreign currency derivatives (4)	155	—	155	—
Total	$351,493	$25,542	$322,951	$ 3,000
Liabilities:				
Convertible senior notes	$204,259	$204,259	$—	$ —
Total	$204,259	$204,259	$—	$ —

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

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

(3) Included in other non-current assets on the condensed consolidated balance sheets.

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

Marketable Securities and Convertible Senior Notes

Informatica uses a market approach for determining the fair value of all its Level 1 and Level 2 marketable securities financial assets and Convertible Senior Notes liabilities.

Foreign Currency Derivatives and Hedging Instruments

Informatica uses the income approach to value the derivatives, using observable Level 2 market expectations at measurement date and standard valuation techniques to convert future amounts to a single discounted present amount, assuming that participants are motivated but not compelled to transact. Level 2 inputs are limited to quoted prices that are observable for the asset and liabilities, which include interest rates and credit risk. The Company has used mid-market pricing as a practical expedient for fair value measurements. Key inputs for currency derivatives are the spot rates, forward rates, interest rates, and credit derivative markets. The spot rate for each currency is the same spot rate used for all balance sheet translations at the measurement date and is sourced from the Federal Reserve Bulletin. The following values are interpolated from commonly quoted intervals available from Bloomberg: forward points and the London Interbank Offered Rate (LIBOR) to discount and fair value assets and liabilities. One-year credit default swap spreads identified per counterparty at month end in Bloomberg are used to discount derivative assets for counterparty non-performance risk, all of which have terms of less than twelve months. The Company discounts derivative assets and 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 Informatica's foreign currency option contracts are large credit worthy financial institutions and the derivatives transacted with them are relatively short in duration; therefore, the Company does not consider counterparty concentration and non-performance material risks at this time. Both the Company and the counterparty are expected to perform under the contractual terms of the instruments.

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

Investment in Equity Securities

The Company also held a $3 million investment in the preferred stock of a privately-held company at June 30, 2009, which was classified as Level 3 for value measurement purposes. In determining the fair value of this investment, the Company uses the cash flow of the entity against its own cash flow assumptions at the time that investment was made for the determination of the fair value of this investment.

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 the stockholders' equity, net of tax. Realized gains and losses and other-than-temporary impairments, if any, on available-for-sale securities are reported in other income or expense as incurred.

For the three and six months ended June 30, 2009 and 2008, the realized gains recognized were not material. The realized gains are included in other income of the condensed consolidated statements of income for the respective periods. The cost of securities sold was determined based on the specific identification method.

Table of Contents

INFORMATICA CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following is a summary of the Company's investments as of June 30, 2009 and December 31, 2008 (in thousands):

	June 30, 2009			
	Amortized Cost Basis	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Cash	$86,174	$—	$—	$86,174
Cash equivalents:				
Money market funds	48,046	—	—	48,046
Total cash equivalents	48,046	—	—	48,046
Total cash and cash equivalents	134,220	—	—	134,220
Short-term investments:				
Commercial paper	12,968	—	—	12,968
Certificates of deposits	3,120		—	3,120
Corporate notes and bonds	75,980	370	(34)	76,316
Federal agency notes and bonds	129,721	680	(23)	130,378
U.S. government notes and bonds	35,829	65	(2)	35,892
Municipal notes and bonds	28,342	88	(3)	28,427
Total short-term investments *	285,960	1,203	(62)	287,101
Total cash, cash equivalents, and short-term investments **	$420,180	$1,203	$(62)	$421,321

* There are a total of 14 investments for a total amortized cost basis of $30 million which are in the gross unrealized loss position at June 30, 2009.

** Total estimated fair value above included $335 million comprised of cash equivalents and short-term investments at June 30, 2009.

In determining whether a credit loss exists FSP 115-2 requires that an entity compares its best estimate of the present value of the cash flows expected to be collected from the security with the amortized cost basis of the security. Any shortfall in that comparison represents a credit loss. Informatica has determined that no credit loss has occurred with respect to its investments in debt securities for the three months ended June 30, 2009 since it neither intended to sell nor it was more likely than not that it would have been required to sell such securities.

	December 31, 2008			
	Amortized CostBasis	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Cash	$112,591	$—	$—	$112,591
Cash equivalents:				
Money market funds	25,542	—	—	25,542
Commercial paper	9,741	—	—	9,741
Federal agency notes and bonds	17,996	4	—	18,000
U.S. government notes and bonds	14,000	—	—	14,000
Total cash equivalents	67,279	4	—	67,283

Total cash and cash equivalents	179,870	4	—	179,874
Short-term investments:				
Commercial paper	43,125	—	—	43,125
Corporate notes and bonds	38,569	174	(18)	38,725
Federal agency notes and bonds	133,220	1,015	(1)	134,234
U.S. government notes and bonds	61,569	266	—	61,835
Municipal notes and bonds	3,134	3	(1)	3,136
Total short-term investments *	279,617	1,458	(20)	281,055
Total cash, cash equivalents, and short-term investments **	$459,487	$1,462	$(20)	$460,929

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Table of Contents

INFORMATICA CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

* There are a total of 9 investments for a total amortized cost basis of $20 million which are in the gross unrealized loss position at December 31, 2008.

** Total estimated fair value above included $348 million comprised of cash equivalents and short-term investments at December 31, 2008.

The following table summarizes the fair value and gross unrealized losses related to available-for-sale securities, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, at June 30, 2009 (in thousands):

	Less Than 12 Months		More Than 12 Months		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Corporate notes and bonds	$12,895	$(34)	$—	$—	$12,895	$(34)
Federal agency notes and bonds	12,486	(23)	—	—	12,486	(23)
U.S. government notes and bonds	1,744	(2)	—	—	1,744	(2)
Municipal notes and bonds	3,270	(3)	—	—	3,270	(3)
Total	$30,395	$(62)	$—	$—	$30,395	$(62)

Informatica uses a market approach for determining the fair value of all its marketable securities and money market funds, which it has classified as Level 2 and Level 1, respectively. The declines 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 cash equivalents and short-term investments by contractual maturity at June 30, 2009 (in thousands):

	Cost	Fair Value
Due within one year	$244,021	$244,873
Due in one year to two years	85,985	86,289
Due after two years	4,000	3,985
Total	$334,006	$335,147

Note 3. Goodwill and Intangible Assets

The carrying amounts of intangible assets other than goodwill as of June 30, 2009 and December 31, 2008 are as follows (in thousands):

	June 30, 2009			December 31, 2008		
	Gross Carrying	Accumulated Amortization	Net Amount	Gross Carrying	Accumulated Amortization	Net Amount

	Amount		Amount		
Developed and core technology	$44,292	$ (17,580)	$26,712	$32,583	$ (14,216)	$18,367
Customer relationships	29,934	(9,816)	20,118	20,257	(5,870)	14,387
Vendor relationships	7,287	(120)	7,167	—	—	—
Other:						
Trade names	1,813	(578)	1,235	700	(408)	292
Covenants not to compete	2,000	(1,017)	983	2,000	(817)	1,183
Contract backlog	270	(51)	219	—	—	—
Patents	1,300	(50)	1,250	1,300	—	1,300
	$86,896	$ (29,212)	$57,684	$56,840	$ (21,311)	$35,529

Table of Contents

INFORMATICA CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Amortization expense of intangible assets was approximately $4.3 million and $1.9 million for the three months ended June 30, 2009 and 2008, respectively, and $7.9 million and $2.9 million for the six months ended June 30, 2009 and 2008, respectively. The weighted-average amortization period of the Company's developed and core technology, customer relationships, vendor relationships, trade names, covenants not to compete, contract backlog, and patents are five years, five years, five years, four years, five years, two years, and thirteen years, respectively.

As of June 30, 2009, the amortization expense related to identifiable intangible assets in future periods is expected to be as follows (in thousands);

	Acquired Technology	Other Intangible Assets	Total Intangible Assets
Remaining 2009	$3,793	$5,242	$9,035
2010	6,412	8,691	15,103
2011	6,206	6,875	13,081
2012	5,529	4,816	10,345
2013	4,642	3,189	7,831
Thereafter	349	1,940	2,289
Total expected amortization expense	$26,931	$30,753	$57,684

The increase of $11.7 million in the gross carrying amount of developed and core technology was due to the intangibles of $10.7 million and $1.0 million acquired from Upplimation and AddressDoctor, respectively. The increase of $9.7 million in the gross carrying amount of customer relationships was primarily due to the intangibles of $8.3 million and $1.3 million acquired from Applimation and AddressDoctor, respectively. The increase of $7.3 million of vendor relationships was attributable to the acquisition of AddressDoctor. See Note 15. Acquisitions, of Notes to Condensed Consolidated Financial Statements for a further discussion. In addition, $3.3 million of developed and core technology, $5.0 million of customer relationships, $7.2 million of vendor relationships, and $0.2 million of trade names at June 30, 2009, related to the Identity Systems, Inc., PowerData, and AddressDoctor acquisitions, were recorded in European local currencies, and, therefore, the gross carrying amount and accumulated amortization are subject to periodic translation adjustments.

The customer relationships are intangible assets that Informatica has acquired through several past acquisitions and consist of renewable 12-month revenue maintenance programs. Informatica's accounting policy is to expense the costs incurred to renew or extend the terms of these revenue maintenance programs.

The change in the carrying amount of goodwill for the six months ended June 30, 2009 is as follows (in thousands):

	June 30, 2009
Beginning balance as of December 31, 2008	$219,063
Goodwill recorded in acquiring Applimation	16,045
Goodwill recorded in acquiring AddressDoctor	23,019
Subsequent goodwill adjustments:	
Earn-out for PowerData	796
Tax adjustments for Applimation	4,408

Local currency translation adjustments	531
Other adjustments	(5)
Ending balance as of June 30, 2009	$263,857

During the three months ended June 30, 2009, Informatica recorded $796,000 in additional goodwill as a result of earn-out paid for achieving certain level of license revenues. An additional $3.5 million for certain variable and deferred earn-out payment is payable based on achievement of certain level of incremental license revenues. The Company's carrying amount of goodwill was also increased by $4.4 million as a result of the final valuation report for Applimation's net operating loss for tax purposes. See Note 15. Acquisitions, of Notes to Condensed Consolidated Financial Statements for a further discussion.

INFORMATICA CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 4. Convertible Senior Notes

On March 8, 2006, the Company issued and sold Convertible Senior Notes (“Notes”) with an aggregate principal amount of $230 million due 2026. The Company pays interest at 3.0% per annum to holders of the Notes, payable semi-annually on March 15 and September 15 of each year, commencing September 15, 2006. Each $1,000 principal amount of Notes is initially convertible, at the option of the holders, into 50 shares of common stock prior to the earlier of the maturity date (March 15, 2026) or the redemption or repurchase of the Notes. The initial conversion price represented a premium of 29.28% relative to the last reported sale price of common stock of the Company on the NASDAQ Stock Market (Global Select) of $15.47 on March 7, 2006. The conversion rate is subject to certain adjustments. The conversion rate initially represents a conversion price of $20.00 per share. After March 15, 2011, the Company may from time to time redeem the Notes, in whole or in part, for cash, at a redemption price equal to the full principal amount of the Notes, plus any accrued and unpaid interest. Holders of the Notes may require the Company to repurchase all or a portion of their Notes at a purchase price in cash equal to the full outstanding principle amount of the Notes plus any accrued and unpaid interest on March 15, 2011, March 15, 2016, and March 15, 2021, or upon the occurrence of certain events including a change in control.

Pursuant to a Purchase Agreement (the “Purchase Agreement”), the Notes were sold for cash consideration in a private placement to an initial purchaser, UBS Securities LLC, an “accredited investor,” within the meaning of Rule 501 under the Securities Act of 1933, as amended (the “Securities Act”), in reliance upon the private placement exemption afforded by Section 4(2) of the Securities Act. The initial purchaser reoffered and resold the Notes to “qualified institutional buyers” under Rule 144A of the Securities Act without being registered under the Securities Act, in reliance on applicable exemptions from the registration requirements of the Securities Act. In connection with the issuance of the Notes, the Company filed a shelf registration statement with the SEC for the resale of the Notes and the common stock issuable upon conversion of the Notes. The Company also agreed to periodically update the shelf registration and to keep it effective until the earlier of the date the Notes or the common stock issuable upon conversion of the Notes is eligible to be sold to the public pursuant to Rule 144(k) of the Securities Act or the date on which there are no outstanding registrable securities. The Company has evaluated the terms of the call feature, redemption feature, and the conversion feature under applicable accounting literature, including SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, Emerging Issues Task Force (“EITF”) No. 00-19, Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company’s Own Stock, and FASB issued Staff Position No. APB 14-1 (“FSP No. 14-1”), Accounting for Convertible Debt Instruments That May Be Settled in Cash Upon Conversion (Including Partial Cash Settlement) and concluded that none of these features should be separately accounted for as derivatives.

In connection with the issuance of the Notes, the Company incurred $6.2 million of issuance costs, which primarily consisted of investment banker fees and legal and other professional fees. These costs are classified within Other Assets and are being amortized as a component of interest expense using the effective interest method over the life of the Notes from issuance through March 15, 2026. If the holders require repurchase of some or all of the Notes on the first repurchase date, which is March 15, 2011, the Company would accelerate amortization of the pro rata share of the unamortized balance of the issuance costs on such date. Also if the Company repurchases some of the outstanding balance of the Notes, it would accelerate amortization of the pro rata share of the unamortized balance of the issuance costs at the time of such repurchases. If the holders require conversion of some or all of the Notes when the conversion requirements are met, the Company would accelerate amortization of the pro rata share of the unamortized balance of the issuance cost to additional paid-in capital on such date. Amortization expenses related to the issuance costs were $68,000 and $78,000 for the three-month periods ended June 30, 2009 and 2008, respectively, and $603,000 and $156,000 for the six-month periods ended June 30, 2009 and 2008, respectively. Interest expenses on

the Notes were $1.5 million and $1.7 million for the three-month periods ended June 30, 2009 and 2008, respectively. Interest expenses on the Notes were $3.1 and $3.5 million for the six-month periods ended June 30, 2009 and 2008, respectively. Interest payments of $3.3 million and $3.5 million were made in the six-month periods ended June 30, 2009 and 2008, respectively.

In October 2008, Informatica's Board of Directors authorized the repurchase of a portion of its outstanding Notes due in 2026 in privately negotiated transactions with the holders of the Notes. During the three-month period ended December 31, 2008, Informatica repurchased $9.0 million of its outstanding Notes at a discounted cost of $7.8 million. As a result, $1.0 million, net of $0.2 million of prorated deferred expenses, is reflected in other income for the three months ended December 31, 2008. During the three-month period ended March 31, 2009, Informatica repurchased an additional $20.0 million of its outstanding Notes, net of $0.3 million gain due to early retirement of the Notes and $0.5 million due to recapture of prorated deferred expenses, at a discounted cost of $19.2 million. There was no repurchase of the Notes during the three months ended June 30, 2009.

Table of Contents

INFORMATICA CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following table sets forth the ending balance of the Convertible Senior Notes as of June 30, 2009 and December 31, 2008 resulting from the repurchase activities in the respective periods (in thousands):

Balance at January 1, 2008	$230,000
Face amount of Notes repurchased during the fourth quarter of 2008	(9,000)
Balance at December 31, 2008	221,000
Face amount of Notes repurchased during the first half of 2009	(20,000)
Balance at June 30, 2009	$201,000

The Company has classified its convertible debt as Level I, according to SFAS No. 157 since it has quote prices available in active markets for identical assets. The estimated fair value of the Company's Convertible Senior Notes as of June 30, 2009, based on the closing price as of June 29, 2009 (the last trading day of the respective period) at the Over-the-Counter market, was $209.2 million.

Note 5. Other Comprehensive Income

Other comprehensive income refers to gains and losses that, under GAAP, are recorded as an element of stockholders' equity and are excluded from net income, net of tax. Other comprehensive income activity consisted of the following items (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
Net income, as reported	$11,989	$11,503	$23,048	$22,727
Other comprehensive income:				
Unrealized gain (loss) on investments (1)	313	(615)	(183)	(42)
Cumulative translation adjustment (2)	5,662	(775)	2,831	1,288
Derivative gain (loss) (3)	292	—	(58)	—
Comprehensive income	$18,256	$10,113	$25,638	$23,973

(1) The tax effects on unrealized gain (loss) on investments were $(200,000) and $(322,000) for the three months ended June 30, 2009 and 2008, respectively, and $117,000 and $126,000 for the six months ended June 30, 2009 and 2008, respectively.

(2) The tax effects on cumulative translation adjustments were $(107,000) and $(34,000) for the three-month and six-month periods ended June 30, 2009, respectively. The tax effects on cumulative translation adjustments were negligible for the same periods in 2008.

(3) The tax effects on cash flow hedging loss for the three-month and six-month periods ended June 30, 2009 were $(187,000) and $37,000, respectively.

Ending balance of accumulated other comprehensive loss as of June 30, 2009 and December 31, 2008 consisted of the following (in thousands):

	June 30, 2009	December 31, 2008
Net unrealized gain on available-for-sale investments	$696	$879
Cumulative translation adjustment	(1,840)	(4,671)
Derivatives gain (loss)	(7)	51
Accumulated other comprehensive loss	$(1,151)	$(3,741)

Informatica did not have any other-than-temporary gain or loss reflected in other comprehensive income as of December 31, 2008 and June 30, 2009.

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

Table of Contents

INFORMATICA CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following table reflects the change in accumulated investment unrealized gain (loss) included in other comprehensive income for the six months ended June 30, 2009 (in thousands):

	June 30, 2009
Net unrealized investment gain balance, net of tax effects at December 31, 2008	$879
Investment unrealized loss	(300)
Net investment unrealized gain balance before tax effect at June 30, 2009	579
Tax effects on unrealized investment loss	117
Net unrealized investment gain balance, net of tax effects at June 30, 2009	$696

The following table reflects the change in accumulated derivatives gain (loss) included in other comprehensive income for the six months ended June 30, 2009 (in thousands):

	June 30, 2009
Net unrealized derivatives gain balance, net of tax effects at December 31, 2008	$50
Reclassified to the statements of income	179
Derivatives loss for hedging transactions	(273)
Derivatives loss balance before tax effect at June 30, 2009	(44)
Tax effects on derivatives loss	37
Net unrealized derivatives loss balance, net of tax effects at June 30, 2009	$(7)

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 functional currency of Informatica's foreign subsidiaries is their local currencies, except for Informatica Cayman Ltd., which is in euros. The Company translates all assets and liabilities of its foreign subsidiaries into U.S. dollars at the current exchange rates as of the applicable balance sheet date. Revenues and expenses are translated at the average exchange rate prevailing during the period, and the gains and losses resulting from the translation of the foreign subsidiaries' financial statements are reported in accumulated other comprehensive income (loss), as a separate component of stockholders' equity. Net gains and losses resulting from foreign exchange transactions are included in other income or expense, net in the condensed consolidated statements of income.

Informatica's results of operations and cash flows are subject to fluctuations due to changes in foreign currency exchange rates, particularly changes in the Indian rupee, Israeli shekel, euro, British pound sterling, Canadian dollar, Japanese yen, Brazilian real, and Australian dollar. In the fourth quarter of 2008, the Company initiated certain cash flow hedge programs in an attempt to reduce the impact of certain foreign currency fluctuations. 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 and Israeli shekel.Informatica is currently using foreign exchange forward contracts to hedge certain non-functional currency anticipated expenses which result in

intercompany transactions between Informatica U.S. and its two subsidiaries in India and Israel. Exposures resulting from fluctuations in the foreign currency exchange rates applicable to these foreign denominated expenses are covered through the Company's cash flow hedge programs. The Company releases the amounts accumulated in other comprehensive income into income when the anticipated expenses are incurred.

Informatica has forecasted the amount of its anticipated foreign currency expenses based on its historical performance and its 2009 financial plan. These foreign exchange contracts, carried at fair value, have a maturity between one month and five months. The Company entered into approximately two forward exchange contracts ranging between $329,000 and $649,000 per month. The Company closes out approximately two foreign exchange contracts per month when the foreign currency denominated expenses are paid and any gain or loss is offset against income.

Informatica and its subsidiaries do not enter into derivative contracts for speculative purposes.

Table of Contents

INFORMATICA CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

As of June 30, 2009, a derivative loss of $7,000 was included in accumulated other comprehensive income, net of applicable taxes. The Company expects to reclassify this amount to its condensed consolidated statements of income during the remaining duration of its foreign exchange forward contracts that expire on October 31, 2009.

Informatica evaluates the effectiveness of its hedge programs using statistical analysis at the inception of the hedge prospectively as well as retrospectively. Informatica excludes the time value of derivative instruments for hedge accounting purposes under SFAS No. 133.

The effect of derivative instruments designated as cash flow hedges on the accumulated other comprehensive income and condensed consolidated statements of income for the three and six months ended June 30, 2009 is as follows (in thousands):

	Three Months Ended June 30, 2009			Six Months Ended June 30, 2009		
	Loss Recognized (1)	Loss Reclassified (2)	Gain Recognized (3)	Loss Recognized (1)	Loss Reclassified (2)	Gain Recognized (3)
Indian rupee	$ 260	$ 46	$ 74	$ 105	$ 66	$ 178
Israeli shekel	104	68	—	168	113	14
Total	364	114	$ 74	$ 273	$ 179	$ 192

(1) Amount of loss recognized in accumulated other comprehensive income (effective portion).

(2) Amount of loss reclassified from accumulated other comprehensive income into the operating expenses of condensed consolidated statements of income (effective portion).

(3) Amount of gain recognized in income on derivative for the amount excluded from effectiveness testing located in operating expenses (mostly impacted the research and development expenses) of condensed consolidated statements of income. The Company did not have any ineffective portion of the derivative recorded in condensed consolidated statements of income.

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

The following tables reflect the amounts of derivative assets and liabilities for designated and not designated hedging instruments at June 30, 2009 and the gain recognized in other income, net for non designated foreign currency forward contracts for the three and six months ended June 30, 2009 (in thousands):

Derivatives Designated as Hedging Instruments under SFAS No. 133:	Derivative Assets at June 30, 2009 (1)	Derivative Liabilities at June 30, 2009 (2)
Indian rupee	$145	$—
Israeli shekel	—	27
Total	$145	$27

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

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

Derivatives Not Designated as Hedging Instruments under SFAS No. 133:	Derivative Assets at June 30, 2009 (1)	Derivative Liabilities at June 30, 2009 (2)
Indian rupee	$34	$—
Israeli shekel	—	7
Total	$34	$7

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

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

Table of Contents

INFORMATICA CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Gain Recognized in Other income, Net for Derivatives Not Designated as Hedging Instruments Under SFAS No. 133:	Three Months Ended June 30, 2009	Six Months Ended June 30, 2009
Indian rupee	$99	$54
Israeli shekel	88	102
Total	$187	$156

Note 7. Stock Repurchases and Retirement of Convertible Senior Notes

The purpose of Informatica’s stock repurchase program is, among other things, to help offset the dilution caused by the issuance of stock under its employee stock option and employee stock purchase plans. The number of shares acquired and the timing of the repurchases are based on several factors, including general market conditions and the trading price of the Company’s common stock. These repurchased shares are retired and reclassified as authorized and unissued shares of common stock. These purchases can be made from time to time in the open market and are funded from available working capital.

In April 2007, Informatica’s Board of Directors authorized a stock repurchase program for up to an additional $50 million of its common stock. As of December 31, 2007, the Company had $22.4 million available to repurchase additional shares.

In April 2008, Informatica’s Board of Directors authorized an additional $75 million of its common stock for the stock repurchase program. In October 2008, Informatica’s Board of Directors authorized the repurchase of a portion of its outstanding Convertible Senior Notes (“Notes”) due in 2026 in privately negotiated transactions with holders of the Notes. During the year ended December 31, 2008, the Company repurchased 3,797,000 shares of its common stock at a cost of $57.0 million and $9.0 million of its outstanding Notes at a cost of $7.8 million. As of December 31, 2008, the Company had $32.6 million available to repurchase additional shares and Notes under this program.

During the first quarter ended March 31, 2009, the Company repurchased 457,000 shares of its common stock at a cost of $5.9 million and an additional $20.0 million of its outstanding Notes at a cost of $19.4 million, including $0.2 million accrued interest. During the second quarter ended June 30, 2009, the Company repurchased an additional 203,000 shares of its common stock at a cost of $3.1 million. There was no repurchase of the Notes during the three months ended June 30, 2009.

The Company has approximately $4.1 million available to repurchase additional shares and Notes under this program as of June 30, 2009. This repurchase program does not have an expiration date.

The 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.

Note 8. Share-Based Payments

The Company's stockholders approved the 2009 Equity Incentive Plan (the "2009 Incentive Plan") in April 2009 under which 9,000,000 shares have been reserved for issuance. Under the 2009 Incentive Plan, eligible employees, officers, and directors may be granted stock options (incentive and non-qualified), stock appreciation rights, restricted stock, restricted stock units, and performance shares and performance units. The exercise price for incentive stock options and non-qualified options may not be less than 100% and 85%, respectively, of the fair value of the Company's common stock at the option grant date. Options granted are exercisable over a maximum term of seven to ten years from the date of the grant and generally vest ratably over a period of four years, with options for new employees generally including a 1-year cliff period. The Company also issues Restricted Stock Units ("RSUs") to its employees. The RSUs granted to employees generally vest over four years with four annual vesting dates. It is the current practice of the Board to limit option grants under this plan to 7-year terms and to issue only non-qualified stock options and RSUs. As of June 30, 2009, the Company had approximately 8,386,000 authorized shares available for grant and 614,000 options and RSUs outstanding under the 2009 Incentive Plan.

INFORMATICA CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Informatica granted 510,000 RSUs under its 1999 Stock Incentive Plan to its executives and certain key employees of the Company during the three months ended March 31, 2009. It further granted an additional 375,000 RSUs to certain employees and directors of the Company under its 2009 Stock Incentive Plan during the three months ended June 30, 2009. These awards vest annually over four years from the date of grant and are valued at such time of grant using the existing current market prices at the time. The Company records share-based payments for RSUs net of estimated forfeitures.

Informatica uses the Black-Scholes-Merton option pricing model to determine the fair value of option awards granted. The Company is using a blend of average historical and market-based implied volatilities for calculating the expected volatilities for employee stock options and 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 while the expected term of the ESPP is based on the contractual terms. The risk-free interest rate for the expected term of the option and ESPP is based on the U.S. Treasury yield curve in effect at the time of grant.

Statement of Financial Accounting Standards No. 123 (Revised 2004), Share-based Payment (“SFAS No. 123(R)”) also requires the Company to estimate forfeiture rates at the time of grant and record share-based payments net of estimated forfeiture rates. Further, the Company is also required to revise and true-up those estimates in subsequent periods if actual forfeitures differ from those estimates. The Company is using an average of the past four quarters of actual forfeited options for new employees to determine its forfeiture rate for stock options granted. Further, Informatica uses an average of the past four quarters of actual forfeited option awards to determine its forfeiture rate for RSUs grants.

The Company estimated the fair value of its share-based payment awards related to stock options granted with no expected dividends using the following assumptions:

	Three Months Ended June 30,				Six Months Ended June 30,			
	2009		2008		2009		2008	
Option Grants:								
Expected volatility	42	%	38	%	42 – 48	%	38 – 41	%
Weighted-average volatility	42	%	38	%	46	%	38	%
Expected dividends	—		—		—		—	
Expected term of options (in years)	3.6		3.3		3.6		3.3	
Risk-free interest rate	1.7	%	2.8	%	1.6	%	2.7	%
ESPP:*								
Expected volatility	—		—		51	%	38	%
Weighted-average volatility	—		—		51	%	38	%
Expected dividends	—		—		—		—	
Expected term of ESPP (in years)	—		—		0.5		0.5	
Risk-free interest rate — ESPP	—		—		0.4	%	2.2	%

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

The allocations of share-based payments for the three and six months ended June 30, 2009 and 2008 are as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
Cost of service revenues	$583	$493	$1,114	$1,039
Research and development	1,173	966	2,291	2,030
Sales and marketing	1,578	1,230	2,945	2,603
General and administrative	1,230	1,143	2,413	2,274
Total share-based payments	$4,564	$3,832	$8,763	$7,946
Tax benefit of share-based payments	(958)	(694)	(1,847)	(1,496)
Total share-based payments, net of tax benefit	$3,606	$3,138	$6,916	$6,450

Note 9. Facilities Restructuring Charges

2004 Restructuring Plan

In October 2004, the Company announced a restructuring plan ("2004 Restructuring Plan") related to the December 2004 relocation of the Company's corporate headquarters within Redwood City, California. In 2005, the Company subleased the available space at the Pacific Shores Center under the 2004 Restructuring Plan. The Company recorded restructuring charges of approximately $103.6 million, consisting of $21.6 million in leasehold improvement and asset write-offs and $82.0 million related to estimated facility lease losses, which consist of the present value of lease payment obligations for the remaining five-year lease term of the previous corporate headquarters, net of actual and estimated sublease income. The Company has actual and estimated sublease income, including the reimbursement of certain property costs such as common area maintenance, insurance, and property tax, net of estimated broker commissions of $2.7 million for the remainder of 2009, $5.2 million in 2010, $5.4 million in 2011, $5.5 million in 2012, and $0.9 million in 2013.

Subsequent to 2004, the Company continued to record accretion on the cash obligations related to its 2004 Restructuring Plan. Accretion represents imputed interest, which is the difference between the Company's non-discounted future cash obligations and the discounted present values of these cash obligations. As of June 30, 2009, the Company will recognize approximately $6.6 million of accretion as a restructuring charge over the remaining term of the lease, or approximately five years, as follows: $1.3 million for the remainder of 2009, $2.3 million in 2010, $1.7 million in 2011, $1.0 million in 2012, and $0.3 million in 2013.

2001 Restructuring Plan

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

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

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

A summary of the activity of the accrued restructuring charges for the six months ended June 30, 2009 is as follows (in thousands):

	Accrued Restructuring Charges at December 31, 2008	Restructuring Charges	Adjustments	Net Cash Payment	Non-cash Reclassification	Accrued Restructuring Charges at June 30, 2009
2004 Restructuring Plan						
Excess lease facilities	$ 56,356	$ 1,471	$ 49	$ (5,563)	$ (81)	$ 52,232
2001 Restructuring Plan						
Excess lease facilities	8,112	—	(116)	(745)	—	7,251
	$ 64,468	$ 1,471	$ (67)	$ (6,308)	$ (81)	$ 59,483

For the six months ended June 30, 2009, the Company recorded $1.5 million of restructuring charges from accretion charges related to the 2004 Restructuring Plan. Actual future cash requirements may differ from the restructuring liability balances as of June 30, 2009 if the Company is unable to sublease the excess leased facilities after the expiration of the subleases, there are changes to the time period that facilities are vacant, or the actual sublease income is different from current estimates. If the subtenants do not extend

INFORMATICA CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

their subleases and the Company is unable to sublease any of the related Pacific Shores facilities during the remaining lease terms through 2013, restructuring charges could increase by approximately $3.9 million.

Inherent in the estimation of the costs related to the restructuring efforts are assessments related to the most likely expected outcome of the significant actions to accomplish the restructuring. The estimates of sublease income may vary significantly depending, in part, on factors that may be beyond the Company's control, such as the time periods required to locate and contract with suitable sublessees when the Company's existing sublessees vacate as well as the market rates at the time of entering into new sublease agreements.

Note 10. Income Taxes

The Company's effective tax rates were 30% for both of the three-month and six-month periods ended June 30, 2009 and 2008. The effective tax rates differed from the federal statutory rate of 35% primarily due to benefits of certain earnings from operations in lower-tax jurisdictions throughout the world, the recognition of current year research and development credits and previously unrealized foreign tax credits offset by compensation expense related to non-deductible share-based payments, and agreed upon audit assessments with the Internal Revenue Service, as well as the accrual of reserves related to uncertain tax positions. The Company has not provided for residual U.S. taxes in any of these lower-tax jurisdictions since it intends to indefinitely reinvest these earnings offshore.

In assessing the need for any additional valuation allowance in the quarter ended June 30, 2009, 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 June 30, 2009, consistent with prior quarters it was considered more likely than not that the Company's non share-based-payment related deferred tax assets would be realized. As a result, the remaining valuation allowance is primarily related to the Company's share-based payments deferred tax assets. The benefit of these deferred tax assets will be recorded in the stockholders' equity as realized, and as such, they will not impact the Company's effective tax rate.

The unrecognized tax benefits related to FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes, an Interpretation of FASB Statement 109, if recognized, would impact the income tax provision by $10.0 million and $6.8 million as of June 30, 2009 and 2008, respectively. The unrecognized tax benefits were $11.3 million and $20.2 million as of June 30, 2009 and December 31, 2008, respectively. The change was primarily due to the agreement with the Internal Revenue Service on certain audit issues, the expiration of certain statute of limitations and the accrual for uncertain tax positions. The Company has elected to include interest and penalties as a component of tax expense. Accrued interest and penalties in the three months ended June 30, 2009 and 2008 were approximately $0.3 million and $0.5 million, respectively.

The Company files U.S. federal income tax returns as well as income tax returns in various states and foreign jurisdictions. Informatica was under examination by the Internal Revenue Service for fiscal years 2005 and 2006. Due to net operating loss carry-forwards, substantially all of our tax years remained open for tax examination. During the three months ended June 30, 2009, the Company reached an agreement with the Internal Revenue Service to settle certain matters, including cost sharing and buy-in amounts for tax years ended December 31, 2001 through 2006. The tax provision impact as a result of the settlement was $7.0 million of which $6.1 million was accrued for previously.

The Company has been informed by certain state and foreign taxing authorities that it was selected for examination. Most state and foreign jurisdictions have three or four open tax years at any point in time. The field work for certain state audits has commenced and is at various stages of completion as of June 30, 2009.

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 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.

Table of Contents

INFORMATICA CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 11. Net Income per Common Share

Under the provisions of Statement of Financial Accounting Standards No. 128, Earnings per Share, basic net income per share is computed using the weighted-average number of common shares outstanding during the period. Diluted net income per share reflects the potential dilution of securities by adding other common stock equivalents, primarily stock options and common shares potentially issuable under the terms of the Convertible Senior Notes, to the weighted-average number of common shares outstanding during the period, if dilutive. Potentially dilutive securities have been excluded from the computation of diluted net income per share if their inclusion is anti-dilutive.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
Net income	$11,989	$11,503	$23,048	$22,727
Effect of convertible senior notes, net of related tax effects	961	1,100	2,099	2,200
Net income adjusted	$12,950	$12,603	$25,147	$24,927
Weighted-average shares of common stock used to compute basic net income per share (excluding unvested restricted stock)	87,198	88,565	87,378	88,347
Effect of dilutive common stock equivalents:				
Dilutive effect of unvested restricted stock units	76	—	38	—
Dilutive effect of employee stock options	3,368	4,392	3,271	4,556
Dilutive effect of convertible senior notes	10,050	11,500	10,332	11,500
Shares used in computing diluted net income per common share	100,692	104,457	101,019	104,403
Basic net income per common share	$0.14	$0.13	$0.26	$0.26
Diluted net income per common share	$0.13	$0.12	$0.25	$0.24

Diluted net income per common share is calculated according to SFAS No. 128, Earnings per Share, which requires the dilutive effect of convertible securities to be reflected in the diluted net income per share by application of the "if-converted" method. This method assumes an add-back of interest and amortization of issuance cost, net of income taxes, to net income if the securities are converted. The Company determined that for the three and six months ended June 30, 2009 and 2008, the Convertible Senior Notes had a dilutive effect on diluted net income per share, and as such, it had an add-back of $1.0 million and $2.1 million for the three and six months ended June 30, 2009, respectively, and $1.1 million and $2.2 million for the same periods in 2008 in interest and issuance cost amortization, net of income taxes, to net income for the diluted net income per share calculation.

In calculating its diluted net income per common share, Informatica excluded 1.3 million and 0.2 million of its options for the three months ended June 30, 2009 and 2008, respectively, and 3.0 million and 0.2 million of its options for the six months ended June 30, 2009 and 2008, respectively since the inclusion of these options would have been anti-dilutive.

Note 12. Commitments and Contingencies

Lease Obligations

In December 2004, the Company relocated its corporate headquarters within Redwood City, California and entered into a new lease agreement. The initial lease term was from December 15, 2004 to December 31, 2007 with a three-year option to renew to December 31, 2010 at fair market value. In May 2007, the Company exercised its renewal option to extend the office lease term to December 31, 2010. In May 2009, the Company executed the lease amendment to further extend the lease term for another 3 years to December 31, 2013. The future minimum contractual lease payments are $2.0 million for the remainder of 2009, $2.6 million, $3.4 million, $3.5 million and $3.6 million for the years ending December 31, 2010, 2011, 2012, and 2013, respectively.

The Company entered into two lease agreements in February 2000 for two office buildings at the Pacific Shores Center in Redwood City, California, which were used as its former corporate headquarters from August 2001 through December 2004. The leases expire in July 2013. In 2001, a financial institution issued a $12.0 million letter of credit, which required the Company to maintain certificates of deposits as collateral until the leases expire in 2013. As of June 2008, however, the Company was no longer

Table of Contents

required to maintain certificates of deposits for this letter of credit related to its former corporate headquarters leases at the Pacific Shores Center in Redwood City, California.

The Company leases certain office facilities under various non-cancelable operating leases, including those described above, which expire at various dates through 2013 and require the Company to pay operating costs, including property taxes, insurance, and maintenance. Operating lease payments in the table below include approximately $68.9 million for operating lease commitments for facilities that are included in restructuring charges. See Note 9. Facilities Restructuring Charges, above, for a further discussion.

Future minimum lease payments as of June 30, 2009 under non-cancelable operating leases with original terms in excess of one year are summarized as follows (in thousands):

	Operating Leases	Sublease Income	Net
Remaining 2009	$12,937	$1,180	$11,757
2010	23,631	2,379	21,252
2011	23,310	2,422	20,888
2012	23,350	2,468	20,882
2013	15,519	1,263	14,256
Thereafter	886	—	886
	$99,633	$9,712	$89,921

Of these future minimum lease payments, the Company has accrued $59.5 million in the facilities restructuring accrual at June 30, 2009. This accrual includes the minimum lease payments of $68.9 million and an estimate for operating expenses of $20.6 million and sublease commencement costs associated with excess facilities and is net of estimated sublease income of $23.4 million and a present value discount of $6.6 million recorded in accordance with FASB Statement No. 146 (As Amended), Accounting for Costs Associated with Exit or Disposal Activities ("SFAS No. 146").

Warranties

The Company generally provides a warranty for its software products and services to its customers for a period of three to six months and accounts for its warranties under the SFAS No. 5, Accounting for Contingencies. 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. The Company has provided a warranty accrual of $0.2 million as of June 30, 2009 and December 31, 2008. The Company's product warranty expense has not been significant in the past.

Indemnification

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

customer against losses, expenses, liabilities, and damages that may be awarded against the customer in the event the Company's software is found to infringe upon a patent, copyright, trademark, or other proprietary right of a third party. The License Agreement generally limits the scope of and remedies for such indemnification obligations in a variety of industry-standard respects, including but not limited to certain time and scope limitations and a right to replace an infringing product with a non-infringing product.

The Company believes its internal development processes and other policies and practices limit its exposure related to the indemnification provisions of the License Agreement. In addition, the Company requires its employees to sign a proprietary information and inventions agreement, which assigns the rights to its employees' development work to the Company. To date, the Company has not had to reimburse any of its customers for any losses related to these indemnification provisions, and no material claims against the Company are outstanding as of June 30, 2009. 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.

INFORMATICA CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

In addition, the Company indemnifies its officers and directors under the terms of indemnity agreements entered into with them, as well as pursuant to our certificate of incorporation, bylaws, and applicable Delaware law. To date, the Company has not incurred any costs related to these indemnifications.

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 SFAS No. 5, Accounting for Contingencies.

Derivative Financial Instruments

Informatica uses foreign exchange forward contracts to hedge certain operational ("cash flow") exposures resulting from changes in foreign currency exchange rates. Such cash flow exposures result from portions of its forecasted expenditures denominated in currencies other than the U.S. dollar, primarily the Indian rupee and Israeli shekel. These foreign exchange contracts, carried at fair value, have a maturity of 12 months or less. Informatica enters into these foreign exchange contracts to hedge forecasted operating expenditures in the normal course of business, and accordingly, they are not speculative in nature.

As of June 30, 2009, the notional amounts of the foreign exchange forward contracts that the Company committed to purchase in the fourth quarter of 2008 for the Indian rupees and the Israeli shekels were $1.7 million and $3.2 million, respectively.

See Note 1. Summary of Significant Accounting Policies, Note 5. Other Comprehensive Income, and Note 6. Derivative Financial Instruments, of Notes to Condensed Consolidated Financial Statements for a further discussion.

Litigation

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

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

Informatica defendants and 62 other individual defendants.

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

INFORMATICA CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

All parties in all lawsuits have reached a settlement. The settlement, if approved, will not require the Company to contribute cash. On June 10, 2009, the Court gave preliminary approval to the settlement, and set a final approval hearing for September 10, 2009. If the settlement is not approved by the Court, the Company intends to defend the lawsuit vigorously. We express no opinion as to the probable outcome of this matter.

On July 15, 2002, the Company filed a patent infringement lawsuit against Acta Technology, Inc., now known as Business Objects Data Integration, Inc. (“BODI”) and the final judgment in the Company’s favor included a permanent injunction preventing BODI from shipping the infringing technology which remains in effect until the patent expires in 2019.

On August 21, 2007, Juxtacomm Technologies (“Juxtacomm”) filed a complaint in the Eastern District of Texas against 21 defendants, including us, alleging patent infringement and seeking damages and an injunction. We filed an answer to the complaint on October 10, 2007. It is Informatica’s current assessment that our products do not infringe Juxtacomm’s patent and that potentially the patent itself is invalid due to significant prior art. However, given the potential trial and related costs and the uncertainties related to litigation, Informatica is participating in mediation discussions with the plaintiff. The trial date is currently set for the fourth quarter of 2009.

On November 24, 2008, Data Retrieval Technologies LLC (“Data Retrieval”) filed a complaint in the Western District of Washington against the Company and Sybase, Inc., alleging patent infringement of U.S. Patent Nos. 6,026,392 (the “392 patent”) and 6,631,382 (the “382 patent”). On December 5, 2008, the Company and Sybase filed an action in the Northern District of California against Data Retrieval, Timeline, Inc. (“Timeline”) and TMLN Royalty, LLC (“TMLN Royalty”), asserting declaratory relief claims for non-infringement and invalidity of the ’392 and ’382 patents. On January 15, 2009, we filed an answer to the complaint in the Western District of Washington and asserted declaratory relief counterclaims for non-infringement and invalidity of the ’392 and ’382 patents. In addition, on January 15, 2009, Informatica and Sybase filed a voluntary dismissal without prejudice of Timeline and TMLN Royalty in the Northern District of California action. On April 1, 2009, in the Northern District of California action, Data Retrieval filed an answer and asserted counterclaims for patent infringement of the ’382 and ’392 patents. On April 8, 2009, the Court in the Western District of Washington transferred that action to the Northern District of California. On April 21, 2009, the Company filed its reply to Data Retrieval’s counterclaims in the Northern District of California. The case is currently in the discovery phase and no trial date has been set. The Company intends to vigorously defend itself.

The Company is also a party to various legal proceedings and claims arising from the normal course of business activities.

Based on current available information, Informatica does not expect that the ultimate outcome of these unresolved matters, individually or in the aggregate, will have a material adverse effect on its results of operations, cash flows, or financial position. However, litigation is subject to inherent uncertainties and the Company’s view of these matters may change in the future. In addition, given such uncertainties, the Company has from time to time discussed settlement in the context of litigation and accrued, based on SFAS No. 5, for estimates of settlement. 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 Reporting

SFAS No. 131, Disclosures about Segments of an Enterprise and Related Information, establishes standards for the manner in which public companies report information about operating segments in their annual and interim financial statements. It also establishes standards for related disclosures about products and services, geographic areas, and major customers. The method for determining the information to report is based on the way management organizes the operating segments within the Company for making operating decisions and assessing financial performance.

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.

Table of Contents

INFORMATICA CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following table presents geographic information (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
Revenues:				
North America	$77,642	$78,237	$149,425	$147,596
Europe	28,111	27,611	52,839	54,940
Other	11,591	7,912	24,138	14,934
	$117,344	$113,760	$226,402	$217,470

	June 30, 2009	December 31, 2008
Long-lived assets (excluding assets not allocated):		
North America	$49,268	$36,285
Europe	15,189	6,664
Other	1,487	1,643
	$65,944	$44,592

No customer accounted for more than 10% of the Company's total revenues in the three and six months ended June 30, 2009 and 2008. At June 30, 2009 and 2008, no single customer accounted for more than 10% of the accounts receivable balance.

Note 14. Recent Accounting Pronouncements

In March 2008, the FASB issued Statement of Financial Accounting Standards No. 161 ("SFAS No. 161"), Disclosures about Derivative Instruments and Hedging Activities. This statement requires companies with derivative instruments to disclose information that should enable financial statement users to understand how and why a company uses derivative instruments, how derivative instruments and related hedged items are accounted for under FASB Statement of Financial Accounting Standards No. 133, Accounting for Derivative Instruments and Hedging Activities, and how derivative instruments impact the financial statements of the companies. The Company adopted SFAS No. 161 in the first quarter of fiscal 2009. The adoption of this statement did not impact the condensed consolidated financial statements of the Company since SFAS No. 161 only required additional disclosures.

In April 2008, the FASB issued FASB Staff Position No. 142-3 ("FSP No. 142-3"), Determination of the Useful Life of Intangible Assets. FSP No. 142-3 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under FASB Statement No. 142, Goodwill and Other Intangible Assets. This FSP is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. The Company adopted this FSP effective January 1, 2009, and its adoption did not impact the condensed consolidated financial statements of the Company.

In June 2008, the FASB issued FSP Emerging Issues Task Force ("EITF") 03-6-1 ("FSP EITF 03-6-1"), Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities. FSP EITF 03-6-1 clarifies that share-based payment awards that entitle their holders to receive nonforfeitable dividends or dividend equivalents before vesting should be considered participating securities. None of the RSUs and stock options granted under the 1999 Stock Incentive Plan and 2009 Incentive Plan were entitled to receive nonforfeitable dividends or dividend equivalents. FSP EITF 03-6-1 is effective for fiscal years beginning after December 15, 2008 on a retrospective basis. The Company adopted this FSP effective January 1, 2009, and its adoption did not impact its calculation of earnings per share.

In April 2009, the FASB issued FASB Staff Position No. 141(R)-1 ("FSP No. 141(R)-1"), Accounting for Assets Acquired and Liabilities Assumed in a Business Combination That Arise from Contingencies. FSP No. 141(R)-1 amends and clarifies SFAS No. 141(R) to address issues related to initial recognition and measurement, and subsequent measurement and accounting, and disclosure of assets and liabilities arising from contingencies in a business combination. This FSP covers the contingent consideration arrangements of an acquiree assumed by the acquirer as well as contingencies arisen due to business combinations. FSP No. 141(R)-1 is effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period

26

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beginning on or after December 15, 2008. The Company adopted this FSP effective January 1, 2009, and its adoption did not impact the condensed consolidated financial statements of the Company.

In April 2009, the FASB issued FASB Staff Position No. 115-2 ("FSP No. 115-2") and 124-2, Recognition and Presentation of Other-Than-Temporary Impairments. This FSP amends FASB SFAS No. 115, FSP SFAS No. 115-1 and SFAS No. 124-1 and its scope is limited to other-than-temporary guidance of these pronouncements for debt securities classified as available-for-sale or held-to maturity. The Board believes it is more operational for an entity to assess whether the entity has the intent to sell the debt security or more likely than not will be required to sell the debt security before its anticipated recovery. Further, this FSP requires new disclosures to help users of financial statements understand the significant inputs used in determining a credit loss, as well as a rollforward of that amount each period. This FSP is effective for interim and annual reporting periods ending June 15, 2009. The Company adopted this FSP effective April 1, 2009, and its adoption did not impact the condensed consolidated financial statements of the Company.

In April 2009, the FASB issued FASB Staff Position No. 157-4 ("FSP No. 157-4"), Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are not Orderly. This FSP is effective for interim and annual reporting periods ending after June 15, 2009, and shall be applied prospectively. Informatica adopted this FSP for its second quarter ended June 30, 2009, and its adoption did not impact the condensed consolidated financial statements of the Company.

In April 2009, the FASB issued FASB Staff Position No. 107-1 ("FSP No.107-1"), Interim Disclosures about Fair Value of Financial Instruments. This FSP requires a public entity to disclose in the body or in the accompanying notes of its summarized financial information for interim reporting periods and in its financial statements for annual reporting periods the fair value of all financial instruments for which it is practicable to estimate that value, whether recognized or not recognized in the statement of financial position, as required by Statement of Financial Accounting Standards No. 107 ("SFAS No. 107"), Disclosures about Fair Value of Financial Instruments. FSP 107-1 is effective for interim periods ending after June 15, 2009. Informatica adopted this FSP for its second quarter ended June 30, 2009, and its adoption did not impact the condensed consolidated financial statements of the Company.

In May 2009, the FASB issued Statement of Financial Accounting Standards No. 165 ("SFAS No. 165"), Subsequent Events to establish principles and requirements for subsequent events. Subsequent events are events or transactions that occur after the balance sheet date but before financial statements are issued or are available to be issued. There are two types of subsequent events: (i) The first type consists of events or transactions that provide additional evidence about conditions that existed at the date of the balance sheet, (ii) The second type consists of events that provide evidence about conditions that did not exist at the date of the balance sheet but arose after that date. An entity shall recognize in its financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the balance sheet, including the estimates inherent in the process of preparing financial statements. This Statement is effective for interim or annual financial periods ending after June 15, 2009. The Company adopted this statement effective April 1, 2009.

Note 15. Acquisitions

AddressDoctor GmbH

On June 2, 2009, Informatica GmbH, a wholly owned subsidiary of Informatica, acquired AddressDoctor GmbH (AddressDoctor), a limited liability company duly organized and existing under the laws of the Federal Republic of Germany. AddressDoctor is a leading provider of international address verification and cleaning solutions that enables users to validate and correct postal addresses and assists in the data capturing process. Informatica acquired all of the capital stock of AddressDoctor for $27.8 million of which $4.5 million is held in an escrow fund as security for losses incurred by Informatica in the event of certain breaches of the acquisition agreement by AddressDoctor. The escrow fund will remain in place for a period of eighteen months, although 50% of the escrow funds will be paid out twelve months subsequent to the date of acquisition.

Informatica incurred $0.5 million of acquisition-related costs for the three months ended June 30, 2009. These expenses are reflected as general and administrative expenses in the condensed consolidated statements of income for the respective periods.

Table of Contents

INFORMATICA CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The allocation of the purchase price for this acquisition, as of the date of the acquisition, is as follows (in thousands):

Goodwill	$19,609
Purchase accounting tax adjustment related to goodwill	3,410
Developed and core technology	960
Vendor relationships	7,200
Customer relationships	1,320
Trade names	230
Assumed liabilities, net of assets	(4,977)
Total purchase price	$27,752

The Company assigned fair values to the identified intangible assets acquired in accordance with the guidelines established in SFAS No. 141(R), Financial Accounting Standards Board Interpretations No. 4, Applicability of FASB Statement No. 2 to Business Combinations Accounted for by the Purchase Method, and other relevant guidance. The Company also recorded the contingent assets and liabilities in accordance with the guidance of FSP No. 141(R)-1.

The excess of the purchase price over the identified tangible and intangible assets was recorded as goodwill. The Company believes that the investment value of the synergy created as a result of this acquisition, due to future product offerings, has principally contributed to a purchase price that resulted in the recognition of $19.6 million of goodwill, which is not deductible for tax purposes. At the time of acquisition, AddressDoctor had recent releases of its major products and as a result, no material in-process research and development was identified at the time of acquisition. The developed and core technology will be amortized over five years on a straight line basis, vendor relationships will be amortized over five years on a straight line basis, customer relationships will be amortized over six years on an accelerated basis consistent with expected benefits, and trade names will be amortized over five years on a straight line basis.

Applimation

On February 13, 2009, the Company acquired Applimation, Inc. (Applimation), a privately held company incorporated in Delaware, providing application Information Lifecycle Management (ILM) technology. The acquisition extends the Company's data integration software to include Applimation's technology. The Company acquired all of the capital stock of Applimation in a cash merger transaction valued at approximately $37.2 million, including $1.6 million retention bonuses payable three to eighteen months subsequent to acquisition date. As a result of this acquisition, the Company also assumed certain facility leases and certain liabilities and commitments. As part of the merger agreement, $6.0 million of the merger consideration was placed into an escrow fund and held as security for losses incurred by the Company in the event of certain breaches of the merger agreement by Applimation. The escrow fund will remain in place until August 13, 2010, although 50% of the escrow funds will be distributed to the Applimation stockholders on February 13, 2010.

Informatica incurred $718,000 and $116,000 of acquisition-related costs for the three months ended March 31, 2009 and December 31, 2008, respectively. These expenses are reflected as general and administrative expenses in the condensed consolidated statements of income for the respective periods.

The allocation of the purchase price for this acquisition, as of the date of the acquisition, is as follows (in thousands):

Goodwill	$16,045
Purchase accounting tax adjustment related to goodwill	3,695
Developed and core technology	10,730
Customer relationships	8,330
Trade names	880
Contract backlog	270
Assumed liabilities, net of assets	(4,354)
Total purchase price	$35,596

Table of Contents

INFORMATICA CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The Company assigned fair values to the identified intangible assets acquired in accordance with the guidelines established in SFAS No. 141(R), Financial Accounting Standards Board Interpretations No. 4, Applicability of FASB Statement No. 2 to Business Combinations Accounted for by the Purchase Method, and other relevant guidance. The Company also recorded the contingent assets and liabilities in accordance with the guidance of FSP No. 141(R)-1.

Informatica is obligated to reimburse certain employees of Applimation for an approximate bonus of $1.6 million if they continue to provide their employment services for a certain period of time. If they discontinue their services for any reason, these amounts are payable to original shareholders of Applimation. Informatica will record these expenses as the services are performed between three to eighteen months subsequent to the acquisition date.

The excess of the purchase price over the identified tangible and intangible assets was recorded as goodwill. The Company believes that the investment value of the synergy created as a result of this acquisition, due to future product offerings, has principally contributed to a purchase price that resulted in the recognition of $16.0 million of goodwill, which is not deductible for tax purposes. At the time of acquisition, Applimation had recent releases of its major products and as a result, no material in-process research and development was identified at the time of acquisition. The developed and core technology will be amortized over five years on a straight line basis, customer relationships will be amortized over six years on an accelerated basis consistent with expected benefits, trade names will be amortized over five years on a straight line basis, and contract backlog will be amortized over two years on a straight line basis.

PowerData

On October 1, 2008, Informatica Nederland B.V., a wholly owned subsidiary of Informatica, purchased all of the issued and outstanding shares of PowerData Iberica, S.L. (“PowerData”), a privately held company organized under the laws of Spain, for $7.1 million in cash, including transaction costs of $0.4 million.

The allocation of the purchase price for this acquisition, as of the date of the acquisition, is as follows (in thousands):

Customer relationships	$3,550
Goodwill	3,618
Assumed liabilities, net of assets	(32)
Total purchase price	$7,136

The Company assigned values to identified intangible assets acquired in accordance with the guidelines established in Statement of Financial Accounting Standards No. 141, Business Combinations, Financial Accounting Standards Board Interpretations No. 4, Applicability of FASB Statement No. 2 to Business Combinations Accounted for by the Purchase Method, Emergency Issues Task Force No. 95-8, Accounting for Contingent Consideration Paid to the Shareholders of an Acquired Enterprise in a Purchase Business Combination, and other relevant guidance.

The Company is obligated to pay certain variable and deferred earn-out payments based on the percentage of license revenues recognized subsequent to the acquisition. See Note 3, Goodwill and Intangible Assets, of Notes to Condensed Consolidated Financial Statements for $796,000 additional goodwill due to earn-out during the three months ended June 30, 2009. The Company considers these earn-outs as additional contingent consideration and will record them in goodwill as they occur.

29

Table of Contents

INFORMATICA CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Identity Systems, Inc.

On May 15, 2008, Informatica Corporation acquired all of the issued and outstanding shares of Identity Systems, Inc., a Delaware corporation and a wholly owned subsidiary of Intellisync Corporation, for $85.6 million in cash, including transaction costs of $0.9 million.

The allocation of the purchase price for this acquisition, as of the date of the acquisition, is as follows (in thousands):

Developed and core technology	$14,570
Customer relationships	12,620
In-process research and development	390
Goodwill	49,316
Assumed assets, net of liabilities	8,735
Total purchase price	$85,631

The identified intangible assets acquired were assigned fair values in accordance with the guidelines established in Statement of Financial Accounting Standards No. 141, Business Combinations, Financial Accounting Standards Board Interpretations No. 4, Applicability of FASB Statement No. 2 to Business Combinations Accounted for by the Purchase Method, and other relevant guidance.

Table of Contents

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

This Quarterly Report on Form 10-Q includes "forward-looking statements" within the meaning of the federal securities laws, particularly statements referencing our expectations relating to license revenues, service revenues, international revenues, deferred revenues, cost of license revenues, cost of service revenues, operating expenses, amortization of acquired technology, share-based payments, interest income or expense, and provision for income taxes; deferred taxes; international expansion; the ability of our products to meet customer demand; continuing impacts from our 2004 and 2001 Restructuring Plans; the sufficiency of our cash balances and cash flows for the next twelve months; our stock repurchase programs; investment and potential investments of cash or stock to acquire or invest in complementary businesses, products, or technologies; the impact of recent changes in accounting standards; the acquisitions of AddressDoctor and Applimation; 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," "plan "anticipates," "estimates," "potential," or "continue," or the negative thereof, or other comparable terminology. Although we believe that the expectations reflected in the forward-looking statements contained herein are reasonable, these expectations or any of the forward-looking statements could prove to be incorrect, and actual results could differ materially from those projected or assumed in the forward-looking statements. Our future financial condition and results of operations, as well as any other forward-looking statements, are subject to risks and uncertainties, including but not limited to the factors set forth 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 hereof, and we assume no obligation to update any such forward-looking statements or reasons why actual results may differ.

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

Overview

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

We receive revenues from licensing our products under perpetual licenses directly to end users and indirectly through resellers, distributors, and OEMs in the United States and internationally. We also receive a small amount of revenues under subscription-based licenses for on-demand offerings from customers and partners. 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, and revenues outside of Europe and North America have comprised 8% or less of total consolidated revenues during the past three years.

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

Despite the uncertainty in the financial markets, and the recession in the United States and many foreign economies, we were able to grow our total revenues in the second quarter of 2009 by 3% to $117.3 million compared to $113.8 million from the same period in 2008. License revenues were essentially flat year over year. Services revenues increased by 5% due to 14% growth in maintenance revenues partially offset by a 15% decrease in consulting and education service revenues. The maintenance revenue growth is attributable to the increased size of our installed customer base and the decline in training and consulting revenues reflects our customers' trend toward deferring

spending and reducing training and travel budgets. Because our revenues have grown at a faster pace than the increase in our operating expenses, our operating income as a percentage of revenues has grown from 13% to 15% for the quarters ended June 30, 2008 and 2009, respectively.

On February 13, 2009, we acquired Applimation, Inc. ("Applimation"), a private company incorporated in Delaware, providing application Information Lifecycle Management (ILM) technology. The acquisition extends our data integration software to include Applimation's technology. We acquired all of the capital stock of Applimation in a cash merger transaction valued at approximately $37.2 million (including $1.6 million retention bonuses payable three to eighteen months subsequent to the acquisition date). As a result of this acquisition, we also assumed certain facility leases and certain liabilities and commitments. As part of the merger agreement, $6.0 million of the merger consideration was placed into an escrow fund and held as security for losses incurred by us in the event of certain breaches of the merger agreement by Applimation.

Table of Contents

On June 2, 2009, Informatica GmbH, our wholly owned subsidiary, acquired AddressDoctor GmbH ("AddressDoctor"), a limited liability company duly organized and existing under the laws of the Federal Republic of Germany. AddressDoctor is a leading provider of international address verification and cleaning solutions which enables users to validate and correct postal addresses and assists in the data capturing process. We acquired all of the capital stock of AddressDoctor for $27.8 million of which $4.5 million is held in an escrow fund as security for losses incurred by us in the event of certain breaches of the merger agreement by AddressDoctor. The escrow fund will remain in place for a period of eighteen months, although 50% of the escrow funds will be paid out twelve months subsequent to the date of acquisition.

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

Macroeconomic Conditions: The United States and many foreign economies continue to experience significant adversity driven by varying macroeconomic conditions including the uncertainty in the credit markets and financial markets, instability of major financial institutions, deterioration in the housing and labor markets and volatility in fuel prices. As a result of these conditions, the United States and global economies are in a recession, which is expected to continue. These adverse conditions, which are beyond our control, are likely to continue to have an adverse effect on our business. As a result, we have reduced expenses in certain areas and have tempered our hiring plans.

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

New Product Introductions: To address the expanding data integration and data integrity needs of our customers and prospective customers, we continue to introduce new products and technology enhancements on a regular basis. In October 2007, we delivered the generally available release of PowerCenter 8.5, PowerExchange 8.5, and Informatica Data Quality 8.5. In June 2008, we delivered a version upgrade to our entire data integration platform by delivering the generally available version of PowerCenter 8.6, PowerExchange 8.6, and Informatica Data Quality 8.6 including identity resolution. In November 2008, we launched our On Demand Data Synchronization Service for salesforce.com. New product introductions and/or enhancements have inherent risks including, but not limited to, product availability, product quality and interoperability, and customer adoption or the delay in customer purchases. Given these risks and the recent introduction of these products, we cannot predict their impact on our overall sales and revenues.

Quarterly and Seasonal Fluctuations: Historically, purchasing patterns in the software industry have followed quarterly and seasonal trends and are likely to do so in the future. Specifically, it is normal for us to recognize a substantial portion of our new license orders in the last month of each quarter and sometimes in the last few weeks or days of each quarter, though such fluctuations are mitigated somewhat by recognition of backlog orders. In recent years, the fourth quarter has had the highest level of license revenues and order backlog, although the increase was less pronounced at the end of 2008, and we generally have weaker demand for our software products and services in the first and third quarters of the year. This trend continued during the first half of 2009. The current macroeconomic

conditions make our historical seasonal trends more difficult to predict.

To address these potential risks, we have focused on a number of key initiatives, including certain cost containment measures, the strengthening of our partnerships, the broadening of our distribution capability worldwide, and the targeting of our sales force and distribution channel on new products.

We are concentrating 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. In February 2008, we launched our new worldwide partner program, INFORM, which is comprised of a set of programs and services to help partners develop and promote solutions in conjunction with Informatica. In March

Table of Contents

2008, we announced that Wipro Technologies selected Informatica Data Migration Suite to power its Data Migration Services. We are partners with FAST (acquired by Microsoft), SAP, Oracle, Hyperion Solutions (acquired by Oracle), and salesforce.com. We have also recently partnered with NEC. 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.

We have broadened our distribution efforts, and we have continued to expand our sales both in terms of selling data warehouse products to the enterprise level and of selling more strategic data integration solutions beyond data warehousing, including data quality, data migrations, data consolidations, data synchronizations, data hubs, and cross-enterprise data integration to our customers' enterprise architects and chief information officers. We have expanded our international sales presence in recent years by opening new offices, increasing headcount, and through acquisitions. As a result of this international expansion, as well as the increase in our direct sales headcount in the United States, our sales and marketing expenses have increased. In the long term, we expect these investments to result in increased revenues and productivity and ultimately higher profitability although we experienced a tougher than expected selling environment in Europe during the first half of 2009. If we experience an increase in sales personnel turnover, do not achieve expected increases in our sales pipeline, experience a decline in our sales pipeline conversion ratio, or do not achieve increases in sales productivity and efficiencies from our new sales personnel as they gain more experience, then it is unlikely that we will achieve our expected increases in revenue, sales productivity, or profitability from our international operations. We have experienced some increases in revenues and sales productivity in the United States in the past few years. In 2008, we experienced increases in revenues internationally, but we have not yet achieved the same level of sales productivity internationally as domestically.

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

Critical Accounting Policies and Estimates

In preparing our condensed consolidated financial statements, we make assumptions, judgments, and estimates that can have a significant impact on amounts reported in our condensed consolidated financial statements. We base our assumptions, judgments, and estimates on historical experience and various other factors that we believe to be reasonable under the circumstances. Actual results could differ materially from these estimates under different assumptions or conditions. On a regular basis we evaluate our assumptions, judgments, and estimates and make changes accordingly. We also discuss our critical accounting estimates with the Audit Committee of the Board of Directors. We believe that the assumptions, judgments, and estimates involved in the accounting for revenue recognition, facilities restructuring charges, income taxes, impairment of goodwill, acquisitions, share-based payments, and allowance for doubtful accounts have the greatest potential impact on our condensed consolidated financial statements, so we consider these to be our critical accounting policies. We discuss below the critical accounting estimates associated with these policies. Historically, our assumptions, judgments, and estimates relative to our critical accounting policies have not differed materially from actual results. For further information on our significant accounting policies, see the discussion in Note 1. Summary of Significant Accounting Policies and Note 14. Recent Accounting Pronouncements, of Notes to Condensed Consolidated Financial Statements in Part I, Item 1 of this Report.

Revenue Recognition

We follow detailed revenue recognition guidelines, which are discussed below. We recognize revenue in accordance with generally accepted accounting principles (“GAAP”) in the United States that have been prescribed for the software industry. The accounting rules related to revenue recognition are complex and are affected by interpretations of the rules, which are subject to change. Consequently, the revenue recognition accounting rules require management to make significant judgments, such as determining if collectibility is probable.

We derive revenues from software license fees, maintenance fees (which entitle the customer to receive product support and unspecified software updates), and professional services, consisting of consulting and education services. We follow the appropriate revenue recognition rules for each type of revenue. The basis for recognizing software license revenue is determined by the American Institute of Certified Public Accountants (“AICPA”) Statement of Position (“SOP”) 97-2 Software Revenue Recognition, together with other authoritative literature including, but not limited to, the Securities and Exchange Commission’s Staff Accounting Bulletin

Table of Contents

("SAB") 104, Revenue Recognition, which is discussed in the subsection Revenue Recognition in Note 1. Summary of Significant Accounting Policies of Notes to Condensed Consolidated Financial Statements in Part I, Item 1 of this Report. Substantially all of our software licenses are perpetual licenses under which the customer acquires the perpetual right to use the software as provided and subject to the conditions of the license agreement. We recognize revenue when persuasive evidence of an arrangement exists, delivery has occurred, the fee is fixed or determinable, and collection is probable. In applying these criteria to revenue transactions, we must exercise judgment and use estimates to determine the amount of software, maintenance, and professional services revenue to be recognized at each period.

We assess whether fees are fixed or determinable prior to recognizing revenue. We must make interpretations of our customer contracts and exercise judgments in determining if the fees associated with a license arrangement are fixed or determinable. We consider factors including extended payment terms, financing arrangements, the category of customer (end-user customer or reseller), rights of return or refund, and our history of enforcing the terms and conditions of customer contracts. If the fee due from a customer is not fixed or determinable due to extended payment terms, revenue is recognized when payment becomes due or upon cash receipt, whichever is earlier. If we determine that a fee due from a reseller is not fixed or determinable upon shipment to the reseller, we do not recognize the revenue until the reseller provides us with evidence of sell-through to an end-user customer and/or upon cash receipt. Further, we make judgments in determining the collectibility of the amounts due from our customers that could possibly impact the timing of revenue recognition. We assess credit worthiness and collectibility, and when a customer is not deemed credit worthy, revenue is recognized when payment is received.

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

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

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

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

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

Facilities Restructuring Charges

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

These liabilities include management's estimates pertaining to sublease activities. Inherent in the assessment of the costs related to our restructuring efforts are estimates related to the probability weighted outcomes of the significant actions to accomplish the restructuring. We will continue to evaluate the commercial real estate market conditions periodically to determine if our estimates of the amount and timing of future sublease income are reasonable based on current and expected commercial real estate market conditions. Our estimates of sublease income may vary significantly depending, in part, on factors that may be beyond our control, such as the global economic downturn, time periods required to locate and contract suitable subleases, and market rates at the time of subleases. Currently, we have subleased our excess facilities in connection with our 2004 and 2001 facilities restructuring but for durations that are generally less than the remaining lease terms.

If we determine that there is a change in the estimated sublease rates or in the expected time it will take us to sublease our vacant space, we may incur additional restructuring charges in the future and our cash position could be adversely affected. See Note 9. Facilities Restructuring Charges, of Notes to Condensed Consolidated Financial Statements in Part I, Item 1 of this Report. Future adjustments to the charges could result from a change in the time period that the buildings will be vacant, expected sublease rates, expected sublease terms, and the expected time it will take to sublease.

Accounting for Income Taxes

We use the asset and liability method of accounting for income taxes in accordance with Statement of Financial Accounting Standard ("SFAS") No. 109, Accounting for Income Taxes ("SFAS No. 109"). Under this method, income tax expenses or benefits are recognized for the amount of taxes payable or refundable for the current year and for deferred tax liabilities and assets for the future tax consequences of events that have been recognized in our condensed consolidated financial statements or tax returns. Effective January 1, 2007, we adopted Financial Accounting Standards Board Interpretation No. 48, Accounting for Uncertainties in Income Taxes – an Interpretation of FASB Statement 109 ("FIN No. 48") to account for any income tax contingencies. The measurement of current and deferred tax assets and liabilities is based on provisions of currently enacted tax laws. The effects of any future changes in tax laws or rates have not been taken into account.

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

In assessing the need for any additional valuation allowance in the quarter ended June 30, 2009, we considered all the evidence available to us, both positive and negative, including historical levels of income, legislative developments, expectations and risks associated with estimates of future taxable income, and ongoing prudent and feasible tax planning strategies.

As a result of this analysis for the quarter ended June 30, 2009, it was considered more likely than not that our non-share-based related deferred tax assets would be realized. As such, the remaining valuation allowance is primarily related to our share-based compensation deferred tax assets. The benefit of these deferred tax assets will be recorded in the stockholders' equity as realized, and as such, they will not impact our effective tax rate.

Accounting for Impairment of Goodwill

We assess goodwill for impairment in accordance with SFAS No. 142, Goodwill and Other Intangible Assets (“SFAS No. 142”), which requires that goodwill be tested for impairment at the “reporting unit level” (“Reporting Unit”) at least annually and more frequently upon the occurrence of certain events, as defined by SFAS No. 142. Consistent with our determination that we have only one reporting segment, we have determined that there is only one Reporting Unit. We tested goodwill for impairment in our annual impairment test on October 31, 2008, using the two-step process required by SFAS No. 142. First, we review the carrying amount of the Reporting Unit compared to the “fair value” of the Reporting Unit based on quoted market prices of our common stock. Second, if such comparison reflects potential impairment, we would then perform the discounted cash flow analyses. These analyses are based on cash flow assumptions that are consistent with the plans and estimates being used to manage our business. An excess carrying value to fair value would indicate that goodwill may be impaired. Finally, if we determine that goodwill may be impaired, then we would compare the “implied fair value” of the goodwill, as defined by SFAS No. 142, to its carrying amount to determine the impairment loss, if any.

Table of Contents

We determined in our annual impairment test on October 31, 2008 that the fair value of the Reporting Unit exceeded the carrying amount and, accordingly, goodwill had not been impaired. Assumptions and estimates about future values and remaining useful lives are complex and often subjective. They can be affected by a variety of factors, including external factors such as industry and economic trends and internal factors such as changes in our business strategy and our internal forecasts. Although we believe the assumptions and estimates we have made in the past have been reasonable and appropriate, different assumptions and estimates could materially impact our reported financial results.

Accounting for impairment of goodwill has been impacted by certain elements of SFAS No. 157, Fair Value Measurements, related to FASB Staff Position No. 157-2 for non-financial assets and liabilities, which became effective for fiscal years and interim periods within those fiscal years, beginning on or after December 15, 2008.

Acquisitions

In accordance with SFAS No. 141(R), Business Combinations, we are required to allocate the purchase price of acquired companies to the tangible and intangible assets acquired, liabilities assumed, as well as to in-process research and development (IPR&D) based on their estimated fair values at the acquisition date. The purchase price allocation process requires management to make significant estimates and assumptions, especially at the acquisition date with respect to intangible assets, support obligations assumed, estimated restructuring liabilities, and pre-acquisition contingencies.

A number of events could potentially affect the accuracy of our assumptions and estimates. Although we believe the assumptions and estimates that we have made are reasonable and appropriate, nevertheless a level of uncertainty is inherent in all such decisions. The following are some of the examples of critical accounting estimates that we have applied in our acquisitions:

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

In connection with the purchase price allocations for our acquisitions, we estimate the fair value of the support obligations assumed. The estimated fair value of the support obligations is determined utilizing a cost build-up approach. The cost build-up approach determines fair value by estimating the costs related to fulfilling the obligations plus a normal profit margin. The estimated costs to fulfill the support obligations are based on the historical direct costs related to providing the support services and to correct any errors in the software products acquired. The sum of these costs and operating profit approximates, in theory, the amount that we would be required to pay a third party to assume the support obligation. We do not include any costs associated with selling efforts or research and development or the related fulfillment margins on these costs. Profit associated with any selling efforts is excluded because the acquired entities would have concluded those selling efforts on the support contracts prior to the acquisition date. We also do not include the estimated research and development costs to provide product upgrades on a "when and if available to" basis in our fair value determinations, as these costs are not deemed to represent a legal

obligation at the time of acquisition.

Accounting for business combinations has been impacted by SFAS No. 141(R). Under the new accounting pronouncement, we expense transaction costs and restructuring expenses related to the acquisition as incurred. In contrast, previously pursuant to SFAS No. 141, Business Combinations, we treated transaction costs and restructuring expenses as part of the cost of the acquired business, thus effectively capitalizing those amounts within the basis of the acquired assets. Further, pursuant to SFAS No. 141(R), we identify pre-acquisition contingencies and determine their respective fair values as of the end of the purchase price allocation period. We will adjust the amounts recorded as pre-acquisition contingencies in our operating results in the period in which the adjustment is determined. Furthermore, any adjustment applicable to acquisition related tax contingencies estimates as part of FIN No. 48, which was made prior to adoption of SFAS No. 141(R), will be reflected in our operating results in the period in which the adjustment is determined. Moreover, we identify the in-process research and development costs and determine their respective fair values and

Table of Contents

reflect them as part of the purchase price allocation. In-process research and development costs, under the new guidance, meet the definition of asset and we classify them as an indefinite lived intangible asset until the asset is put to use or deemed to be impaired.

Share-Based Payments

We account for share-based payments related to share-based transactions in accordance with the provisions of SFAS No. 123(R). Under the fair value recognition provisions of SFAS No. 123(R), share-based payment is estimated at the grant date based on the fair value of the award and is recognized as an expense ratably on a straight line basis over its requisite service period. It requires a certain amount of judgment to select the appropriate fair value model and calculate the fair value of share-based awards, including estimating stock price volatility and expected life. Further, estimates of forfeiture rates could shift the share-based payments from one period to the next.

We have estimated the expected volatility as an input into the Black-Scholes-Merton valuation formula when assessing the fair value of options granted. Our current estimate of volatility was based upon a blend of average historical and market-based implied volatilities of our stock price that we have used consistently since the adoption of SFAS No. 123(R) in 2006. Our volatility rates were 42% and 46% for the three and six months ended June 30, 2009, compared to 38% for both the three and six months ended June 30, 2008. The increase in volatility rates was due to an increase in the fluctuations of our stock price during 2009. To the extent that the volatility rate in our stock price increases in the future, our estimates of the fair value of options granted will increase accordingly. We do not expect that changes in the volatility rates will impact our future share-based payments materially due to the limited amount of recent option grants.

We derived our expected life of the options that we granted in 2009 from the historical option exercises, post-vesting cancellations, and estimates concerning future exercises and cancellations for vested and unvested options that remain outstanding. We increased our expected life estimate from 3.3 years in 2008 to 3.6 years in 2009. The higher expected life of options was mainly due to lower exercises in 2008 by our executive officers and other key employees. We do not expect that changes in the expected life will impact our future share-based payments materially due to the limited amount of recent option grants.

In addition, we apply an expected forfeiture rate in determining the amount of share-based payments. Our estimate of the forfeiture rate is based on an average of actual forfeited options granted to new employees for the past four quarters. We lowered our forfeiture rate, for the quarter ended March 31, 2009, from 10% to 8%, which increased our share-based payments in the first quarter of 2009 by approximately $177,000. The forfeiture rate for the quarter ended June 30, 2009 remained unchanged from the first quarter of 2009.

We have granted Restricted Stock Units (“RSUs”) to our executive officers, certain employees, and directors during the first and second quarters of 2009. We have recorded the share-based payment for RSUs net of the 10% forfeiture estimate. We estimate our forfeiture rate for RSUs based on an average of actual forfeited option awards for the past four quarters.

We believe that the estimates that we have used for the calculation of the variables to arrive at share-based payments are accurate. We will, however, continue to monitor the historical performance of these variables and will modify our methodology and assumptions in the future as needed.

Allowances for Doubtful Accounts

We establish allowances for doubtful accounts based on our review of credit profiles of our customers, contractual terms and conditions, current economic trends and historical payment, and return and discount experiences. We

reassess the allowances for doubtful accounts each quarter. However, unexpected events or significant future changes in trends could result in a material impact to our future statements of operations and of cash flows. Our allowance for doubtful accounts at June 30, 2009 and December 31, 2008 was $3.1 million and $2.6 million, respectively.

Recent Accounting Pronouncements

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

Table of Contents

Results of Operations

The following table presents certain financial data for the three and six months ended June 30, 2009 and 2008 as a percentage of total revenues:

	Three Months Ended June 30, 2009		Three Months Ended June 30, 2008		Six Months Ended June 30, 2009		Six Months Ended June 30, 2008	
Revenues:								
License	42	%	43	%	41	%	43	%
Service	58		57		59		57	
Total revenues	100		100		100		100	
Cost of revenues:								
License	1		1		1		1	
Service	16		19		16		19	
Amortization of acquired technology	1		1		1		1	
Total cost of revenues	18		21		18		21	
Gross profit	82		79		82		79	
Operating expenses:								
Research and development	16		16		16		17	
Sales and marketing	40		40		39		41	
General and administrative	9		8		10		8	
Amortization of intangible assets	2		1		2		—	
Facilities restructuring charges	1		1		1		1	
Purchased in-process research and development	—		—		—		—	
Total operating expenses	68		66		68		67	
Income from operations	14		13		14		12	
Interest income	1		3		1		4	
Interest expense	(1	)	(2	)	(1	)	(2	)
Other income (expense), net	—		—		—		—	
Income before provision for income taxes	14		14		14		14	
Provision for income taxes	4		4		4		4	
Net income	10	%	10	%	10	%	10	%

Revenues

Our total revenues increased to $117.3 million for the three months ended June 30, 2009 from $113.8 million for the three months ended June 30, 2008, representing an increase of $3.5 million (or 3%). Total revenues increased to $226.4 million for the six months ended June 30, 2009 from $217.5 million for the six months ended June 30, 2008, representing an increase of $8.9 million (or 4%).

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

	Three Months Ended June 30, 2009	Three Months Ended June 30, 2008	Change		Six Months Ended June 30, 2009	Six Months Ended June 30, 2008	Change	
License revenues	$48,730	$48,523	—	%	$92,789	$92,732	—	%
Service revenues:								
Maintenance	51,837	45,475	14	%	101,028	86,890	16	%

Consulting and education	16,777	19,762	(15	)%	32,585	37,848	(14	)%
Total service revenues	68,614	65,237	5	%	133,613	124,738	7	%
	$117,344	$113,760	3	%	$226,402	$217,470	4	%

License Revenues

Our license revenues were essentially flat at $48.7 million (or 42% of total revenues) for the three months ended June 30, 2009, compared to $48.5 million (or 43% of total revenues) for the three months ended June 30, 2008., and similarly remained flat at $92.8 million (or 41% of total revenues) for the six months ended June 30, 2009, compared to $92.7 million (or 43% of total revenues) for

Table of Contents

the six months ended June 30, 2008. Our license revenues for the first half of 2009 reflected the impact of the global economic recession with longer sales cycles, tight corporate budgets, and customers cautiousness in making capital expenditures.

We have two types of upgrades: (1) upgrades that are not part of the post-contract services for which we charge customers an additional fee, and (2) upgrades that are part of the post-contract services that we provide to our customers at no additional charge, when and if available. The average transaction amount for orders greater than $100,000 in the second quarter of 2009, including upgrades, for which we charge customers an additional fee, increased to $344,000 from $310,000 in the second quarter of 2008. The average transaction amount for orders greater than $100,000 in the six-month period ended June 30, 2009, including upgrades, for which we charge customers an additional fee, increased to $320,000 from $305,000 in the comparative six-month period in 2008, The number of transactions greater than $1.0 million increased to nine in the second quarter of 2009 from six in the second quarter of 2008. The number of transactions greater than $1.0 million increased to eleven in the six-month period ended June 30, 2009 from nine in the comparative six-month period in 2008.

Services Revenues

Maintenance Revenues

Maintenance revenues increased to $51.8 million (or 44% of total revenues) for the three months ended June 30, 2009, compared to $45.5 million (or 40% of total revenues) for the three months ended June 30, 2008. The $6.3 million (or 14%) increase in the three months ended June 30, 2009, compared to the same period in 2008, was primarily due to the increasing size of our customer base. Maintenance revenues increased to $101.0 million (or 45% of total revenues) for the six months ended June 30, 2009, compared to $86.9 million (or 40% of total revenues) for the six months ended June 30, 2008. The $14.1 million (or 16%) increase in the six months ended June 30, 2009, compared to the same period in 2008, was primarily due to an increase in the size of our customer base.

For the remainder of 2009, based on our growing installed customer base, we expect maintenance revenues to increase from the comparable 2008 levels.

Consulting and Education Services Revenues

Consulting and education services revenues decreased to $16.8 million (or 14% of total revenues) for the three months ended June 30, 2009, compared to $19.8 million (or 17% of total revenues) for the three months ended June 30, 2008. The $3.0 million (or 15%) decrease in the three months ended June 30, 2009, compared to the same period in 2008, was primarily due to lower demand for our consulting and education services in North America and Europe. Consulting and education revenues decreased to $32.6 million (or 14% of total revenues) for the six months ended June 30, 2009, compared to $37.8 million (or 17% of total revenues) for the six months ended June 30, 2008. The $5.2 million (or 14%) decrease in the six months ended June 30, 2009, compared to the same period in 2008, was primarily due to our customers' trend toward deferring spending and reducing training and consulting budgets.

For the remainder of 2009, we expect our revenues from consulting and education services to remain the same or possibly decline slightly compared to the same compared in 2008.

International Revenues

Our international revenues were $39.7 million (or 34% of total revenues) and $35.5 million (or 31% of total revenues) for the three months ended June 30, 2009 and 2008, respectively. The $4.2 million (or 12%) increase for the three months ended June 30, 2009, compared to the same period in 2008, was primarily due to an increase in international

license revenues in Europe, Japan, and Latin America and growth in service revenues as a result of a larger and growing installed customer base. International revenues were $77.0 million (or 34% of total revenues) for the six months ended June 30, 2009, compared to $69.9 million (or 32% of total revenues) for the six months ended June 30, 2008. The $7.1 million (or 10%) increase for the six months ended June 30, 2009, compared to the same period in 2008, was primarily due to an increase in international license and service revenues in Asia Pacific and Latin America and as a result of a larger and growing installed base.

For the remainder of 2009, we expect the amount of international revenues, as a percentage of total revenues, to be relatively consistent with 2008.

Table of Contents

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

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

We typically ship products shortly after the receipt of an order, which is common in the software industry, and historically our backlog of license orders awaiting shipment at the end of any given quarter has varied. However, our backlog typically decreases from the prior quarter at the end of the first and third quarters, remains relatively flat with some variation at the end of the second quarter, and increases at the end of the fourth quarter although the increase was less pronounced at the end of 2008. Aggregate backlog and deferred revenues were approximately $142.1 million at June 30, 2009, compared to $139.5 million at June 30, 2008, and $148.1 million at December 31, 2008. Aggregate backlog and deferred revenues as of any particular date are not necessarily indicative of our 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 June 30,			Six Months Ended June 30,		
	2009	2008	Change	2009	2008	Change
Cost of license revenues	$628	$897	(30)%	$1,376	$1,590	(13)%
Cost of service revenues	18,374	21,380	(14)%	36,846	41,165	(10)%
Amortization of acquired technology	1,859	951	95%	3,416	1,571	117%
Total cost of revenues	$20,861	$23,228	(10)%	$41,638	$44,326	(6)%
Cost of license revenues, as a percentage of license revenues	1%	2%	(1)%	1%	2%	(1)%
Cost of service revenues, as a percentage of service revenues	27%	33%	(6)%	28%	33%	(5)%

Cost of License Revenues

Our cost of license revenues consists primarily of software royalties, product packaging, documentation, and production costs. Cost of license revenues decreased slightly to $0.6 million (or 1% of license revenues) for the three-month periods ended June 30, 2009 from $0.9 million (or 2% of license revenues) for the same period in 2008. Cost of license revenues decreased slightly to $1.4 million (or 1% of license revenues) for the six months ended June 30, 2009 from $1.6 million (or 2% of license revenues) for the six months ended June 30, 2008. The decrease of $0.3 million (or 30%) and $0.2 million (or 13%) in cost of license revenues for the three and six months ended June 30, 2009, compared to the same periods in 2008, was due to the smaller proportion of royalty based products being shipped in the first half of 2009.

For the remainder of 2009, we expect the cost of license revenues, as a percentage of license revenues, to be relatively consistent with the first two quarters of 2009.

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 decreased to $18.4 million (or 27% of services revenues) for the three months ended June 30, 2009 from $21.4 million (or 33% of service revenues) for the three months ended June 30, 2008. The $3.0 million (or 14%) decline was primarily due to a $1.7 million reduction in personnel related costs and a $0.7 million reduction in subcontractor fees. Cost of service revenues decreased to

Table of Contents

$36.8 million (or 28% of service revenues) for the six months ended June 30, 2009 from $41.2 million (or 33% of service revenues) for the six months ended June 30, 2008. The decrease of $4.4 million (or 10%) for the six months ended June 30, 2009, compared to the same period in 2008, was primarily due to a $2.0 million reduction in personnel related costs and a $1.4 million reduction in subcontractor fees.

For the remainder of 2009, we expect our cost of service revenues, as a percentage of service revenues, to be relatively consistent with the first two quarters of 2009.

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 June 30,			Six Months Ended June 30,		
	2009	2008	Change	2009	2008	Change
Amortization of acquired technology	$1,859	$951	95 %	$3,416	$1,571	117 %

Amortization of acquired technology is the amortization of technologies acquired through business acquisitions and technology licenses. Amortization of acquired technology increased to $1.9 million for the three months ended June 30, 2009, compared to $1.0 million for the three months ended June 30, 2008. Amortization of acquired technology increased to $3.4 million for the six months ended June 30, 2009, compared to $1.6 million for the six months ended June 30, 2008. The increases of $0.9 million (or 95%) and $1.8 million (or 117%) for the three and six months ended June 30, 2009, respectively compared to the same periods in the prior year, are the result of amortization of certain technologies that we acquired in May 2008, October 2008, February 2009, and June 2009 in connection with the acquisitions of Identity Systems, PowerData, Applimation, and AddressDoctor, respectively.

For the remainder of 2009, we expect amortization of other acquired technology to be approximately $3.8 million before the effect of any future acquisitions subsequent to June 30, 2009.

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 June 30,			Six Months Ended June 30,		
	2009	2008	Change	2009	2008	Change
Research and development	$18,928	$18,497	2 %	$37,111	$36,221	2 %

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, the enhancement and localization of existing products, and quality assurance and development of documentation for our products. Our research and development expenses increased slightly to $18.9 million (or 16% of total revenues) and $37.1 million (or 16% of total revenues) for the three and six months ended June 30, 2009, respectively, up from $18.5 million (or

16% of total revenues) and $36.2 million (or 17% of total revenues) for the same periods in 2008. The increase of $0.4 million for the three months ended June 30, 2009 compared to the same period in 2008, was due to a $0.9 million increase in personnel-related costs, as a result of a headcount increase from 415 in June 2008 to 490 in June 2009 partially offset by a reduction of $0.5 million in overhead costs. The increase of $0.9 million for the six months ended June 30, 2009 compared to the same period in 2008, was due to a $2.1 million increase in personnel related costs partially offset by a $0.9 million reduction in overhead costs. All software and development costs have been expensed in the period incurred because the costs incurred subsequent to the establishment of technological feasibility have not been significant. The research and development expenses as percentage of total revenues declined by 1% for the six months ended June 30, 2009, compared to the same period in 2008, mainly due to implementation of certain cost containment programs as well as the benefits of scale as our revenues have increased proportionately more than our research and development expenses.

For the remainder of 2009, we expect research and development expenses, as a percentage of total revenues, to be relatively consistent with or slightly decrease from the first two quarters of 2009.

Sales and Marketing

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

	Three Months Ended June 30,			Six Months Ended June 30,		
	2009	2008	Change	2009	2008	Change
Sales and marketing	$46,444	$45,966	1 %	$87,882	$88,753	(1)%

Our sales and marketing expenses consist primarily of personnel costs, including commissions, as well as costs of public relations, seminars, marketing programs, lead generation, travel, and trade shows. Sales and marketing expenses slightly increased to $46.4 million (or 40% of total revenues) for the three months ended June 30, 2009 from $46.0 million (or 40% of total revenues) for the three months ended June 30, 2008. The $0.4 million (or 1%) increase for the three months ended June 30, 2009, compared to the same period in 2008, was primarily due to a $0.3 million increase in personnel related costs. Sales and marketing expenses decreased to $87.9 million (or 39% of total revenues) for the six months ended June 30, 2009 from $88.8 million (or 41% of total revenues) for the six months ended June 30, 2008. The decrease of $0.9 million (or 1%) for the six months ended June 30, 2009, compared to the same period in 2008, was primarily due to a $1.9 million decrease in personnel related costs driven by a significant reduction in travel and entertainment expense partially offset by a $0.5 million increase in outside services. The sales and marketing expenses as a percentage of total revenues declined by 2 percentage points for the six months ended June 30, 2009, compared to the same period in 2008, mainly due to implementation of certain cost containment programs as well as benefits of scale, as our revenues have increased proportionately more than our sales and marketing expenses.

For the remainder of 2009, we expect sales and marketing expenses, as a percentage of total revenues, to be relatively consistent with or slightly decrease from the first two quarters of 2009.

General and Administrative

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

	Three Months Ended June 30,			Six Months Ended June 30,		
	2009	2008	Change	2009	2008	Change
General and administrative	$10,995	$9,146	20 %	$21,801	$17,515	24 %

Our general and administrative expenses consist primarily of personnel costs for finance, human resources, legal, and general management, as well as professional service expenses associated with recruiting, legal, and accounting services. General and administrative expenses increased to $11.0 million (or 9% of total revenues) for the three months ended June 30, 2009, compared to $9.1 million (or 8% of total revenues) for the three months ended June 30, 2008. The $1.9 million (or 20%) increase in general and administrative expenses was primarily due to a $1.7 million increase in outside services as a result of legal fees for patent litigation and acquisition related costs. General and administrative expenses increased to $21.8 million (or 10% of total revenues) for the six months ended June 30, 2009, compared to $17.5 million (or 8% of total revenues) for the six months ended June 30, 2008. The increase of $4.3 million (or 24%) for the six months ended June 30, 2009, compared to the same period in 2008, was primarily due to an increase of $3.7 million in outside services as a result of legal fees for patent litigation and acquisition related costs.

For the remainder of 2009, we expect general and administrative expenses, as a percentage of total revenues to fluctuate depending on the level of litigation expenses and acquisitions costs.

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 June 30,			Six Months Ended June 30,		
	2009	2008	Change	2009	2008	Change
Amortization of intangible assets	$2,434	$993	145%	$4,485	$1,355	231%

Amortization of intangible assets is the amortization of customer relationships and vendor relationships acquired, trade names, and covenants not to compete through prior business acquisitions. Amortization of intangible assets increased to $2.4 million and $4.5 million for the three and six months ended June 30, 2009, respectively, from $1.0 million and $1.4 million for the three and six months

42

ended June 30, 2008, respectively. The increase of $1.4 million (or 145%) and $3.1 million (or 231%) for the three and six months ended June 30, 2009, respectively, compared to the same periods in 2008 are the result of amortization of intangibles that we acquired in May and October 2008, and February and June 2009 in connection with the Identity Systems, Inc., PowerData, Applimation, Inc., and AddressDoctor acquisitions, respectively.

For the remainder of 2009, we expect amortization of the remaining intangible assets to be approximately $5.2 million before the impact of any amortization for any possible intangible assets acquired as part of the pending or any future acquisitions subsequent to June 30, 2009.

Facilities Restructuring Charges

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

	Three Months Ended June 30,			Six Months Ended June 30,		
	2009	2008	Change	2009	2008	Change
Facilities restructuring charges	$595	$921	(35)%	$1,404	$1,868	(25)%

For the three and six months ended June 30, 2009, we recorded $0.6 million and $1.4 million of restructuring charges from accretion charges related to the 2004 Restructuring Plan, respectively. Comparatively, for the three and six months ended June 30, 2008, we recorded $0.9 million and $1.9 million of restructuring charges from accretion charges related to the 2004 Restructuring Plan, respectively.

As of June 30, 2009, $59.5 million of total lease termination costs, net of actual and expected sublease income, less broker commissions and tenant improvement costs related to facilities to be subleased, was included in accrued restructuring charges and is expected to be paid by 2013.

2004 Restructuring Plan

Net cash payments related to the consolidation of excess facilities under the 2004 Restructuring Plan amounted to $2.7 million and $3.3 million for the three months ended June 30, 2009 and 2008, respectively, and $5.6 million and $5.3 million for the six months ended June 30, 2009 and 2008, respectively. Actual future cash requirements may differ from the restructuring liability balances as of June 30, 2009 if there are changes to the time period that facilities are expected to be vacant or if the actual sublease income differs from our current estimates

2001 Restructuring Plan

Net cash payments related to the consolidation of excess facilities under the 2001 Restructuring Plan amounted to $0.3 million and $0.4 million for the three months ended June 30, 2009 and 2008, respectively, and $0.7 million for both of the six-month periods ended June 30, 2009 and 2008. Actual future cash requirements may differ from the restructuring liability balances as of June 30, 2009 if there are changes to the time period that facilities are vacant or the actual sublease income is different from current estimates.

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

Report.

Table of Contents

Interest Income, Expense, and Other

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

	Three Months Ended June 30,			Six Months Ended June 30,		
	2009	2008	Change	2009	2008	Change
Interest income	$1,566	$3,650	(57)%	$3,356	$8,507	(61)%
Interest expense	(1,581)	(1,799)	(12)%	(3,252)	(3,601)	(10)%
Other income (expense), net	8	(86)	(109)%	775	417	86%
	$(7)	$1,765	(100)%	$879	$5,323	(83)%

Interest income, expense, and other consist primarily of interest income earned on our cash, cash equivalents, short-term investments, and restricted cash; as well as foreign exchange transaction gains and losses and, to a lesser degree, interest expense. The decrease of $1.8 million (or 100%) in the three months ended June 30, 2009, compared to the same period in 2008, was primarily due to a $2.1 million decrease in interest income due to lower investment yields. The decrease of $4.4 million (or 83%) in the six months ended June 30, 2009, compared to the same period in 2008, was primarily due to a $5.2 million decrease in interest income due to lower investment yields which was partially offset by a $0.3 million gain on early extinguishment of debt.

We expect lower interest income in the future if the current depressed yields in the credit market continue or decline in the future.

In 2003, we made a minority equity investment in a privately held company that was carried at a cost basis of $0.5 million and was included in other assets. We evaluated this investment in December 2004 and determined that the carrying value of this investment was impaired. In December 2007, this privately held company was acquired, and as a result of this acquisition, we received $125,000 and $883,700 cash proceeds for its share in the equity of the company in 2008 and 2007, respectively. We have recorded these amounts as other income for the years ended December 31, 2008 and 2007.

Income Tax Provision

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

	Three Months Ended June 30,			Six Months Ended June 30,		
	2009	2008	Change	2009	2008	Change
Provision for income taxes	$5,091	$4,881	4%	$9,912	$9,638	3%
Effective tax rate	30%	30%	—%	30%	30%	—%

Our effective tax rates were 30% for both of the three-month and six-month periods ended June 30, 2009 and 2008. The effective tax rates differed from the federal statutory rate of 35% primarily due to benefits of certain earnings from operations in lower-tax jurisdictions throughout the world, the recognition of current year research and development credits and previously unrealized foreign tax credits offset by compensation expense related to non-deductible share-based payments, and agreed upon audit assessments with the Internal Revenue Service, as well as the accrual of reserves related to uncertain tax positions. We have not provided for residual U.S. taxes in any of these lower-tax jurisdictions since we intend to indefinitely reinvest these earnings offshore.

In assessing the need for any additional valuation allowance in the quarter ended June 30, 2009, 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 June 30, 2009, consistent with prior quarters it was considered more likely than not that our non share-based-payment related deferred tax assets would be realized. As a result, the remaining valuation allowance is primarily related to our share-based payments deferred tax assets. The benefit of these deferred tax assets will be recorded in the stockholders' equity as realized, and as such, they will not impact our effective tax rate.

The unrecognized tax benefits related to FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes, an Interpretation of FASB Statement 109, if recognized, would impact the income tax provision by $10.0 million and $6.8 million as of June 30, 2009 and 2008, respectively. The unrecognized tax benefits were $11.3 million and $20.2 million as of June 30, 2009 and December 31, 2008, respectively. The change was primarily due to the agreement with the Internal Revenue Service on certain audit

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Table of Contents

issues, the expiration of certain statute of limitations and the accrual for uncertain tax positions. We have elected to include interest and penalties as a component of tax expense. Accrued interest and penalties in the three months ended June 30, 2009 and 2008 were approximately $0.3 million and $0.5 million, respectively.

We file U.S. federal income tax returns as well as income tax returns in various states and foreign jurisdictions. We were under examination by the Internal Revenue Service for fiscal years 2005 and 2006. Due to net operating loss carry-forwards, substantially all of our tax years remained open for tax examination. During the three months ended June 30, 2009, we reached an agreement with the Internal Revenue Service to settle certain matters, including cost sharing and buy-in amounts for tax years ended December 31, 2001 through 2006. The tax provision impact as a result of the settlement was $7.0 million of which $6.1 million was accrued for previously.

We have been informed by certain state and foreign taxing authorities that we were selected for examination. Most state and foreign jurisdictions have three or four open tax years at any point in time. The field work for certain state audits has commenced and is at various stages of completion as of June 30, 2009.

Although the outcome of any tax audit is uncertain, we believe that we have adequately provided in our financial statements for any additional taxes that we may be required to pay as a result of such examinations. We regularly assess the likelihood of outcomes resulting from these examinations to determine the adequacy of our provision for income taxes, and believe our 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 we determined such liabilities were no longer necessary. However, if an ultimate tax assessment exceeds our estimate of tax liabilities, an additional tax provision might be required.

Our statutory tax rate of 35% is generally affected by lower tax rates in applicable foreign jurisdictions, accrual of reserves related to uncertain tax positions, domestic tax credits and discrete items such as the results of tax audits. We expect to maintain an effective tax rate before discrete items in the near term similar to the rate in the second quarter of 2009; however, this rate is highly dependent on our geographic mix of earnings. In addition, our overall effective tax rate may be impacted by discrete items such as the results of tax audits.

Liquidity and Capital Resources

We have funded our operations primarily through cash flows from operations and public offerings of our common stock in the past. As of June 30, 2009, we had $421.3 million in available cash and cash equivalents and short-term investments. Our primary sources of cash are the collection of accounts receivable from our customers and proceeds from the exercise of stock options and stock purchased under our employee stock purchase plan. Our uses of cash include payroll and payroll-related expenses and operating expenses such as marketing programs, travel, professional services, and facilities and related costs. We have also used cash to purchase property and equipment, repurchase common stock from the open market to reduce the dilutive impact of stock option issuances, repurchase our Convertible Senior Notes, and acquire businesses and technologies to expand our product offerings.

Operating Activities: Cash provided by operating activities for the six months ended June 30, 2009 was $32.0 million, representing a decline of $9.8 million from the six months ended June 30, 2008 for $41.8 million. This decline was primarily due to an increase in accounts receivable for $16.3 million offset by an increase of $6.1 million in deferred revenues and additional increases in accounts payable and liabilities.

We were able to recognize $1.4 million and $4.4 million in excess tax benefits from share-based payments during the six months ended June 30, 2009 and 2008, respectively. These amounts were recorded as a use of operating activities and the offsetting amounts were recorded as a provision by financing activities. We made cash payments for taxes in

different jurisdictions for $7.3 million and $21.5 million during the six months ended June 30, 2009 and 2008, respectively.

Our “Days Sales Outstanding” in accounts receivable increased from 50 days at June 30, 2008 to 61 days at June 30, 2009 due to higher amount of billings occurred during the last month of the second quarter of 2009 compared to 2008, higher international sales, and customers’ slower payment patterns as a result of general macro economic conditions. Cash provided by operating activities for the six months ended June 30, 2008 was $41.8 million, representing an increase of $7.8 million from the six months ended June 30, 2007. This increase primarily resulted from $3.2 million increase in net income, after adjusting for non-cash expenses, an increase in cash collections against accounts receivable, and an increase in accounts payable, offset by payments to reduce our accrual for excess facilities, excess tax benefits from share-based payments, and accrued liabilities. Our operating cash flows will also be impacted in the future by the timing of payments to our vendors and payments for taxes.

Table of Contents

Investing Activities: We acquire property and equipment in the normal course of our 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," based on Statement of Financial Accounting Standards No. 115, Accounting for Certain Investments in Debt and Equity Securities, 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 quality rating of the investment declines, the yield on the investment is no longer attractive, or we need additional cash. Since we invest only in money market funds and short-term marketable securities, we believe that the purchase, maturity, or sale of our investments has no material impact on our overall liquidity. Our revised and more conservative investment strategy has not impacted our 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. In March 2008, we invested $3.0 million in the preferred stock of a privately held company that we will account for on a cost basis. On May 15, 2008, we acquired all of the issued and outstanding shares of Identity Systems, Inc., a Delaware corporation and a wholly-owned subsidiary of Intellisync Corporation, for $85.6 million in cash, including transaction costs of $0.9 million and acquired cash of $5.8 million. On February 13, 2009, we acquired all the capital stock of Applimation, Inc., a privately held company incorporated in Delaware, in a cash merger transaction valued at approximately $37.2 million (including $1.6 million retention bonuses payable three to eighteen months subsequent to acquisition date). Six million dollars of the merger consideration will be placed into an escrow fund and held as security for losses incurred by us in the event of certain breaches of the merger agreement by Applimation. The escrow fund will remain in place until August 13, 2010, although 50% of the escrow funds will be distributed to the Applimation stockholders on February 13, 2010. On June 2, 2009, we acquired all of the capital stock of AddressDoctor for $27.8 million of which $4.5 million is held in an escrow fund as security for losses incurred by us in the event of certain breaches of the merger agreement by AddressDoctor. The escrow fund will remain in place for a period of eighteen months, although 50% of the escrow funds will be paid out twelve months subsequent to the date of acquisition. As part of the acquisition purchase price, we wrote off $250,000 in prepaid royalties to AddressDoctor. Due to the nature of mergers and acquisitions, it is difficult to predict the amount and timing of cash requirements to complete such transactions. We may be required to raise additional financing to complete future acquisitions.

As of June 2008, we are no longer required to maintain certificates of deposits for the $12.0 million letter of credit that a financial institution issued in 2001 for our former corporate headquarters leases at the Pacific Shores Center in Redwood City, California. Accordingly, we classified the release of such restricted cash associated with these certificates of deposits from investing activities to operating activities.

Financing Activities: We receive cash from the exercise of common stock options and the sale of common stock under our employee stock purchase plan ("ESPP"). Net cash used in financing activities for the six months ended June 30, 2009 was $13.1 million due to the repurchases and retirement of our Convertible Senior Notes and our common stock for $19.2 million, and $9.0 million, respectively. These amounts were partially offset by the proceeds we received from the issuance of common stock to option holders and to participants of our ESPP program in the amount of $13.8 million, as well as, $1.4 million of excess tax benefits from share-based payments. Net cash provided by financing activities for the six months ended June 30, 2008 was $7.3 million due to the issuance of common stock to option holders and to participants of our ESPP program for $18.8 million, and $4.4 million of excess tax benefits from share-based payments which were partially offset by a $15.8 million repurchase and retirement of common stock. Although we expect to continue to receive some proceeds from the issuance of common stock to option holders and participants of ESPP in future periods, the timing and amount of such proceeds are difficult to predict and are

contingent on a number of factors, including the price of our common stock, the number of employees participating in our stock option plans and our employee stock purchase plan, and overall market conditions.

In March 2006, we issued and sold Convertible Senior Notes (“Notes”) with an aggregate principal amount of $230 million due in 2026. We used approximately $50 million of the net proceeds from the offering to fund the purchase of 3,232,000 shares of our common stock concurrently with the offering of the Notes. We intend to use the balance of the net proceeds for working capital and general corporate purposes, which may include the acquisition of businesses, products, product rights or technologies, strategic investments, or additional purchases of common stock or Convertible Senior Notes.

In April 2006, our Board of Directors authorized a stock repurchase program of up to $30 million of our common stock at any time until April 2007. As of April 30, 2007, we repurchased 2,238,000 shares of our common stock for $30 million. In April 2007, our Board of Directors authorized an additional repurchase of $50 million of our common stock under the existing stock repurchase

Table of Contents

program. As of March 31, 2008, we repurchased 2,219,000 shares of our common stock for $33.9 million. We repurchased the remaining 985,000 shares of our common stock for $16.1 million during the six-month period ended September 30, 2008.

Further, in April 2008, our Board of Directors authorized an additional repurchase of $75 million of our common stock under the stock repurchase program. In October 2008, our Board of Directors authorized, under the existing stock repurchase program, the repurchase of a portion of our outstanding Notes due in 2026 in privately negotiated transactions with holders of the Notes. As of December 31, 2008, we repurchased 3,797,000 shares of our stock at a cost of $57.0 million, and we retired $9.0 million of our Convertible Senior Notes at a cost of $7.8 million. During the quarter ended March 31, 2009, we repurchased 457,000 shares of our stock at a cost of $5.9 million, and we retired $20.0 million of our Convertible Senior Notes at a cost of $19.4 million, including $0.2 million accrued interest. During the second quarter ended June 30, 2009, the Company repurchased an additional 203,000 shares of its common stock at a cost of $3.1 million. We have approximately $4.1 million remaining available to repurchase shares of our common stock or Convertible Senior Notes under this program as of June 30, 2009. No repurchase of the Notes was made in the second quarter of 2009.

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

We believe that our cash balances and the cash flows generated by operations will be sufficient to satisfy our anticipated cash needs for working capital and capital expenditures for at least the next twelve months. Given our cash balances, it is less likely but still possible that we may require or desire additional funds for purposes, such as acquisitions, and may raise such additional funds through public or private equity or debt financing or from other sources. Beginning on March 15, 2011 and then upon March 15, 2016, and March 15, 2021, or upon the occurrence of certain events including a change in control, holders of the Notes may require the Company to repurchase all or a portion of their Notes at a purchase price in cash equal to the full principal amount of the Notes plus any accrued and unpaid interest as of the relevant date. If the holders of the Notes require us to repurchase all or a portion of their Notes, we may also be required to raise additional financing to complete future acquisitions.

Contractual Obligations

The following table summarizes our significant contractual obligations, including future minimum lease payments as of June 30, 2009, 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 2009	2010 and 2011	2012 and 2013	2014 and Beyond
Operating lease obligations:					
Operating lease payments	$99,633	$12,937	$46,941	$38,869	$886
Future sublease income	(9,712)	(1,180)	(4,801)	(3,731)	—
Net operating lease obligations	89,921	11,757	42,140	35,138	886
Debt obligations:					

Principal payments (1)	201,000	—	—	—	201,000
Interest payments	102,510	3,015	12,060	12,060	75,375
Other obligations (2)	5,211	693	2,663	1,855	—
	$398,642	$15,465	$56,863	$49,053	$277,261

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

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

Table of Contents

Our contractual obligations at June 30, 2009 include the lease term for our headquarters office in Redwood City, California, which is from December 15, 2004 to December 31, 2013. Minimum contractual lease payments are $2.0 million for the remainder of 2009 and $2.6 million, $3.4 million, $3.5 million, and $3.6 million for the years ending December 31, 2010, 2011, 2012, and 2013, respectively.

The above commitment table does not include approximately $12.7 million of long-term income tax liabilities recorded in accordance with FIN No. 48. We adopted FIN No. 48 effective January 1, 2007. 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.

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 on current information. Timing of payments and actual amounts paid may be different depending on the time of receipt of goods or services or changes to agreed-upon amounts for some obligations.

Operating Leases

We lease certain office facilities and equipment under non-cancelable operating leases. During 2004, we recorded restructuring charges related to the consolidation of excess leased facilities in Redwood City, California. Operating lease payments in the table above include approximately $68.9 million, net of actual sublease income, for operating lease commitments for those facilities that are included in accrued facilities restructuring charges. See Note 9. Facilities Restructuring Charges and Note 12. Commitments and Contingencies, of Notes to Condensed Consolidated Financial Statements in Part I, Item 1 of this Report.

Of these future minimum lease payments, we have $59.5 million recorded in accrued facilities restructuring charges at June 30, 2009. This accrual, in addition to minimum lease payment of $68.9 million, includes estimated operating expenses of $20.6 million, is net of estimated sublease income of $23.4 million, and is net of the present value impact of $6.6 million recorded in accordance with Statement of Financial Accounting Standards Board No. 146, Accounting for Costs Associated with Exit or Disposal Activities (“SFAS No. 146”). We estimated sublease income and the related timing thereof based on existing sublease agreements and current market conditions, among other factors. Our estimates of sublease income may vary significantly from actual amounts realized depending, in part, on factors that may be beyond our control, such as the time periods required to locate and contract suitable subleases and the market rates at the time of such subleases.

In relation to our excess facilities, we may decide to negotiate and enter into lease termination agreements, if and when the circumstances are appropriate. These lease termination agreements would likely require that a significant amount of the remaining future lease payments be paid at the time of execution of the agreement, but would release us

from future lease payment obligations for the abandoned facility. The timing of a lease termination agreement and the corresponding payment could materially affect our cash flows in the period of payment.

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

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

Table of Contents

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

Off-Balance-Sheet Arrangements

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Foreign Currency Exchange Rate Risk

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

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

Cash Flow Hedge Activities

Since the fourth quarter of 2008, we have attempted to minimize the impact of certain foreign currency fluctuations through initiation of certain cash flow hedge programs. The purpose of these programs is to reduce volatility in cash flows and expenses caused by movement in certain foreign currency exchange rates, in particular the Indian rupee and Israeli shekel. Any gains or losses from settling these contracts are offset by the gains or losses derived from the underlying balance sheet exposure upon payment.

The table below presents the notional amounts of the foreign exchange forward contracts that we committed to purchase in the fourth quarter of 2008 for Indian rupees and Israeli shekels, which were still outstanding as of June 30, 2009 (in thousands):