INFORMATICA CORP
Form 10-Q
August 08, 2011
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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, 2011
or
£ Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
Commission File Number: 0-25871

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

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

100 Cardinal Way
Redwood City, California 94063
(Address of principal executive offices and zip code)
(650) 385-5000
(Registrant’s telephone number, including area code)

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer,” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.
Large accelerated filer R Accelerated filer £ Non-accelerated filer £ Smaller reporting company £

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

As of July 29, 2011, there were approximately 106,681,000 shares of the registrant’s Common Stock outstanding.

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PART I: FINANCIAL INFORMATION
ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

INFORMATICA CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands)

	June 30, 2011 (Unaudited)	December 31, 2010
Assets		
Current assets:		
Cash and cash equivalents	$273,040	$208,899
Short-term investments	291,137	262,047
Accounts receivable, net of allowances of $3,675 and $4,289, respectively	125,316	147,534
Deferred tax assets	18,883	22,664
Prepaid expenses and other current assets	39,560	32,321
Total current assets	747,936	673,465
Property and equipment, net	9,719	9,866
Goodwill	423,479	400,726
Other intangible assets, net	73,927	77,927
Long-term deferred tax assets	25,061	18,314
Other assets	6,201	9,343
Total assets	$1,286,323	$1,189,641
Liabilities and Stockholders’ Equity		
Current liabilities:		
Accounts payable	$9,061	$5,948
Accrued liabilities	42,803	50,199
Accrued compensation and related expenses	49,210	56,315
Accrued facilities restructuring charges	19,629	18,498
Deferred revenues	189,668	172,559
Convertible senior notes	—	200,693
Total current liabilities	310,371	504,212
Accrued facilities restructuring charges, less current portion	13,169	20,410
Long-term deferred revenues	6,491	6,987
Long-term deferred tax liabilities	230	311
Long-term income taxes payable	16,324	12,739
Other liabilities	4,872	—
Total liabilities	351,457	544,659
Commitments and contingencies (Note 12)		
Stockholders’ equity:		
Common stock	106	94
Additional paid-in capital	747,688	514,365
Accumulated other comprehensive income (loss)	2,900	(5,530)
Retained earnings	184,172	136,053
Total stockholders’ equity	934,866	644,982
Total liabilities and stockholders’ equity	$1,286,323	$1,189,641

See accompanying notes to condensed consolidated financial statements.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Revenues:				
License	$86,343	$70,016	$157,844	$125,063
Service	106,384	85,645	202,915	165,728
Total revenues	192,727	155,661	360,759	290,791
Cost of revenues:				
License	1,217	1,143	2,658	2,108
Service	29,365	25,041	56,679	48,098
Amortization of acquired technology	4,885	3,616	9,178	6,388
Total cost of revenues	35,467	29,800	68,515	56,594
Gross profit	157,260	125,861	292,244	234,197
Operating expenses:				
Research and development	32,929	26,801	63,516	50,379
Sales and marketing	70,943	60,053	130,525	111,472
General and administrative	13,953	10,865	25,991	22,273
Amortization of intangible assets	1,992	2,355	4,073	5,065
Facilities restructuring charges	476	336	986	992
Acquisitions and other	780	—	(922)	3,649
Total operating expenses	121,073	100,410	224,169	193,830
Income from operations	36,187	25,451	68,075	40,367
Interest income	1,094	849	2,189	1,800
Interest expense	(121)	(1,576)	(1,901)	(3,156)
Other income (expense), net	(548)	33	(1,480)	2,013
Income before income taxes	36,612	24,757	66,883	41,024
Income tax provision	10,402	7,330	18,764	11,803
Net income	$26,210	$17,427	$48,119	$29,221
Basic net income per common share	$0.25	$0.19	$0.47	$0.32
Diluted net income per common share	$0.23	$0.17	$0.43	$0.29
Shares used in computing basic net income per common share	106,014	91,673	101,458	91,213
Shares used in computing diluted net income per common share	113,148	107,959	112,755	107,701

See accompanying notes to condensed consolidated financial statements.

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

	Six Months Ended June 30,	
	2011	2010
Operating activities:		
Net income	$48,119	$29,221
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	2,799	3,279
Allowance for (recovery of) doubtful accounts	(499)	33
Gain on sale of investment in equity interest	—	(1,824)
Stock-based compensation	15,667	11,061
Deferred income taxes	(1,197)	(1,009)
Tax benefits from stock-based compensation	15,421	7,974
Excess tax benefits from stock-based compensation	(15,172)	(6,077)
Amortization of intangible assets and acquired technology	13,251	11,453
Non-cash facilities restructuring charges	986	992
Other non-cash items	(1,702)	384
Changes in operating assets and liabilities:		
Accounts receivable	22,905	12,097
Prepaid expenses and other assets	(8,975)	1,078
Accounts payable and accrued liabilities	(8,675)	(2,377)
Income taxes payable	65	(4,379)
Accrued facilities restructuring charges	(7,014)	(7,158)
Deferred revenues	16,545	4,849
Net cash provided by operating activities	92,524	59,597
Investing activities:		
Purchases of property and equipment	(2,377)	(3,213)
Purchases of investments	(191,895)	(129,009)
Purchase of investment in equity interest	(164)	(1,500)
Sale of investment in equity interest	—	4,824
Maturities of investments	80,890	136,863
Sales of investments	82,057	84,638
Business acquisitions, net of cash acquired	(24,085)	(168,777)
Net cash used in investing activities	(55,574)	(76,174)
Financing activities:		
Net proceeds from issuance of common stock	30,519	22,286
Repurchases and retirement of common stock	(19,638)	(10,651)
Redemption of convertible senior notes	(4)	—
Withholding taxes related to restricted stock units net share settlement	(5,256)	(1,697)
Excess tax benefits from stock-based compensation	15,172	6,077
Net cash provided by financing activities	20,793	16,015
Effect of foreign exchange rate changes on cash and cash equivalents	6,398	(8,098)
Net increase (decrease) in cash and cash equivalents	64,141	(8,660)
Cash and cash equivalents at beginning of period	208,899	159,197
Cash and cash equivalents at end of period	$273,040	$150,537

See accompanying notes to condensed consolidated financial statements.

INFORMATICA CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies

Basis of Presentation

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

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

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

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

Revenue Recognition

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Fair Value Measurement of Financial Assets and Liabilities

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

	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Money market funds (i)	$42,588	$42,588	$—	$—
Marketable debt securities (ii)	307,437	—	307,437	—
Total money market funds and marketable debt securities	350,025	42,588	307,437	—
Foreign currency derivatives (iii)	393	—	393	—
Total assets	$350,418	$42,588	$307,830	$—
Liabilities:				
Foreign currency derivatives (iv)	$1,523	$—	$1,523	$—
Total liabilities	$1,523	$—	$1,523	$—

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

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

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

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

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

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

Money Market Funds, Marketable Debt Securities, and Convertible Senior Notes

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

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

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

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

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

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

Foreign Currency Derivatives and Hedging Instruments

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

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

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

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

The Company's marketable securities are classified as available-for-sale as of the balance sheet date and are reported at fair value with unrealized gains and losses reported as a separate component of accumulated other comprehensive income in stockholders' equity, net of tax. Realized gains or losses and other-than-temporary impairments, if any, on available-for-sale securities are reported in other income or expense as incurred. Realized gains recognized for the three months ended June 30, 2011 and 2010 were not significant. Realized gains recognized for the six months ended June 30, 2011 and 2010 were approximately $0.3 million and $0.1 million, respectively. The cost of securities sold was determined based on the specific identification method.

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

	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Cash	$214,152	$—	$—	$214,152
Cash equivalents:				
Money market funds	42,588	—	—	42,588
Commercial paper	2,000	—	—	2,000
Federal agency notes and bonds	13,700	—	—	13,700
U.S. government notes and bonds	600	—	—	600
Total cash equivalents	58,888	—	—	58,888
Total cash and cash equivalents	273,040	—	—	273,040
Short-term investments:				
Certificates of deposit	6,997	3	—	7,000
Commercial paper	11,746	—	—	11,746
Corporate notes and bonds	135,209	191	—	135,400
Federal agency notes and bonds	95,479	138	—	95,617
U.S. government notes and bonds	3,897	14	—	3,911
Municipal notes and bonds	37,414	49	—	37,463
Total short-term investments	290,742	395	—	291,137
Total cash, cash equivalents, and short-term investments [(i)]	$563,782	$395	$—	$564,177

[(i)] Total estimated fair value above included $350.0 million comprised of cash equivalents and short-term investments at June 30, 2011.

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

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

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

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

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

	Less Than 12 months	
	Fair Value	Gross Unrealized Losses
Corporate notes and bonds	$46,849	$(76)
Federal agency notes and bonds	22,034	(20)
Municipal notes and bonds	600	—
Total	$69,483	$(96)

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

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

	Cost	Fair Value
Due within one year	$59,686	$59,752
Due in one year to two years	141,748	141,978
Due after two years	89,308	89,407
Total	$290,742	$291,137

Note 3. Intangible Assets and Goodwill

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

	Intangible Assets, Gross			Accumulated Amortization			Intangible Assets, Net		Weighted
	December 31, 2010	Additions	June 30, 2011	December 31, 2010	Expense	June 30, 2011	December 31, 2010	June 30, 2011	Average Useful Life (Years)
Developed and core technology	$90,497	$7,046	$97,543	$(35,254)	$(9,161)	$(44,415)	$55,243	$53,128	6
Customer relationships	33,501	573	34,074	(20,811)	(2,741)	(23,552)	12,690	10,522	5
Vendor relationships	7,908	—	7,908	(2,659)	(783)	(3,442)	5,249	4,466	5
Other:									
Trade names	2,494	—	2,494	(1,286)	(179)	(1,465)	1,208	1,029	5
Covenants not to compete	2,000	—	2,000	(1,617)	(200)	(1,817)	383	183	5
Patents	3,720	—	3,720	(566)	(187)	(753)	3,154	2,967	10
Total intangible assets subject to amortization	140,120	7,619	147,739	(62,193)	(13,251)	(75,444)	77,927	72,295	
In-process research and development	—	1,632	1,632	—	—	—	—	1,632	N.A.
Total intangible assets, net	$140,120	$9,251	$149,371	$(62,193)	$(13,251)	$(75,444)	$77,927	$73,927	

Total amortization expense related to intangible assets was $6.9 million and $6.0 million for the three months ended June 30, 2011 and 2010, respectively, and $13.3 million and $11.5 million for the six months ended June 30, 2011 and 2010, respectively. Certain intangible assets were recorded in foreign currencies; and therefore, the gross carrying amount and accumulated amortization are subject to foreign currency translation adjustments.

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

	Acquired Technology	Other Intangible Assets	Total Intangible Assets
Remaining 2011	$10,306	$3,645	$13,951

2012	19,437	5,881	25,318
2013	15,115	5,092	20,207
2014	5,338	2,395	7,733
2015	1,887	709	2,596
Thereafter	1,045	1,445	2,490
Total intangible assets subject to amortization	$53,128	$19,167	$72,295

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

	June 30, 2011
Beginning balance as of December 31, 2010	$400,726
Goodwill from acquisitions	26,188
Subsequent goodwill adjustments	(3,435)
Ending balance as of June 30, 2011	$423,479

Subsequent goodwill adjustments of $3.4 million for the six months ended June 30, 2011 include final income tax related balance sheet adjustments within the measurement period related to the Siperian and 29West acquisitions and foreign currency translation adjustments. See Note 15. Acquisitions for a further discussion of goodwill from acquisitions.

Note 4. Borrowings

Convertible Senior Notes

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

On February 14, 2011, the Company notified the holders of its Notes that it would exercise its option to redeem the principal amount outstanding on March 18, 2011. On or prior to the close of business on March 17, 2011, the holders had the option to convert their Notes into shares of the Company's common stock at a price of approximately $20 per share, or 50 shares of the Company's common stock per $1,000 principal amount of Notes. Holders of approximately $200.7 million in aggregate principal amount of the Notes converted their notes into approximately 10.0 million shares of the Company's common stock prior to the close of business on March 17, 2011. On March 18, 2011, the Company redeemed $4,000 principal amount of Notes not surrendered for conversion prior to the redemption date. As of March 31, 2011, none of the Notes were outstanding. From the second quarter of 2011 and beyond, the shares of the Company's common stock issued upon conversion will be included in the denominator for both basic and diluted net income per common share, and there will be no interest or amortization of issuance costs.

Credit Agreement

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

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

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

Note 5. Other Comprehensive Income

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Net income, as reported	$26,210	$17,427	$48,119	$29,221
Other comprehensive income (loss):				
Unrealized gain (loss) on investments	375	(68)	88	(98)
Cumulative translation adjustments	2,589	(7,171)	8,844	(11,651)
Derivative gain (loss)	200	(215)	(502)	49
Total other comprehensive income (loss)	3,164	(7,454)	8,430	(11,700)
Total comprehensive income, net of taxes	$29,374	$9,973	$56,549	$17,521

The change in cumulative translation adjustments for the six months ended June 30, 2011 compared to the same period in 2010 was primarily due to the weakening of the U.S. dollar against the euro and the British pound.

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

	June 30, 2011	December 31, 2010
Net unrealized gain on available-for-sale investments	$245	$157
Cumulative translation adjustments	3,441	(5,403)
Derivative loss	(786)	(284)
Accumulated other comprehensive income (loss), net of taxes	$2,900	$(5,530)

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

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

Note 6. Derivative Financial Instruments

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

Cash Flow Hedges

The Company enters into certain cash flow hedge programs in an attempt to reduce the impact of certain foreign currency fluctuations. These contracts are designated and documented as cash flow hedges. The purpose of these programs is to reduce the volatility of identified cash flow and expenses caused by movement in certain foreign currency exchange rates, in particular, the euro, Indian rupee and Israeli shekel. The Company is currently using foreign exchange forward contracts to hedge certain non-functional currency anticipated expenses and revenue reflected in the intercompany accounts between Informatica U.S. and its subsidiaries in Cayman, India, Israel, and the Netherlands. The foreign exchange forward contracts entered into in December 2009 for Indian rupees and Israeli shekels expired in January 2011. In December 2010, the Company entered into additional foreign exchange forward contracts with monthly expiration dates through January 17, 2012. The Company releases the amounts accumulated in other comprehensive income into earnings in the same period or periods during which the forecasted hedge transaction affects earnings.

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

The notional amount of these foreign exchange forward contracts was $28.9 million and $51.0 million as of June 30, 2011 and December 31, 2010, respectively.

Balance Sheet Hedges

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

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

	June 30, 2011		December 31, 2010	
	Fair Value Derivative Assets (i)	Fair Value Derivative Liabilities (ii)	Fair Value Derivative Assets (i)	Fair Value Derivative Liabilities (ii)
Derivatives designated as hedging instruments	$316	$1,298	$102	$569
Derivatives not designated as hedging instruments	77	225	50	—
Total fair value of derivative instruments	$393	$1,523	$152	$569

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

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

As of June 30, 2011, a derivative loss of $0.8 million was included in accumulated other comprehensive income, net of applicable taxes. The Company expects to reflect this amount in its condensed consolidated statements of income during the next six months.

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Amount of gain (loss) recognized in other comprehensive income (effective portion)	$(309)	$(307)	$(1,765)	$111
Amount of gain (loss) reclassified from accumulated other comprehensive income to operating expenses (effective portion)	(631)	47	(956)	31
Amount of gain (loss) recognized in income on derivatives for the amount excluded from effectiveness testing located in operating expenses	215	(33)	463	(23)

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Gain recognized in interest and other income (expense), net	$615	$4	$800	$29

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

Note 7. Stock Repurchase Program

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

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

During the three months ended June 30, 2011 and 2010, the Company repurchased approximately 300,000 shares of its common stock at a cost of $16.5 million and approximately 435,000 shares of its common stock at a cost of $10.7 million, respectively. During the six months ended June 30, 2011 and 2010, the Company repurchased approximately 365,000 shares of its common stock at a cost of $19.6 million and approximately 435,000 shares of its common stock at a cost of $10.7 million, respectively. There were no repurchases of the Notes during the six months ended June 30, 2011 and 2010. The Notes were redeemed on March 18, 2011. See Note 4. Borrowings - Convertible Senior Notes of Notes to Condensed Consolidated Financial Statements for a further discussion.

As of June 30, 2011, $56.9 million remained available for repurchase under this program.

Note 8. Stock-Based Compensation

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

The Company records stock-based compensation for RSUs and options granted net of estimated forfeiture rates. The Company estimates forfeiture rates at the time of grant and revises those estimates in subsequent periods if actual forfeitures differ from those estimates. The Company uses historical forfeitures to estimate its future forfeiture rates.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Option grants:				
Expected volatility	35 - 36%	34 - 38%	35 - 36%	34 - 38%
Weighted-average volatility	36 %	34 %	36 %	35 %
Expected dividends	—	—	—	—
Expected term of options (in years)	3.8	3.7	3.8	3.7
Risk-free interest rate	1.4 %	2.0 %	1.5 %	1.9 %
ESPP:*				
Expected volatility	—	—	35 %	33 %
Weighted-average volatility	—	—	35 %	33 %
Expected dividends	—	—	—	—
Expected term of ESPP (in years)	—	—	0.5	0.5
Risk-free interest rate	—	—	0.2 %	0.2 %

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Cost of service revenues	$861	$653	$1,725	$1,315
Research and development	2,654	1,751	5,053	3,360
Sales and marketing	2,478	1,793	4,887	3,566
General and administrative	2,162	1,382	4,002	2,820
Total stock-based compensation	8,155	5,579	15,667	11,061
Tax benefit of stock-based compensation	(2,080)	(1,155)	(3,950)	(2,295)
Total stock-based compensation, net of tax benefit	$6,075	$4,424	$11,717	$8,766

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 24 months lease term of the previous corporate headquarters, net of actual and estimated sublease income. The Company has actual and estimated sublease income, including the reimbursement of certain property costs such as common area maintenance, insurance, and property tax, net of estimated broker commissions, of $3.2 million for the remainder of 2011, $4.2 million in 2012, and $1.9 million in 2013.

Subsequent to 2004, the Company continued to record accretion on the cash obligations related to the 2004 Restructuring Plan. Accretion represents imputed interest and is the difference between the non-discounted future cash obligations and the discounted present value of these cash obligations. At June 30, 2011, the Company will recognize approximately $2.0 million of accretion as a restructuring charge over the remaining 24 months lease term as follows: $0.8 million for the remainder of 2011, $1.0 million in 2012, and $0.2 million in 2013.

2001 Restructuring Plan

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

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

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

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

	Accrued Restructuring Charges at December 31, 2010	Restructuring		Net Cash Payment	Non-Cash Reclass	Accrued Restructuring Charges at June 30, 2011
		Charges	Adjustments			
2004 Restructuring Plan						
Excess lease facilities	$33,791	$904	$82	$(6,034)	$(82)	$28,661
2001 Restructuring Plan						
Excess lease facilities	5,117	—	—	(980)	—	4,137
Total restructuring plans	$38,908	$904	$82	$(7,014)	$(82)	$32,798

For the six months ended June 30, 2011, the Company recorded $1.0 million of restructuring charges related to the 2004 Restructuring Plan. These charges consist of accretion charges and amortization of tenant improvements and are included in facilities restructuring charges on the condensed consolidated statement of income. Net cash payments for the six months ended June 30, 2011 for facilities included in the 2004 and 2001 Restructuring Plans amounted to $6.0 million and $1.0 million, respectively.

Inherent in the assessment of the costs related to our restructuring efforts are estimates related to the probability weighted outcomes of the significant actions to accomplish the restructuring. The estimates of sublease income may vary significantly depending, in part, on factors that may be beyond our control, such as the global economic downturn, time periods required to locate and contract suitable subleases, and market rates at the time of subleases. Currently, the Company has subleased its excess facilities in connection with its 2004 and 2001 facilities restructuring for durations that comprise a majority of the remaining lease terms through 2013. If the subtenants do not extend 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 $1.3 million. Future adjustments to the charges could result from any default by a sublessor, which could impact the time period that the buildings will be vacant, expected sublease rates, expected sublease terms, and the expected time it will take to sublease.

Note 10. Income Taxes

The Company's effective tax rates were 28% and 30% for the three months ended June 30, 2011 and 2010, respectively, and 28% and 29% for the six months ended June 30, 2011 and 2010, respectively. 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 and the recognition of current year research and development credits offset by compensation expense related to non-deductible stock-based compensation, the revaluation of deferred taxes previously recorded in acquisition accounting, and the accrual of reserves related to uncertain tax positions. The Company has not provided for residual U.S. taxes in all of these lower-tax jurisdictions since it intends to indefinitely reinvest these earnings offshore.

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

The unrecognized tax benefits related to ASC 740, if recognized, would impact the income tax provision by $14.9 million and $12.3 million as of June 30, 2011 and 2010, respectively. The Company has elected to include interest and penalties as a component of tax expense. Accrued interest and penalties as of June 30, 2011 and 2010 were approximately $2.0 million and $1.6 million, respectively. As of June 30, 2011, the gross uncertain tax position was approximately $15.8 million.

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

Note 11. Net Income per Common Share

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Net income	$26,210	$17,427	$48,119	$29,221
Effect of convertible senior notes, net of related tax effects	—	961	811	1,922
Net income adjusted	$26,210	$18,388	$48,930	$31,143
Weighted-average shares of common stock used to compute basic net income per share (excluding unvested restricted stock)	106,014	91,673	101,458	91,213
Effect of dilutive common stock equivalents:				
Dilutive effect of unvested restricted stock units	573	317	589	372
Dilutive effect of employee stock options	6,561	5,919	6,587	6,066
Dilutive effect of convertible senior notes	—	10,050	4,121	10,050
Shares used in computing diluted net income per common share	113,148	107,959	112,755	107,701
Basic net income per common share	$0.25	$0.19	$0.47	$0.32
Diluted net income per common share	$0.23	$0.17	$0.43	$0.29

The diluted net income per common share calculation requires the dilutive effect of convertible securities to be reflected in the diluted net income per share by application of the “if-converted” method. This method assumes an add-back of interest and amortization of issuance cost, net of income taxes, to net income if the securities are converted. The Company determined that the Notes had a dilutive effect on diluted net income per share for the six months ended June 30, 2011 and for the three and six months ended June 30, 2010. As such, the Company had an add-back of $0.8 million for the six months ended June 30, 2011, and $1.0 million and $1.9 million for the three and six months ended June 30, 2010, respectively, in interest and issuance cost amortization, net of income taxes, to net income for the diluted net income per share calculation. The impact of the Notes for the six months ended June 30, 2011 represents interest and issuance cost amortization until the redemption of the Notes on March 18, 2011. See Note 4. Borrowings - Convertible Senior Notes of Notes to Condensed Consolidated Financial Statements for a further discussion.

In calculating its diluted net income per common share, the Company excluded approximately 1.2 million and 1.9 million of its options for the three months ended June 30, 2011 and 2010, respectively, and 1.0 million and 1.5 million of its options for the six months ended June 30, 2011 and 2010, 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 three years to December 31, 2013. The future minimum contractual lease payments are $1.7 million for the remainder of 2011, and $3.5 million and $3.6 million for the years ending December 31, 2012 and 2013, respectively.

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

The Company leases certain office facilities under various non-cancelable operating leases, including those described above, which expire at various dates through 2021 and require the Company to pay operating costs, including property taxes, insurance, and maintenance. Operating lease payments in the table below include approximately $36.7 million for operating lease commitments for facilities that are included in restructuring charges. See Note 9. Facilities Restructuring Charges of Notes to Condensed Consolidated Financial Statements for a further discussion.

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

	Operating Leases	Sublease Income	Net
Remaining 2011	$14,566	$1,715	$12,851
2012	30,097	3,009	27,088
2013	21,774	1,507	20,267
2014	5,700	—	5,700
2015	4,622	—	4,622
Thereafter	2,008	—	2,008
Total future minimum operating lease payments	$78,767	$6,231	$72,536

Of these future minimum lease payments, the Company has accrued $32.8 million in the facilities restructuring accrual at June 30, 2011. This accrual, in addition to minimum lease payments of $36.7 million, includes estimated operating expenses of $9.4 million and sublease commencement costs associated with excess facilities and is net of estimated sublease income of $11.4 million and a present value discount of $1.9 million recorded in accordance with ASC 420, Exit or Disposal Cost Obligations.

Warranties

The Company generally provides a warranty for its software products and services to its customers for a period of three to six months and accounts for its warranties. The Company's software products' media are generally warranted to be free from defects in materials and workmanship under normal use, and the products are also generally warranted to substantially perform as described in certain Company documentation and the product specifications. The Company's services are generally warranted to be performed in a professional manner and to materially conform to the specifications set forth in a customer's signed contract. In the event there is a failure of such warranties, the Company generally will correct or provide a reasonable work-around or replacement product. To date, the Company's product warranty expense has not been significant. The warranty accrual as of June 30, 2011 and December 31, 2010 is not material.

Indemnification

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

The Company believes its internal development processes and other policies and practices limit its exposure related to the indemnification provisions of the License Agreement. In addition, the Company requires its employees to sign a proprietary information and inventions agreement, which assigns the rights to its employees' development work to the Company. To date, the Company has not had to reimburse any of its customers for any losses related to these indemnification provisions, and no material claims against the Company are outstanding as of June 30, 2011. For several reasons, including the lack of prior indemnification claims and the lack of a monetary liability limit for certain infringement cases under the License Agreement, the Company cannot determine the maximum amount of potential future payments, if any, related to such indemnification provisions.

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

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

Derivative Financial Instruments

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

Litigation

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

Similar allegations were made in other lawsuits challenging more than 300 other initial public offerings and follow-on offerings conducted in 1999 and 2000. The cases were consolidated for pretrial purposes. On February 19, 2003, the Court ruled on all defendants' motions to dismiss. The Court denied the motions to dismiss the claims under the Securities Act of 1933. The Court denied the motion to dismiss the Section 10(b) claim against Informatica and 184 other issuer defendants. The Court denied the motion to dismiss the Section 10(b) and 20(a) claims against the Informatica defendants and 62 other individual defendants.

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

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

Data Retrieval. 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. ("Sybase"), 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. Following Data Retrieval's service of its Disclosure of Asserted Claims and Preliminary Infringement Contentions on June 8, 2009, on June 18, 2009, the Company filed a motion for partial summary judgment of the following claims and issues:

(1) non-infringement of the ‘382 patent; (2) non-infringement of the unasserted claims (claims 2-25) of the ‘392 patent; and (3) no infringement of either patent-in-suit by the Informatica PowerCenter product. On September 11, 2009, the Court granted the Company's motion for partial summary judgment on all of the claims and issues requested by the Company. On June 23, 2010, the Court granted in part and denied in part an additional motion for summary judgment filed by the Company. The Court ruled that the Company was entitled to summary judgment on the issue of inducement to infringe and contributory infringement, but denied the motion as to Data Retrieval's claim of direct infringement. On November 8, 2010, the Court granted the Company's further motion for summary judgment for invalidity of the sole remaining asserted claim of the ‘392 patent.

On January 12, 2010, Data Retrieval initiated another action (the Data Retrieval II Action) for patent infringement against the Company in the United States District Court for the Northern District of California, Case No. C 09-05360-VRW, asserting two patents, U.S. Patent Nos. 5,802,511 (the "‘511 patent") and 6,625,617 B2 (the "‘617 patent") (collectively, the "Data Retrieval II patents-in-suit"). Sybase is also named as a defendant in the Data Retrieval II Action. The Data Retrieval II Action is related to the Data Retrieval I Actions and has been assigned to the same Judge. In the Data Retrieval II Action, Data Retrieval alleges that a "suite of data warehousing systems and/or material components thereof," including PowerCenter, Data Explorer and PowerExchange, infringe the Data Retrieval II patents-in-suit. Data Retrieval accuses the Company of infringing at least claims 1, 2 and 14 of the ‘511 patent and at least claims 25 and 26 of the ‘617 patent. On February 25, 2010, the Company filed its answer to the complaint in the Data Retrieval II Action and asserted declaratory relief counterclaims for non-infringement and invalidity. In June 2011, the Company entered into a confidential settlement agreement which settled the Data Retrieval I Action and Data Retrieval II Action.

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

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

Note 13. Significant Customer Information and Segment Information

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

No customer accounted for more than 10% of revenue in the three and six months ended June 30, 2011 and 2010. At June 30, 2011, one customer accounted for more than 10% of the accounts receivable balance. Payment was received from this customer in July 2011. At June 30, 2010, no customer accounted for more than 10% of the accounts receivable balance. North America revenues include the United States and Canada. Revenue from international customers (defined as those customers outside of North America) accounted for 34% and 33% of total revenues in the second quarter of 2011 and 2010, respectively, and 34% and 34% of total revenues in the first half of 2011 and 2010, respectively.

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

	Six Months Ended

	Three Months Ended June 30,		June 30,	
	2011	2010	2011	2010
Revenues:				
North America	$126,873	$104,379	$237,794	$192,069
Europe	48,314	38,014	89,450	71,384
Other	17,540	13,268	33,515	27,338
Total revenues	$192,727	$155,661	$360,759	$290,791

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

	June 30, 2011	December 31, 2010
Long-lived assets, net (excluding assets not allocated):		
North America	$78,272	$81,762
Europe	3,777	4,145
Other	1,597	1,886
Total long-lived assets	$83,646	$87,793

Note 14. Recent Accounting Pronouncements

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

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

Note 15. Acquisitions

WisdomForce Technologies, Inc.

On June 28, 2011, the Company acquired all of the outstanding securities of WisdomForce Technologies, Inc. (“WisdomForce”), a privately-held company, and certain assets of its two affiliated companies for approximately $25.0 million in cash. WisdomForce develops and markets software that helps improve the quality, availability and continuity of data within information technology systems. As a result of this acquisition, the Company also assumed certain liabilities and commitments. Approximately $5.0 million of the consideration otherwise payable to former WisdomForce stockholders was placed into an escrow