

INFORMATICA CORP  
Form 10-Q  
November 06, 2014  
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

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FORM 10-Q

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Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934  
For the quarterly period ended September 30, 2014  
or

Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934  
Commission File Number: 0-25871

INFORMATICA CORPORATION

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of  
incorporation or organization)

77-0333710

(I.R.S. Employer  
Identification No.)

2100 Seaport Boulevard

Redwood City, California 94063

(Address of principal executive offices and zip code)

(650) 385-5000

(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company

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

As of October 31, 2014, there were approximately 108,673,000 shares of the registrant's Common Stock outstanding.

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## PART I: FINANCIAL INFORMATION

## ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## INFORMATICA CORPORATION

## CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except par value)

	September 30, 2014 (Unaudited)	December 31, 2013
Assets		
Current assets:		
Cash and cash equivalents	\$234,620	\$297,818
Short-term investments	420,021	379,616
Accounts receivable, net of allowances of \$3,891 and \$4,135, respectively	166,231	204,374
Deferred tax assets	47,330	32,898
Prepaid expenses and other current assets	30,203	34,541
Total current assets	898,405	949,247
Property and equipment, net	159,422	157,308
Goodwill	552,101	523,142
Other intangible assets, net	44,636	41,625
Long-term deferred tax assets	29,407	44,865
Other assets	12,154	6,834
Total assets	\$1,696,125	\$1,723,021
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$12,298	\$10,124
Accrued liabilities	50,982	63,055
Accrued compensation and related expenses	52,189	71,314
Income taxes payable	—	14,184
Deferred revenues	280,988	285,184
Total current liabilities	396,457	443,861
Long-term deferred revenues	14,596	12,938
Long-term income taxes payable	31,946	29,878
Other liabilities	4,346	594
Total liabilities	447,345	487,271
Commitments and contingencies (Note 11)		
Stockholders' equity:		
Common stock, \$0.001 par value; 200,000 shares authorized; 108,641 shares and 108,643 shares issued and outstanding at September 30, 2014 and December 31, 2013, respectively	109	109
Additional paid-in capital	765,462	805,728
Accumulated other comprehensive loss	(20,411	) (3,212
Retained earnings	503,620	433,125
Total stockholders' equity	1,248,780	1,235,750
Total liabilities and stockholders' equity	\$1,696,125	\$1,723,021
See accompanying notes to condensed consolidated financial statements.		

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CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(In thousands, except per share data)

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Revenues:				
Software	\$100,642	\$99,826	\$307,140	\$279,160
Service	149,758	135,568	437,070	392,973
Total revenues	250,400	235,394	744,210	672,133
Cost of revenues:				
Software	3,357	2,710	8,926	7,353
Service	43,610	37,221	127,182	109,714
Amortization of acquired technology	3,113	5,625	10,384	16,970
Total cost of revenues	50,080	45,556	146,492	134,037
Gross profit	200,320	189,838	597,718	538,096
Operating expenses:				
Research and development	49,283	42,167	143,818	123,358
Sales and marketing	95,490	94,160	283,858	267,727
General and administrative	20,535	23,159	60,607	60,827
Amortization of intangible assets	1,541	1,893	4,461	5,881
Acquisitions and other charges	66	1,253	926	2,467
Total operating expenses	166,915	162,632	493,670	460,260
Income from operations	33,405	27,206	104,048	77,836
Interest income	1,180	805	3,512	2,588
Interest expense	(129)	) (121)	) (422)	) (369)
Other expense, net	(360)	) (295)	) (642)	) (754)
Income before income taxes	34,096	27,595	106,496	79,301
Income tax provision	11,283	17,191	36,001	32,824
Net income	\$22,813	\$10,404	\$70,495	\$46,477
Basic net income per common share	\$0.21	\$0.10	\$0.64	\$0.43
Diluted net income per common share	\$0.21	\$0.09	\$0.63	\$0.42
Shares used in computing basic net income per common share	109,231	108,305	109,378	108,039
Shares used in computing diluted net income per common share	110,314	111,501	111,283	111,372

See accompanying notes to condensed consolidated financial statements.

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CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In thousands)

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Net income	\$22,813	\$10,404	\$70,495	\$46,477
Other comprehensive income (loss):				
Change in foreign currency translation adjustment, net of tax benefit (expense) of \$876, \$(317), \$597 and \$(74)	(18,172	) 7,370	(17,915	) 1,202
Available-for-sale investments:				
Change in net unrealized gain (loss), net of tax benefit (expense) of \$161, \$(187), \$27 and \$183	(262	) 304	(44	) (300
Less: reclassification adjustment for net (gain) loss included in net income, net of tax benefit (expense) of \$(2), \$12, \$(4) (3 and \$22		) 19	(7	) 36
Net change, net of tax benefit (expense) of \$163, \$(199), \$31 and \$161	(265	) 323	(51	) (264
Cash flow hedges:				
Change in unrealized gain (loss), net of tax benefit (expense) of \$123, \$455, \$(677) and \$1,149	(200	) (744	) 1,104	(1,875
Less: reclassification adjustment for net (gain) loss included in net income, net of tax benefit (expense) of \$(288), \$349, \$(207) and \$398	(470	) 571	(337	) 651
Net change, net of tax benefit (expense) of \$411, \$106, \$(470) and \$751	(670	) (173	) 767	(1,224
Total other comprehensive income (loss), net of tax effect	(19,107	) 7,520	(17,199	) (286
Total comprehensive income, net of tax effect	\$3,706	\$17,924	\$53,296	\$46,191
See accompanying notes to condensed consolidated financial statements.				

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CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	Nine Months Ended September 30,	
	2014	2013
Operating activities:		
Net income	\$70,495	\$46,477
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	14,151	10,773
Stock-based compensation	44,071	44,248
Deferred income taxes	(2,113)	(4,730)
Tax benefits from stock-based compensation	288	5,312
Excess tax benefits from stock-based compensation	(3,021)	(6,982)
Amortization of intangible assets and acquired technology	14,845	22,851
Other operating activities, net	—	(352)
Changes in operating assets and liabilities:		
Accounts receivable	38,753	9,960
Prepaid expenses and other assets	147	2,893
Accounts payable and accrued liabilities	(24,262)	(8,002)
Income taxes payable	(6,163)	4,588
Deferred revenues	(4,136)	11,688
Net cash provided by operating activities	143,055	138,724
Investing activities:		
Purchases of property and equipment	(15,866)	(16,059)
Purchases of investments	(226,572)	(267,618)
Investment in equity interest, net	(282)	(2,001)
Maturities of investments	172,172	193,581
Sales of investments	12,887	77,966
Business acquisitions, net of cash acquired	(54,614)	(7,464)
Net cash used in investing activities	(112,275)	(21,595)
Financing activities:		
Net proceeds from issuance of common stock	50,902	46,661
Repurchases and retirement of common stock	(126,862)	(63,936)
Withholding taxes related to restricted stock units net share settlement	(6,772)	(6,412)
Payment of contingent consideration	(3,061)	(3,670)
Payment of issuance costs on credit facility	(891)	—
Excess tax benefits from stock-based compensation	3,021	6,982
Purchase of acquiree stock	—	(6,365)
Net cash used in financing activities	(83,663)	(26,740)
Effect of foreign exchange rate changes on cash and cash equivalents	(10,315)	(161)
Net increase (decrease) in cash and cash equivalents	(63,198)	90,228
Cash and cash equivalents at beginning of period	297,818	190,127
Cash and cash equivalents at end of period	\$234,620	\$280,355
See accompanying notes to condensed consolidated financial statements.		

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INFORMATICA CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying condensed consolidated financial statements of Informatica Corporation (“Informatica,” or the “Company”) have been prepared in conformity with generally accepted accounting principles (“GAAP”) in the United States of America. However, certain information and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been condensed, or omitted, pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”). In the opinion of management, the financial statements include all normal and recurring adjustments that are necessary to fairly present the results of the interim periods presented. All of the amounts included in this Quarterly Report on Form 10-Q related to the condensed consolidated financial statements and notes thereto as of and for the three and nine months ended September 30, 2014 and 2013 are unaudited. The interim results presented are not necessarily indicative of results for any subsequent interim period, the year ending December 31, 2014, 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. Any material differences between these estimates and actual results will impact the Company's condensed consolidated financial statements. In many cases, the accounting treatment of a particular transaction is specifically dictated by GAAP and does not require management's judgment in its application. There are also areas in which management's judgment in selecting any available alternative would not produce a materially different result.

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

In November 2012, the Company acquired a majority interest in the shares of Heiler Software AG (“Heiler Software”) at the end of the initial acceptance period of the takeover offer. The squeeze-out of the remaining shareholders was effective in the second quarter of 2013, increasing the Company's ownership in Heiler Software to 100 percent. The Company consolidated the financial results of Heiler Software with its financial results beginning in November 2012. The noncontrolling interest in the Company's net income was not significant to consolidated results for the nine months ended September 30, 2013 and therefore has been included as a component of other income (expense), net in the condensed consolidated statements of income.

These unaudited, condensed consolidated financial statements should be read in conjunction with the Company's audited consolidated financial statements and notes thereto for the year ended December 31, 2013 included in the Company's Annual Report on Form 10-K filed with the SEC. The consolidated balance sheet as of December 31, 2013 has been derived from the audited consolidated financial statements of the Company. The Company's significant accounting policies are described in Note 2 to the audited consolidated financial statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2013.

Certain reclassifications have been made within the condensed consolidated statement of cash flows to conform to the current year presentation. A change was made to present redemptions by issuers of debt securities held by the Company as part of net cash provided by maturities of investments to reflect that these redemptions are an acceleration of the maturity of the debt investment. Redemptions were previously presented as part of net cash provided by sales of investments. This change in presentation did not affect total net cash used in investing activities and conforming changes have been made for all prior periods presented. Net cash provided by redemptions of \$47.6 million was reclassified from sales of investments to maturities of investments for the nine months ended September 30, 2013.

Recent Accounting Pronouncements

In March 2013, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2013-05, Foreign Currency Matters (Topic 830): Parent's Accounting for the Cumulative Translation Adjustment upon Derecognition of Certain Subsidiaries or Groups of Assets within a Foreign Entity or of an Investment in a Foreign Entity. ASU 2013-05 clarifies that the cumulative translation adjustment (“CTA”) should be released into net income upon the occurrence of certain qualifying events. The Company adopted ASU 2013-05 prospectively as required on January 1, 2014. Adoption of ASU 2013-05 did not impact the Company's condensed consolidated financial statements and disclosures.



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## INFORMATICA CORPORATION

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

In July 2013, the FASB issued ASU 2013-11, Income Taxes (Topic 740): Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists, which clarifies that an unrecognized tax benefit should be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward if such settlement is required or expected in the event the uncertain tax position is disallowed. In situations where a net operating loss carryforward, a similar tax loss, or a tax credit carryforward is not available or the tax law of the jurisdiction does not require, and the entity does not intend to use the deferred tax asset for such purpose, the unrecognized tax benefit should be presented in the financial statements as a liability and should not be combined with deferred tax assets. The Company adopted ASU 2013-11 prospectively as required on January 1, 2014. Adoption of ASU 2013-11 did not impact the Company's condensed consolidated financial statements and disclosures.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606), to supersede nearly all existing revenue recognition guidance under U.S. GAAP. The core principle of ASU 2014-09 is to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those good and services. The standard will be effective for the Company in the first quarter of 2017. ASU 2014-09 allows for two methods of adoption: (a) "full retrospective" adoption, meaning the standard is applied to all periods presented, or (b) "modified retrospective" adoption, meaning the cumulative effect of applying ASU 2014-09 is recognized as an adjustment to the 2017 opening retained earnings balance. Early adoption is not permitted. The Company has not yet selected a transition method and is currently evaluating the impact of its pending adoption of ASU 2014-09 on its consolidated financial statements and disclosures.

In June 2014, the FASB issued ASU 2014-12, Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period. ASU 2014-12 requires that a performance target that affects vesting and could be achieved after the requisite service period be treated as a performance condition. ASU 2014-12 is effective for the Company in its first quarter of 2016 with early adoption permitted. The Company does not expect its pending adoption of ASU 2014-12 to have a material impact on its consolidated financial statements and disclosures.

In August 2014, the FASB issued ASU 2014-15, Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern, to provide guidance on management's responsibility in evaluating whether there is substantial doubt about a company's ability to continue as a going concern and to provide related footnote disclosures. ASU 2014-15 is effective for the Company in the first quarter of 2017 with early adoption permitted. The Company does not expect its pending adoption of ASU 2014-15 to have an impact on the consolidated financial statements and disclosures.

There have been no other changes to the Company's significant accounting policies since the end of 2013.

## Fair Value Measurement of Financial Assets and Liabilities

The following table summarizes financial assets and financial liabilities that the Company measures at fair value on a recurring basis as of September 30, 2014 (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 <sup>(i)</sup>	\$7,641	\$7,641	\$—	\$—
Time deposits <sup>(ii)</sup>	27,886	27,886	—	—
Marketable debt securities <sup>(ii)</sup>	392,135	—	392,135	—

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Total money market funds, time deposits, and marketable debt securities	427,662	35,527	392,135	—
Foreign currency derivatives (iii)	973	—	973	—
Total assets	\$428,635	\$35,527	\$393,108	\$—
Liabilities:				
Foreign currency derivatives (v)	\$353	\$—	\$353	\$—
Total liabilities	\$353	\$—	\$353	\$—

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## INFORMATICA CORPORATION

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

The following table summarizes financial assets and financial liabilities that the Company measures at fair value on a recurring basis as of December 31, 2013 (in thousands):

	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Assets:</b>				
Money market funds <sup>(i)</sup>	\$21,893	\$21,893	\$—	\$—
Time deposits <sup>(ii)</sup>	21,585	21,585	—	—
Marketable debt securities <sup>(ii)</sup>	370,384	—	370,384	—
Total money market funds, time deposits, and marketable debt securities	413,862	43,478	370,384	—
Foreign currency derivatives <sup>(iii)</sup>	284	—	284	—
Total assets	\$414,146	\$43,478	\$370,668	\$—
<b>Liabilities:</b>				
Foreign currency derivatives <sup>(iv)</sup>	\$1,024	\$—	\$1,024	\$—
Acquisition-related contingent consideration <sup>(iv)</sup>	3,071	—	—	3,071
Total liabilities	\$4,095	\$—	\$1,024	\$3,071

(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.

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

#### Money Market Funds, Time Deposits, and Marketable Debt Securities

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

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

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

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

#### Foreign Currency Derivatives and Hedging Instruments

The Company uses the income approach to value the derivatives using observable Level 2 market inputs at the measurement date and standard valuation techniques to convert future amounts to a single present value amount, assuming that participants are motivated but not compelled to transact. Level 2 inputs are limited to quoted prices that are observable for the derivative assets and liabilities. The Company records its derivative assets and liabilities at gross in the condensed consolidated balance sheet and uses mid-market pricing as a practical expedient for fair value measurements. Key inputs for foreign currency derivatives are the

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## INFORMATICA CORPORATION

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

spot rates, forward rates, interest rates, and credit derivative market rates. The spot rate for each foreign currency is the same spot rate used for all balance sheet translations at the measurement date and is sourced from the Federal Reserve Bulletin. The following values are interpolated from commonly quoted intervals available from Bloomberg: forward points and the London Interbank Offered Rate (“LIBOR”) used to discount and determine the fair value of assets and liabilities. Credit default swap spread curves identified per counterparty at month end in Bloomberg are used to discount derivative assets for counterparty non-performance risk, all of which have terms of fifteen months or less. The Company discounts derivative liabilities to reflect the Company’s own potential non-performance risk to lenders and has used the spread over LIBOR on its most recent corporate borrowing rate.

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

There were no transfers between Level 1 and Level 2 categories during the three and nine months ended September 30, 2014 and 2013.

See Note 5. Accumulated Other Comprehensive Income (Loss), Note 6. Derivative Financial Instruments, and Note 11. Commitments and Contingencies of Notes to Condensed Consolidated Financial Statements for a further discussion.

Acquisition-related Contingent Consideration

The Company estimated the fair value of the acquisition-related contingent consideration using a probability-weighted discounted cash flow model. This fair value measure was based on significant inputs not observed in the market and thus represented a Level 3 instrument. Level 3 instruments are valued based on unobservable inputs that are supported by little or no market activity and reflect our own assumptions in measuring fair value. There were no transfers into or out of the Level 3 category during the three and nine months ended September 30, 2014 and 2013. The change in fair value of acquisition-related contingent consideration is included in acquisitions and other charges in the condensed consolidated statements of income.

The changes in the acquisition-related contingent consideration liability for the nine months ended September 30, 2014 consisted of the following (in thousands):

	September 30, 2014
Beginning balance as of December 31, 2013	\$3,071
Change in fair value of contingent consideration	(10 )
Payment of contingent consideration	(3,061 )
Ending balance as of September 30, 2014	\$—

See Note 13. Acquisitions of Notes to Condensed Consolidated Financial Statements for a further discussion.

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

The Company's short-term investments are classified as available-for-sale as of the balance sheet date and are reported at fair value with unrealized gains and losses reported as a separate component of accumulated other comprehensive income in stockholders' equity, net of tax. Realized gains or losses and other-than-temporary impairments, if any, on available-for-sale securities are reported in other income or expense as incurred. Realized gains recognized for the three and nine months ended September 30, 2014 and 2013 were negligible. The cost of securities sold was determined based on the specific identification method.

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## INFORMATICA CORPORATION

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

The following table summarizes the Company's cash, cash equivalents, and short-term investments as of September 30, 2014 (in thousands):

	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Cash	\$226,979	\$—	\$—	\$226,979
Cash equivalents:				
Money market funds	7,641	—	—	7,641
Total cash equivalents	7,641	—	—	7,641
Total cash and cash equivalents	234,620	—	—	234,620
Short-term investments:				
Certificates of deposit	1,920	—	—	1,920
Commercial paper	3,992	—	—	3,992
Corporate notes and bonds	221,515	188	(318)	) 221,385
Federal agency notes and bonds	73,950	6	(89)	) 73,867
Time deposits	27,886	—	—	27,886
Municipal notes and bonds	90,739	238	(6)	) 90,971
Total short-term investments	420,002	432	(413)	) 420,021
Total cash, cash equivalents, and short-term investments	\$654,622	\$432	\$(413)	) \$654,641

The following table summarizes the Company's cash, cash equivalents, and short-term investments as of December 31, 2013 (in thousands):

	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Cash	\$263,572	\$—	\$—	\$263,572
Cash equivalents:				
Money market funds	21,893	—	—	21,893
U.S. government notes and bonds	12,353	—	—	12,353
Total cash equivalents	34,246	—	—	34,246
Total cash and cash equivalents	297,818	—	—	297,818
Short-term investments:				
Certificates of deposit	960	—	—	960
Commercial paper	12,738	—	—	12,738
Corporate notes and bonds	175,446	220	(220)	) 175,446
Federal agency notes and bonds	64,863	31	(69)	) 64,825
Time deposits	21,585	—	—	21,585
Municipal notes and bonds	103,923	153	(14)	) 104,062
Total short-term investments	379,515	404	(303)	) 379,616
Total cash, cash equivalents, and short-term investments	\$677,333	\$404	\$(303)	) \$677,434

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.



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## INFORMATICA CORPORATION

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

The following table summarizes the fair value and gross unrealized losses related to the Company's short-term investments, aggregated by investment category that have been in a continuous unrealized loss position for less than twelve months, at September 30, 2014 (in thousands):

	Less Than 12 months		
	Fair Value	Gross Unrealized Losses	
Corporate notes and bonds	\$101,836	\$(318)	)
Federal agency notes and bonds	56,067	(82)	)
Municipal notes and bonds	8,349	(6)	)
Total	\$166,252	\$(406)	)

The following table summarizes the fair value and gross unrealized losses related to the Company's short-term investments, aggregated by investment category that have been in a continuous unrealized loss position for greater than twelve months, at September 30, 2014 (in thousands):

	Greater Than 12 months		
	Fair Value	Gross Unrealized Losses	
Federal agency notes and bonds	\$2,493	\$(7)	)
Total	\$2,493	\$(7)	)

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

The following table summarizes the cost and estimated fair value of the Company's short-term investments by contractual maturity at September 30, 2014 (in thousands):

	Cost	Fair Value
Due within one year	\$178,287	\$178,430
Due in one year to two years	164,357	164,478
Due after two years	77,358	77,113
Total	\$420,002	\$420,021



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## INFORMATICA CORPORATION

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

## Note 3. Intangible Assets and Goodwill

The carrying amounts of the intangible assets other than goodwill as of September 30, 2014 and December 31, 2013 are as follows (in thousands, except years):

	September 30, 2014			December 31, 2013			Weighted Average Useful Life (Years)
	Cost	Accumulated Amortization	Net	Cost	Accumulated Amortization	Net	
Developed and core technology	\$144,612	\$(109,410)	) \$35,202	\$130,744	\$(99,026)	) \$31,718	6
Other Intangible Assets:							
Customer relationships	45,180	(38,443)	) 6,737	41,683	(35,216)	) 6,467	5
All other <sup>(i)</sup>	17,696	(14,999)	) 2,697	17,205	(13,765)	) 3,440	4-11
Total other intangible assets	62,876	(53,442)	) 9,434	58,888	(48,981)	) 9,907	
Total intangible assets, net	\$207,488	\$(162,852)	) \$44,636	\$189,632	\$(148,007)	) \$41,625	

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

Total amortization expense related to intangible assets was \$4.7 million and \$7.5 million for the three months ended September 30, 2014 and 2013, respectively, and \$14.8 million and \$22.9 million for the nine months ended September 30, 2014 and 2013, respectively. Certain intangible assets were recorded in foreign currencies; and therefore, the gross carrying amount and accumulated amortization are subject to foreign currency translation adjustments.

As of September 30, 2014, 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 2014	\$2,740	\$1,482	\$4,222
2015	9,985	4,012	13,997
2016	8,545	2,160	10,705
2017	6,603	862	7,465
2018	4,580	439	5,019
Thereafter	2,749	479	3,228
Total expected amortization expense	\$35,202	\$9,434	\$44,636

The changes in the carrying amount of goodwill for the nine months ended September 30, 2014 are as follows (in thousands):

	September 30, 2014
Beginning balance as of December 31, 2013	\$523,142
Goodwill from acquisition	36,116

Subsequent goodwill adjustments	(7,157	)
Ending balance as of September 30, 2014	\$552,101	

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## INFORMATICA CORPORATION

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

During the nine months ended September 30, 2014, the Company recorded subsequent goodwill net reductions of \$7.2 million primarily related to foreign currency translation adjustments. The goodwill is partially deductible for tax purposes. See Note 13. Acquisitions for a further discussion of goodwill from acquisitions.

## Note 4. Borrowings

## Credit Agreement

On September 26, 2014, the Company entered into a Credit Agreement (the “Credit Agreement”) that matures on September 26, 2019. This Credit Agreement replaces the former agreement that matured 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 or to enter into tranches of term loans in an aggregate amount of up to \$30.0 million, for a total credit facility of up to \$250.0 million. The revolving credit facility has sublimits for swingline loans available on a same day basis of up to \$10.0 million and for the issuance of standby letters of credit in a face amount up to \$20.0 million. No amounts were outstanding under the Credit Agreement as of September 30, 2014, and a total of \$220.0 million remained available for borrowing.

Revolving loans accrue interest at a per annum rate based on either, at the Company's election, (i) the base rate plus a margin ranging from 0.50% to 1.00% depending on the Company's consolidated leverage ratio, or (ii) the LIBO rate (based on 1-, 2-, 3-, or 6-month interest periods) plus a margin ranging from 1.50% to 2.00% 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) LIBO rate for a 1-month interest period plus a margin equal to 1.00%. Swingline loans accrue interest at a per annum rate based on the base rate plus the applicable margin for base rate loans. Revolving loans may be borrowed, repaid and reborrowed until September 26, 2019, at which time all amounts borrowed must be repaid. Swingline loans shall be repaid on the 15th day of a calendar month, or the last day of a calendar month, or September 26, 2019, whichever is earlier.

Accrued interest on the revolving loans is payable (i) quarterly in arrears with respect to base rate loans, (ii) 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 LIBO rate loans, and (iii) the day that the borrowing is required to be repaid with respect to swingline 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 0.225% to 0.35% 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 LIBO rate 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 a payment 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 to base rate loans for any other overdue amounts. The Company was in compliance with all covenants under the Credit Agreement as of September 30, 2014.

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## INFORMATICA CORPORATION

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

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

The following table summarizes the changes in accumulated balances for each component of other comprehensive income (loss) for the three months ended September 30, 2014, net of taxes (in thousands):

	Cumulative Translation Adjustments	Net Unrealized Gain (Loss) on Available-for-Sale Investments	Net Unrealized Gain (Loss) on Cash Flow Hedges	Total
Accumulated other comprehensive income (loss) as of June 30, 2014	\$ (2,622 )	\$ 277	\$ 1,041	\$ (1,304 )
Other comprehensive income (loss):				
Other comprehensive income (loss) before reclassifications, net of tax benefit of \$876, \$161 and \$123	(18,172 )	(262 )	(200 )	(18,634 )
Net gain reclassified from accumulated other comprehensive income (loss), net of tax expense of \$ —, \$(2) and \$(288)	—	(3 ) <sup>(i)</sup>	(470 ) <sup>(ii)</sup>	(473 )
Total other comprehensive income (loss), net of tax effect <sup>(iii)</sup>	(18,172 )	(265 )	(670 )	(19,107 )
Accumulated other comprehensive income (loss) as of September 30, 2014	\$ (20,794 )	\$ 12	\$ 371	\$ (20,411 )

(i) The before-tax gain of \$5 was included in other expense, net on the condensed consolidated statements of income.

(ii) The before-tax gain of \$184 and \$574 were included in cost of service revenues and operating expenses, primarily research and development expense, respectively on the condensed consolidated statements of income.

(iii) The tax expense related to the net gain reclassified from accumulated other comprehensive income (loss) was included in income tax provision on the condensed consolidated statements of income.

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## INFORMATICA CORPORATION

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

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

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

(i) The before-tax loss of \$31 was included in other expense, net on the condensed consolidated statements of income.

(ii) The before-tax losses of \$216 and \$704 were included in cost of service revenues and operating expenses, primarily research and development expense, respectively on the condensed consolidated statements of income.

(iii) The tax benefit related to the net loss reclassified from accumulated other comprehensive income (loss) was included in income tax provision on the condensed consolidated statements of income.

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## INFORMATICA CORPORATION

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

The following table summarizes the changes in accumulated balances for each component of other comprehensive income (loss) for the nine months ended September 30, 2014, net of taxes (in thousands):

	Cumulative Translation Adjustments	Net Unrealized Gain (Loss) on Available-for-Sale Investments	Net Unrealized Gain (Loss) on Cash Flow Hedges	Total
Accumulated other comprehensive income (loss) as of December 31, 2013	\$ (2,879 )	\$ 63	\$ (396 )	\$ (3,212 )
Other comprehensive income (loss):				
Other comprehensive income before reclassifications, net of tax benefit (expense) of \$597, \$27 and \$(677)	(17,915 )	(44 )	1,104	(16,855 )
Net gain reclassified from accumulated other comprehensive income (loss), net of tax expense of \$ —, \$(4) and \$(207)	—	(7 ) <sup>(i)</sup>	(337 ) <sup>(ii)</sup>	(344 )
Total other comprehensive income, net of tax effect <sup>(iii)</sup>	(17,915 )	(51 )	767	(17,199 )
Accumulated other comprehensive income (loss) as of September 30, 2014	\$ (20,794 )	\$ 12	\$ 371	\$ (20,411 )

(i) The before-tax gain of \$11 was included in other expense, net on the condensed consolidated statements of income.

(ii) The before-tax gain of \$130 and \$414 were included in cost of service revenues and operating expenses, primarily research and development expense, respectively on the condensed consolidated statements of income.

(iii) The tax expense related to the net gain reclassified from accumulated other comprehensive income (loss) was included in income tax provision on the condensed consolidated statements of income.

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## INFORMATICA CORPORATION

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

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

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

(i) The before-tax loss of \$58 was included in other expense, net on the condensed consolidated statements of income.

(ii) The before-tax losses of \$247 and \$802 were included in cost of service revenues and operating expenses, primarily research and development expense, respectively on the condensed consolidated statements of income.

(iii) The tax benefit related to the net loss reclassified from accumulated other comprehensive income (loss) was included in income tax provision on the condensed consolidated statements of income.

The Company did not have any other-than-temporary impairment recognized in accumulated other comprehensive income (loss) as of September 30, 2014 and December 31, 2013.

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

See Note 1. Summary of Significant Accounting Policies, Note 6. Derivative Financial Instruments, and Note 11.

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

**Note 6. Derivative Financial Instruments**

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

**Cash Flow Hedges**

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





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## INFORMATICA CORPORATION

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

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. As of September 30, 2014, the effective portion of the Company's cash flow hedges before tax effect was a net gain of \$0.6 million, of which \$0.5 million is expected to be reclassified from accumulated other comprehensive income into earnings within the next 12 months. The Company has forecasted the amount of its anticipated foreign currency expenses based on its historical performance and its projected financial plan. As of September 30, 2014, the remaining open foreign exchange contracts, carried at fair value, are hedging Indian rupee expenses and have a maturity of fifteen months or less. These foreign exchange contracts mature monthly as the foreign currency denominated expenses are paid and any gain or loss is offset against operating expense. Once the hedged item is recognized, the cash flow hedge is de-designated and subsequent changes in value are recognized in other income (expense) to offset changes in the value of the resulting non-functional currency monetary assets or liabilities.

The notional amounts of these foreign exchange forward contracts in U.S. dollar equivalents were to buy \$55.7 million and \$30.1 million of Indian rupees as of September 30, 2014 and December 31, 2013, respectively.

**Balance Sheet Hedges**

Balance Sheet hedges consist of cash flow hedge contracts that have been de-designated and non-designated balance sheet hedges. These foreign exchange contracts are carried at fair value and either did not or no longer qualify for hedge accounting treatment and are not designated as hedging instruments. Changes in the value of the foreign exchange contracts are recognized in other income (expense) and offset the foreign currency gain or loss on the underlying net monetary assets or liabilities. The notional amounts of foreign currency contracts open at period end in US dollar equivalents were to buy \$2.6 million of Indian rupees at both September 30, 2014 and December 31, 2013. The following table reflects the fair value amounts for the foreign exchange contracts designated and not designated as hedging instruments at September 30, 2014 and December 31, 2013 (in thousands):

	September 30, 2014		December 31, 2013	
	Fair Value Derivative Assets <sup>(i)</sup>	Fair Value Derivative Liabilities <sup>(iii)</sup>	Fair Value Derivative Assets <sup>(i)</sup>	Fair Value Derivative Liabilities <sup>(ii)</sup>
Derivatives designated as hedging instruments	\$753	\$353	\$284	\$830
Derivatives not designated as hedging instruments	220	—	—	194
Total fair value of derivative instruments	\$973	\$353	\$284	\$1,024

(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.

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

The Company presents its derivative assets and derivative liabilities at gross fair values in the condensed consolidated balance sheets. However, under the master netting agreements with the respective counterparties of the foreign exchange contracts, subject to applicable requirements, the Company is allowed to net settle transactions of the same currency with a single net amount payable by one party to the other. The derivatives held by the Company are not subject to any credit contingent features negotiated with its counterparties. The Company is not required to pledge nor is entitled to receive cash collateral related to the above contracts.

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## INFORMATICA CORPORATION

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

The following table sets forth the offsetting of derivative assets as of September 30, 2014 and December 31, 2013 (in thousands):

	Gross Amounts of Recognized Assets	Gross Amounts Offset in the Condensed Consolidated Balance Sheets	Net Amounts of Assets Presented in the Condensed Consolidated Balance Sheets	Gross Amounts Not Offset in the Condensed Consolidated Balance Sheets		Net Amount
				Financial Instruments <sup>(i)</sup>	Cash Collateral Pledged	
As of September 30, 2014:						
Foreign exchange contracts	\$973	\$—	\$973	\$(44	) \$—	\$929
As of December 31, 2013:						
Foreign exchange contracts	\$284	\$—	\$284	\$(268	) \$—	\$16

(i) The balances at September 30, 2014 and December 31, 2013 were related to derivative liabilities which are allowed to be net settled against derivative assets in accordance with the master netting agreements.

The following table sets forth the offsetting of derivative liabilities as of September 30, 2014 and December 31, 2013 (in thousands):

	Gross Amounts of Recognized Liabilities	Gross Amounts Offset in the Condensed Consolidated Balance Sheets	Net Amounts of Liabilities Presented in the Condensed Consolidated Balance Sheets	Gross Amounts Not Offset in the Condensed Consolidated Balance Sheets		Net Amount
				Financial Instruments <sup>(ii)</sup>	Cash Collateral Pledged	
As of September 30, 2014:						
Foreign exchange contracts	\$353	\$—	\$353	\$(44	) \$—	\$309
As of December 31, 2013:						
	\$1,024	\$—	\$1,024	\$(268	) \$—	\$756

Foreign exchange  
contracts

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- (ii) The balances at September 30, 2014 and December 31, 2013 were related to derivative assets which are allowed to be net settled against derivative liabilities in accordance with the master netting agreements.

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## INFORMATICA CORPORATION

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

The Company evaluates prospectively as well as retrospectively the effectiveness of its hedge programs using statistical analysis. Prospective testing is performed at the inception of the hedge relationship and quarterly thereafter. Retrospective testing is performed on a quarterly basis. In October 2013, the Company changed its effectiveness assessment method from the spot to spot price method to include time value in the assessment. Prospectively, the Company includes all changes in value that are effective including changes in time value to accumulated other comprehensive income. The Company no longer records amounts as an excluded component of the hedge relationship.

The before-tax effects of derivative instruments designated as cash flow hedges on the accumulated other comprehensive income (loss) and condensed consolidated statements of income for the three and nine months ended September 30, 2014 and 2013 are as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Amount of gain (loss) recognized in other comprehensive income (effective portion)	\$ (323	) \$ (1,199	) \$ 1,781	) \$ (3,024
Amount of gain (loss) reclassified from accumulated other comprehensive income to cost of service revenues and operating expenses (effective portion)	\$ 758	) \$ (920	) \$ 544	) \$ (1,049
Amount of gain recognized in income on derivatives for the amount excluded from effectiveness testing located in operating expenses	\$—	) \$ 151	) \$—	) \$ 728
Amount of loss on derivatives due to hedge ineffectiveness recognized in cost of service revenues and operating expenses	\$ (199	) \$—	) \$ (199	) \$—

The before-tax loss recognized in other expense, net for non-designated foreign currency forward contracts for the three and nine months ended September 30, 2014 and 2013 are as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Loss recognized in other expense, net	\$ (69	) \$ (46	) \$—	) \$ (237

See Note 1. Summary of Significant Accounting Policies, Note 5. Accumulated Other Comprehensive Income (Loss), and Note 11. Commitments and Contingencies of Notes to Condensed Consolidated Financial Statements for a further discussion.

## Note 7. Stock Repurchase Program

The Company's Board of Directors has approved a stock repurchase program for the Company to repurchase its common stock. The primary purpose of the program is to enhance shareholder value, including partially offsetting the dilutive impact of stock based incentive plans. The number of shares to be purchased and the timing of the purchases are based on several factors, including the price of the Company's common stock, the Company's liquidity and working capital needs, general business and market conditions, and other investment opportunities. These purchases can be made from time to time in the open market and are funded from the Company's available working capital. In January 2014, the Board of Directors approved the repurchase of up to an additional \$100.0 million of the Company's outstanding common stock. In July 2014, the Board of Directors approved, for the second time in 2014, the repurchase of up to an additional \$100.0 million of the Company's outstanding common stock. As of September 30, 2014, \$77.1 million remained available for share repurchases under this program. In October 2014, the Company announced that the Board of Directors approved, for the third time in 2014, the repurchase of up to an additional \$100.0 million of the

Company's outstanding common stock.

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

During the three and nine months ended September 30, 2014, the Company repurchased approximately 2,191,000 shares of its common stock at a cost of \$71.0 million and approximately 3,669,000 shares of its common stock at a cost of \$126.9 million,

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## INFORMATICA CORPORATION

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

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

## Note 8. Stock-Based Compensation

The Company grants stock options, restricted stock units (“RSUs”) and performance-based restricted stock units (“PRSUs”) under its 2009 Equity Incentive Plan. Eligible employees may elect to purchase shares of common stock through the Employee Stock Purchase Plan (“ESPP”). The fair value of each option award and ESPP share is estimated on the date of grant using the Black-Scholes-Merton option pricing model that uses the assumptions in the following table. The Company has consistently used a blend of average historical and market-based implied volatilities for calculating the expected volatilities for employee stock options, and uses market-based implied volatilities for its 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 expected term of options granted to employees is derived from the historical option exercises, post-vesting cancellations, and estimates concerning future exercises and cancellations for vested and unvested options that remain outstanding. 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. The Company recognizes its stock-based compensation related to options using a straight-line method over the vesting term of the awards. The Company recognizes its stock-based compensation related to ESPP using a straight-line method over the offering period, which is six months.

The fair value of RSUs and PRSUs is the grant date closing price of our common stock. The Company recognizes expense related to RSUs using a straight-line method over the vesting term of the awards. The Company recognizes expense for PRSUs based on the probability of achieving certain performance criteria, as defined in the PRSU agreements, and uses the graded vesting attribution method over the requisite service period.

The Company records stock-based compensation for options, RSUs and PRSUs granted net of estimated forfeiture rates. ASC 718, Stock Compensation, requires the Company to estimate forfeiture rates at the time of grant and revise those estimates in subsequent periods if actual forfeitures differ from those estimates. The Company uses historical forfeitures to estimate its future forfeiture rates.

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

	Three Months Ended		Nine Months Ended		
	September 30,		September 30,		
	2014	2013	2014	2013	
Option grants:					
Expected volatility	37	% 41	% 37 - 40%	41 - 43%	
Expected dividends	—	—	—	—	
Expected term of options (in years)	3.5	3.3	3.5	3.3	
Risk-free interest rate	1.3	% 1.1	% 1.1	% 0.7	%
ESPP: <sup>(i)</sup>					
Expected volatility	30	% 37	% 30 - 36%	37 - 42%	
Expected dividends	—	—	—	—	
Expected term of ESPP (in years)	0.5	0.5	0.5	0.5	
Risk-free interest rate	0.1	% 0.1	% 0.1	% 0.1	%

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



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## INFORMATICA CORPORATION

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

The allocations of the stock-based compensation, net of estimated income tax benefit, for the three and nine months ended September 30, 2014 and 2013 are as follows (in thousands):

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2014	2013	2014	2013
Cost of service revenues	\$1,496	\$1,283	\$4,414	\$4,046
Research and development	5,088	5,347	14,964	14,765
Sales and marketing	4,443	5,002	14,286	15,377
General and administrative	3,437	3,237	10,407	10,060
Total stock-based compensation	14,464	14,869	44,071	44,248
Estimated tax benefit of stock-based compensation	(3,784 )	(4,238 )	(11,835 )	(12,190 )
Total stock-based compensation, net of estimated tax benefit	\$10,680	\$10,631	\$32,236	\$32,058

## Stock Option Activity

A summary of stock option activity through September 30, 2014 is presented below (in thousands, except per share amounts):

	Number of	Weighted-	Weighted	Aggregate
	Shares	Average	Average	Intrinsic
		Exercise Price	Remaining	Value
		Per Share	Contractual	
			Term (Years)	
Outstanding at December 31, 2013	9,424	\$29.05	3.48	\$127,697
Granted	1,518	\$37.16		
Exercised	(2,557 )	\$12.05		
Forfeited or expired	(876 )	\$40.56		
Outstanding at September 30, 2014	7,509	\$35.14	4.26	\$26,193
Exercisable at September 30, 2014	4,363	\$33.47	3.27	\$23,711

## Restricted Stock Unit Activity

A summary of RSU activity, excluding PRSUs, through September 30, 2014 is presented below (in thousands, except per share amounts):

	Number of	Weighted-
	Shares	Average
		Grant Date
		Fair Value
Outstanding at December 31, 2013	1,793	—
Awarded	1,501	\$35.87
Released	(502 )	\$35.32
Forfeited	(250 )	\$38.06
Outstanding at September 30, 2014	2,542	—

## Performance-Based Restricted Stock Unit Activity

During the first quarter of 2014, the Company granted approximately 224,000 target PRSUs. The performance period for the PRSUs granted in 2014 is the 2014 fiscal year. If certain performance goals are met, PRSUs would become eligible to vest, and vest ratably over two or four years on the annual anniversary dates of the grant, contingent upon the recipient's continued service to the company. Certain participants have the ability to receive up to 125% to 150% of the target number of shares originally granted. The Compensation Committee of the Board of Directors will certify actual performance achievement for these PRSUs in the first quarter of 2015. The weighted-average grant date fair value of 2014 PRSUs was \$38.25 per share.





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## INFORMATICA CORPORATION

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

The performance period for the 649,900 target number of PRSUs granted in 2013 was the 2013 fiscal year. In the first quarter of 2014, the Compensation Committee of the Board of Directors certified actual performance achievement for PRSUs granted in 2013, and as a result, 507,000 shares became eligible to vest. The achieved PRSUs vest ratably over four years on the annual anniversary dates of the grant, contingent upon the recipient's continued service to the Company. The weighted-average grant date fair value of 2013 PRSUs was \$37.42 per share.

A summary of PRSU activity based upon PRSUs granted in 2013, certified and actually achieved through September 30, 2014 is presented below (in thousands):

	Number of Shares
Outstanding at December 31, 2013	—
Achieved	507
Released	(127 )
Forfeited	(71 )
Outstanding at September 30, 2014	309

## Note 9. Income Taxes

The Company's effective tax rates were 33% and 62% for the three months ended September 30, 2014 and 2013, respectively, and 34% and 41% for the nine months ended September 30, 2014 and 2013, respectively. The rates for the three and nine months ended September 30, 2014 were lower than the federal statutory rate of 35% primarily due to the benefits of foreign earnings in lower-tax jurisdictions and the domestic manufacturing deduction, partially offset by nondeductible stock-based compensation, state income taxes, and the accrual of reserves related to uncertain tax positions. The higher tax rates for the three and nine months ended September 30, 2013 were primarily attributable to acquisition integration-related income tax expenses.

The Company is a U.S.-based multinational corporation subject to tax in various U.S. and foreign tax jurisdictions. This fact causes the Company's effective tax rate to be sensitive to its geographic mix of earnings. The geographic mix of earnings is impacted by the fluctuation in currency exchange rates between the U.S. dollar and the functional currencies of the Company's foreign subsidiaries. The Company's results of operations will continue to be adversely affected to the extent that its geographic mix of earnings becomes more weighted toward jurisdictions with higher tax rates, and will be favorably affected to the extent the relative geographic mix shifts to lower tax jurisdictions. As of September 30, 2014, the Company has not provided for residual U.S. taxes in any of these lower-tax jurisdictions since it intends to indefinitely reinvest the net undistributed earnings of its foreign subsidiaries offshore.

ASC 740, Income Taxes, provides for the recognition of deferred tax assets if realization of such assets is more likely than not. In assessing the need for any additional valuation allowance in the quarter ended September 30, 2014, the Company considered all available evidence both positive and negative, including historical levels of income, legislative developments, expectations and risks associated with estimates of future taxable income, and ongoing prudent and feasible tax planning strategies.

As a result of this analysis for the quarter ended September 30, 2014, consistent with prior periods, it was considered more likely than not that the Company's non-stock-based payments related deferred tax assets would be realized except for any increase to the deferred tax asset related to the California research and development credit and certain operating losses incurred outside of the United States. A valuation allowance has been recorded against this portion of the credit, even though this attribute has an indefinite life. In addition, the Company recorded a valuation allowance related to the deferred tax asset that is attributable to certain operating losses incurred outside of the United States. The unrecognized tax benefits related to ASC 740, if recognized, would impact the income tax provision by \$27.6 million and \$21.6 million as of September 30, 2014 and 2013, respectively. The Company has elected to include interest and penalties as a component of income tax expenses. Accrued interest and penalties as of September 30, 2014 and 2013 were approximately \$3.5 million and \$2.8 million, respectively. As of September 30, 2014, the gross

unrecognized tax benefit was approximately \$31.7 million.

The Company files U.S. federal income tax returns as well as income tax returns in various states and foreign jurisdictions. The Company has been informed by certain state and foreign taxing authorities that it was selected for examination. Most state and foreign jurisdictions have three to six open tax years at any point in time. The field work for certain state and foreign audits have commenced and are at various stages of completion as of September 30, 2014.

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## INFORMATICA CORPORATION

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

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 these 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 10. Net Income per Common Share

The following table sets forth the calculation of basic and diluted net income per share for the three and nine months ended September 30, 2014 and 2013 (in thousands, except per share amounts):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Net income	\$22,813	\$10,404	\$70,495	\$46,477
Weighted-average shares of common stock used to compute basic net income per share (excluding unvested restricted stock)	109,231	108,305	109,378	108,039
Effect of dilutive common stock equivalents:				
Dilutive effect of unvested restricted stock units	411	312	541	305
Dilutive effect of employee stock options	672	2,884	1,364	3,028
Shares used in computing diluted net income per common share	110,314	111,501	111,283	111,372
Basic net income per common share	\$0.21	\$0.10	\$0.64	\$0.43
Diluted net income per common share	\$0.21	\$0.09	\$0.63	\$0.42
Weighted average stock options and restricted stock units excluded from calculation due to anti-dilutive effect	5,713	5,976	5,171	5,932

## Note 11. Commitments and Contingencies

## Lease Obligations

The Company leases certain office facilities under various non-cancelable operating leases, which expire at various dates through 2024 and require the Company to pay operating costs, including property taxes, insurance, and maintenance.

Future minimum lease payments as of September 30, 2014 under non-cancelable operating leases with original terms in excess of one year are summarized as follows (in thousands):

	Operating Leases
Remaining 2014	\$2,841
2015	11,833
2016	8,855
2017	6,178
2018	4,793
Thereafter	11,736
Total future minimum operating lease payments	\$46,236
Warranties	

The Company generally provides a warranty for its software products and services to its customers for a period of three to six months. The Company's software products' media are generally warranted to be free from defects in materials and workmanship under normal use, and the products are also generally warranted to substantially perform as described in certain Company documentation and the product specifications. The Company's services are generally warranted to be performed in a professional

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INFORMATICA CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

manner and to materially conform to the specifications set forth in a customer's signed contract. In the event there is a failure of such warranties, the Company generally will correct or provide a reasonable work-around or replacement product. To date, the Company's product warranty expense has not been significant. The warranty accrual as of September 30, 2014 and December 31, 2013 was not material.

Indemnification

The Company's software license agreements generally include 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 agreements generally limit 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 these indemnification provisions. In addition, the Company requires its employees to sign a proprietary information and inventions agreement, which assigns the rights to its employees' development work to the Company. To date, the Company has not had to reimburse any of its customers for any losses related to these indemnification provisions, and no material claims against the Company are outstanding as of September 30, 2014. The Company cannot determine the maximum amount of potential future payments, if any, related to such indemnification provisions due to the limited and infrequent history of prior indemnification claims.

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

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

Derivative Financial Instruments

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

Litigation

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

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



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## INFORMATICA CORPORATION

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

## Note 12. Significant Customer Information and Segment Information

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

No customer accounted for more than 10% of revenue in the three and nine months ended September 30, 2014 and 2013. At September 30, 2014 and December 31, 2013, 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 30% of total revenues in the third quarter of 2014 and 2013, respectively, and 36% and 32% of total revenues for the nine months ended September 30, 2014 and 2013, respectively.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Revenues:				
North America	\$ 165,385	\$ 164,930	\$ 479,202	\$ 453,866
Europe, the Middle East, and Africa	54,811	50,435	175,594	150,577
Other	30,204	20,029	89,414	67,690
Total revenues	\$ 250,400	\$ 235,394	\$ 744,210	\$ 672,133

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

	September 30, 2014	December 31, 2013
Property and equipment, net:		
North America	\$ 144,110	\$ 147,460
Europe, the Middle East, and Africa	9,947	4,907
Other	5,365	4,941
Total property and equipment, net	\$ 159,422	\$ 157,308

## Note 13. Acquisitions

Acquisition in Fiscal Year 2014:

## StrikeIron

In June 2014, the Company acquired all outstanding shares of StrikeIron, Inc. ("StrikeIron"), for aggregate consideration of approximately \$54.6 million. StrikeIron provides cloud-based data-as-a-service for email and contact validation, and will enable the Company to enhance its cloud-based product portfolio. The goodwill is not deductible for tax purposes.

Approximately \$8.3 million of the consideration otherwise payable to former StrikeIron stockholders was placed into an escrow fund and held as partial security for the indemnification obligations of the former StrikeIron stockholders. The escrow fund will remain in place until September 2015.



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## INFORMATICA CORPORATION

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

The following table summarizes the fair value of assets acquired and liabilities assumed of \$50.5 million and the acquiree's transaction related costs and debt settlement of \$4.1 million, which were paid by the Company (in thousands):

Assumed liabilities, net of assets	\$(3,499	)
Identifiable intangible assets:		
Developed and core technology	13,900	
Customer relationships	3,500	
Covenants not to compete	450	
Trade names	40	
Total identifiable net assets	14,391	
Goodwill	36,116	
Total assets acquired and liabilities assumed	50,507	
Acquiree's transaction related costs and debt settlement	4,138	
Total	\$54,645	

## Acquisitions in Fiscal Year 2013:

## Active Endpoints

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

Approximately \$1.5 million of the consideration otherwise payable to former Active Endpoints stockholders was placed into an escrow and held as partial security for certain indemnification obligations. The entire escrow fund was released in the second quarter of 2014.

## Heiler Software AG

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

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

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## INFORMATICA CORPORATION

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

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

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

During the first quarter of 2013, the Company recorded \$2.8 million of additional accrued liabilities during the measurement period. The goodwill is not deductible for tax purposes.

The Company's business combinations completed in 2014 and 2013, either individually or in aggregate, did not have a material impact on the Company's condensed consolidated financial statements, and therefore pro forma disclosures have not been presented. The Company included the financial results of these companies in the condensed consolidated financial statements from their respective acquisition dates.

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

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

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

## Overview

We are the leading independent provider of enterprise data integration software and services. We generate revenues from sales of software licenses, subscription-based licenses, maintenance and support services, and professional services, consisting of consulting and education services.

We receive software revenues from licensing our products under perpetual licenses directly to end users and indirectly through resellers, distributors, and OEMs in the United States and internationally. We also receive an increasing amount of software revenues from our customers and partners under subscription-based licenses for a variety of cloud and contact validation offerings. We receive service revenues from maintenance contracts, consulting services, and education services that we perform for customers that license our products either directly or indirectly. Most of our international sales have been in Europe, the Middle East, and Africa ("EMEA").

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

Total revenues in the third quarter of 2014 increased by 6% to \$250.4 million compared to \$235.4 million for the same period in 2013. Our software revenues slightly increased by 1% in the third quarter of 2014 from the same period in 2013 due to a 52% increase in subscription revenues, partially offset by a 6% decline in license revenues. The increase in subscription revenues was due to growth in the installed customer base and higher customer demand for our subscription offerings. The decrease in license revenues was primarily due to a decrease in the average transaction price of license orders partially offset by an increase in the number of transactions. Service revenues increased by 10% in the third quarter of 2014 from the same period in 2013 due to an 11% growth in maintenance revenues and an 8% increase in consulting and education services. The maintenance revenues growth was attributable to the increased size of our installed customer base, and the increase in consulting and education services revenues was primarily due to higher customer demand for consulting services, partially offset by a decrease in higher priced instructor-led trainings offered.

In the first nine months of 2014, total revenues increased by 11% to \$744.2 million from \$672.1 million in the comparable period a year ago. Software revenues increased by 10% in the first nine months of 2014 from the same period in 2013 due to a 48% increase in subscription revenues and a 5% increase in license revenues. The increase in subscription revenues was due to growth in the installed customer base and higher customer demand of subscription offerings. The increase in license revenues reflected an increase in the number of transactions partially offset by a decrease in average transaction size of license orders in the first nine months of 2014, compared to the same period in 2013. Service revenues increased by 11% in the first nine months of 2014 from the same period in 2013 due to a 13% growth in maintenance revenues and a 7% increase in consulting and education services. The maintenance revenues growth was attributable to the increased size of our installed customer base, and the increase

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in consulting and education services revenues was primarily due to an increase in consulting revenues due to higher customer demand, partially offset by a decrease in higher priced instructor-led trainings offered.

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

**Competition:** The market for our products is highly competitive, quickly evolving and subject to rapidly changing technology, which may expand the alternatives available to our customers for their data integration requirements. Our competitors may be able to respond more quickly to new or emerging technologies, technological trends, changes in customer requirements and industry consolidation. Moreover, competition from new and emerging technologies and changes in technological trends, particularly the shift to cloud-based solutions, has increased market confusion about the benefits of our products compared to other solutions. We must compete effectively, particularly on the basis of functionality and price, against a variety of different vendors offering existing data integration software products, vendors of new and emerging technologies, and hand-coded, custom-built data integration solutions.

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

**Quarterly and Seasonal Fluctuations:** Historically, purchasing patterns in the software industry have followed quarterly and seasonal trends that are likely to continue in the future. Specifically, it is normal for us to recognize a substantial portion of our new license orders in the last month of each quarter and sometimes in the last few weeks or days of each quarter, though such fluctuations are mitigated somewhat by recognition of backlog orders. In recent years, the fourth quarter has had the highest level of license revenues and license orders, and we generally had weaker demand for our software products and services in the first and third quarters of the year. The first, second and fourth quarters of 2013 followed these seasonal trends. However, license revenues in the third quarter of 2013 were higher as compared to the first and second quarters of 2013, and license revenues in the second and third quarters of 2014 were lower as compared to the first quarter of 2014. The uncertain macroeconomic conditions and recent changes in our worldwide sales organization make our future results more difficult to predict based on historical seasonal trends.

**Macroeconomic and Geopolitical Conditions:** The United States and many foreign economies, particularly in Europe, continue to experience uncertainty driven by varying macroeconomic and geopolitical conditions. Although some of these economies have shown signs of improvement, including in the United States, the macroeconomic environment remains uncertain and uneven. Uncertainty in the macroeconomic environment and associated global economic conditions as well as geopolitical conditions have resulted in extreme volatility in credit, equity, and foreign currency markets. In particular, economic concerns continue with respect to the European sovereign debt markets and potential ramifications of any U.S. debt, income tax and budget issues, including future delays in approving the U.S. budget or reductions in government spending. Such uncertainty and associated conditions have also resulted in volatility in several of our vertical markets, particularly the financial services and public sectors. These conditions have also adversely affected the buying patterns of customers and our overall pipeline conversion rate, as well as our revenue growth expectations. Furthermore, we continue to invest in our international operations. There are significant risks with overseas investments, and our growth prospects in these regions are uncertain. Increased volatility, further declines in credit, equity and foreign currency markets, and geopolitical conditions could cause delays or cancellations in international orders.

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

We concentrate on maintaining and strengthening our relationships with our existing strategic partners and building relationships with additional strategic partners. These partners include systems integrators, resellers and distributors, and strategic technology partners, including enterprise application providers, database vendors, and enterprise information integration vendors, in the United States and internationally. See “Risk Factors — We rely on our relationships with our strategic partners. If we do not establish, maintain and strengthen these relationships, our ability to generate revenue and control expenses could be adversely affected, which could cause a decline in the price of our common stock” in Part II, Item 1A of this Report.

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We have broadened our distribution efforts, and we have continued to expand our sales both in terms of traditional data warehousing products and more strategic data integration solutions beyond data warehousing, including cloud data integration, data quality, information lifecycle management, data exchange, and master data management, among others. We also operate the Informatica Marketplace, which allows buyers and sellers to share and leverage data integration solutions. To address the risks of introducing new products or enhancements to our existing products, we have continued to invest in programs to help train our internal sales force and our external distribution channel on new product functionalities, key differentiators, and key business values. These programs include user conferences for customers and partners, our annual sales kickoff conference for all sales and key marketing personnel, “webinars” and other informational seminars and materials for our direct sales force and indirect distribution channel, in-person technical seminars for our pre-sales consultants, the building of product demonstrations, and creation and distribution of targeted marketing collateral.

We continue to implement changes in our worldwide sales, marketing and field operations to address recent sales execution challenges and improve performance, particularly with respect to our pipeline generation and management capabilities, the reliability of our pipeline estimates and our pipeline conversion rates. In addition to the various leadership transitions in our worldwide sales organization and continued investment in our sales specialists and domain experts, we have also implemented pipeline generation and management initiatives and more rigorous sales planning and processes. Additionally, we have expanded our international sales presence in recent years by opening new offices, increasing headcount, and through acquisitions. As a result of these changes and our international expansion, as well as the increase in our direct sales headcount in the United States, our sales and marketing expenses have increased. As our products become more complex and we target new customers for our software and services, we expect to broaden our go-to-market initiatives and, as a result, our expenses may increase. In the long term, we expect these investments to result in increased revenues and productivity and ultimately higher profitability. As we continue to implement further changes, we may experience continued elevated levels of sales force turnover and additional disruption to our ongoing operations. These changes may also take longer to implement than expected, which may adversely affect our sales force productivity, profitability and revenues. If we experience continued elevated levels of sales personnel turnover, do not achieve expected increases in our sales pipeline, experience a decline in our sales pipeline conversion ratio, or do not achieve increases in sales productivity and efficiencies from our new sales personnel as they gain more experience, then it is unlikely that we will achieve our expected increases in revenue, sales productivity, or profitability.

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

### Critical Accounting Policies and Estimates

Our consolidated financial statements are prepared in accordance with generally accepted accounting principles (“GAAP”) in the United States, which require us to make estimates, judgments, and assumptions. We believe that the estimates, judgments, and assumptions upon which we rely are reasonable based upon information available to us at the time that these assumptions, judgments, and estimates are made. These estimates, judgments, and assumptions can affect the reported amounts of assets and liabilities as of the date of the financial statements as well as the reported amounts of revenues and expenses during the periods presented. Any material differences between these estimates and actual results will impact our consolidated financial statements. On a regular basis, we evaluate our estimates, judgments, and assumptions and make changes accordingly. We also discuss our critical accounting estimates with the Audit Committee of the Board of Directors. We believe that the estimates, judgments, and assumptions involved in the accounting for revenue recognition, income taxes, business combinations, impairment of goodwill and intangible assets, stock-based compensation, and allowance for doubtful accounts have the greatest potential impact on our consolidated financial statements, so we consider these to be our critical accounting policies. The critical accounting estimates associated with these policies are discussed in Part II, Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations, of our Annual Report on Form 10-K for the year ended December 31, 2013.

There have been no changes to our critical accounting policies since the end of 2013.

### Recent Accounting Pronouncements

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



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## Results of Operations

The following table presents certain financial data for the three and nine months ended September 30, 2014 and 2013 as a percentage of total revenues:

	Three Months Ended		Nine Months Ended			
	September 30,		September 30,			
	2014	2013	2014	2013		
Revenues:						
Software	40	% 42	% 41	% 42		%
Service	60	58	59	58		
Total revenues	100	100	100	100		
Cost of revenues:						
Software	1	1	1	1		
Service	18	16	18	16		
Amortization of acquired technology	1	2	1	3		
Total cost of revenues	20	19	20	20		
Gross profit	80	81	80	80		
Operating expenses:						
Research and development	20	18	19	18		
Sales and marketing	38	40	38	40		
General and administrative	8	10	8	9		
Amortization of intangible assets	1	1	1	1		
Acquisitions and other charges	—	1	—	—		
Total operating expenses	67	70	66	68		
Income from operations	13	11	14	12		
Interest income	1	—	—	—		
Interest expense	—	—	—	—		
Other expense, net	—	—	—	—		
Income before income taxes	14	11	14	12		
Income tax provision	5	7	5	5		
Net income	9	% 4	% 9	% 7		%

## Revenues

Total revenues in the third quarter of 2014 increased by 6% to \$250.4 million compared to \$235.4 million for the same period in 2013. Our software revenues slightly increased by 1% in the third quarter of 2014 from the same period in 2013 due to a 52% increase in subscription revenues, partially offset by a 6% decline in license revenues. The increase in subscription revenues was due to growth in the installed customer base and higher customer demand for our subscription offerings. The decrease in license revenues was primarily due to a decrease in the average transaction price of license transactions partially offset by an increase in the number of transactions. Service revenues increased by 10% in the third quarter of 2014 from the same period in 2013 due to an 11% growth in maintenance revenues and an 8% increase in consulting and education services. The maintenance revenues growth was attributable to the increased size of our installed customer base, and the increase in consulting and education services revenues was primarily due to higher customer demand for consulting services, partially offset by a decrease in higher priced instructor-led trainings offered.

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decrease in average transaction size of license transactions in the first nine months of 2014, compared to the same period in 2013. Service revenues increased by 11% in the first nine months

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of 2014 from the same period in 2013 due to a 13% growth in maintenance revenues and a 7% increase in consulting and education services. The maintenance revenues growth was attributable to the increased size of our installed customer base, and the increase in consulting and education services revenues was primarily due to an increase in consulting revenues due to higher customer demand, partially offset by a decrease in higher priced instructor-led trainings offered.

The following table and discussion compare our revenues for the three and nine months ended September 30, 2014 and 2013 (in thousands, except percentages):

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2014	2013	Percentage Change	2014	2013	Percentage Change
Software revenues:						
License	\$82,702	\$88,012	(6)%	\$258,506	\$246,239	5%
Subscription	17,940	11,814	52%	48,634	32,921	48%
Total software revenues	100,642	99,826	1%	307,140	279,160	10%
Service revenues:						
Maintenance	116,331	104,505	11%	338,096	300,109	13%
Consulting and education	33,427	31,063	8%	98,974	92,864	7%
Total service revenues	149,758	135,568	10%	437,070	392,973	11%
Total revenues	\$250,400	\$235,394	6%	\$744,210	\$672,133	11%

**Software Revenues**

Our software revenues were \$100.6 million (or 40% of total revenues) for the three months ended September 30, 2014 compared to \$99.8 million (or 42% of total revenues) for the three months ended September 30, 2013, representing an increase of \$0.8 million (or 1%). Our software revenues were \$307.1 million (or 41% of total revenues) for the nine months ended September 30, 2014 compared to \$279.2 million (or 42% of total revenues) for the nine months ended September 30, 2013, representing an increase of \$28.0 million (or 10%).

**License Revenues**

Our license revenues decreased to \$82.7 million (or 33% of total revenues) for the three months ended September 30, 2014 from \$88.0 million (or 37% of total revenues) for the three months ended September 30, 2013. Our license revenues increased to \$258.5 million (or 35% of total revenues) for the nine months ended September 30, 2014 from \$246.2 million (or 37% of total revenues) for the nine months ended September 30, 2013. The decrease in license revenues of \$5.3 million (or 6%) for the three months ended September 30, 2014 compared to the same period in 2013 was primarily due to a decrease in the average transaction price of license orders partially offset by an increase in the number of transactions. The increase of \$12.3 million (or 5%) in license revenues for the nine months ended September 30, 2014 compared to the same period in 2013 were primarily due to an increase in the number of transactions partially offset by a decrease in the average transaction size of license orders.

The average transaction amount for orders greater than \$100,000 in the third quarter of 2014, including upgrades for which we charge customers an additional fee, decreased to \$433,000 from \$589,000 in the third quarter of 2013. The average transaction amount for orders greater than \$100,000 for the nine months ended September 30, 2014, including upgrades for which we charge our customers an additional fee, decreased to \$437,000 from \$482,000 in the same period of 2013.

The number of transactions greater than \$1.0 million decreased to 21 in the third quarter of 2014 from 23 in the same period of 2013. The number of transactions greater than \$1.0 million remained at 57 for the nine months ended September 30, 2014 consistent with the same period of 2013. We offer two types of upgrades: (1) upgrades that are not part of the post-contract services for which we charge customers an additional fee, and (2) upgrades that are part of the post-contract services that we provide to our customers at no additional charge, when and if available.

**Subscription Revenues**

Subscription revenues, which primarily represent revenues from customers and partners under subscription-based licenses for a variety of cloud and contact validation offerings, increased to \$17.9 million (or 7% of total revenues) for the three months ended September 30, 2014 compared to \$11.8 million (or 5% of total revenues) for the three months ended September 30, 2013. Subscription revenues increased to \$48.6 million (or 7% of total revenues) for the nine months ended September 30, 2014 from \$32.9 million (or 5% of total revenues) for the nine months ended September 30, 2013. The increases of \$6.1 million (or 52%)

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and \$15.7 million (or 48%) in subscription revenues for the three and nine months ended September 30, 2014, respectively, compared to the same periods in 2013 were primarily due to an increase in the installed base of subscription customers and higher customer demand.

For the remainder of 2014, we expect our revenues from subscriptions to increase from the comparable 2013 levels primarily due to our growing installed customer base and an anticipated increase in demand for subscription offerings.

**Service Revenues**

**Maintenance Revenues**

Maintenance revenues increased to \$116.3 million (or 46% of total revenues) for the three months ended September 30, 2014 compared to \$104.5 million (or 44% of total revenues) for the three months ended September 30, 2013. Maintenance revenues increased to \$338.1 million (or 45% of total revenues) for the nine months ended September 30, 2014 compared to \$300.1 million (or 45% of total revenues) for the nine months ended September 30, 2013. The increases of \$11.8 million (or 11%) and \$38.0 million (or 13%) in maintenance revenues for the three and nine months ended September 30, 2014, respectively, compared to the same periods in 2013 were primarily due to the increasing size of our installed customer base, including those customers acquired through our acquisitions. See Note 13. Acquisitions of Notes to Condensed Consolidated Financial Statements in Part I, Item 1 of this Report.

For the remainder of 2014, we expect maintenance revenues to increase from the comparable 2013 levels due to our growing installed customer base.

**Consulting and Education Revenues**

Consulting and education revenues increased to \$33.4 million (or 13% of total revenues) for the three months ended September 30, 2014 compared to \$31.1 million (or 13% of total revenues) for the three months ended September 30, 2013. Consulting and education revenues increased to \$99.0 million (or 13% of total revenues) for the nine months ended September 30, 2014 compared to \$92.9 million (or 14% of total revenues) for the nine months ended September 30, 2013. The increases of \$2.4 million (or 8%) and \$6.1 million (or 7%) in consulting and education revenues for the three and nine months ended September 30, 2014, respectively, compared to the same periods in 2013 were primarily due to higher customer demand for consulting services, partially offset by a decrease in higher priced instructor-led trainings offered.

For the remainder of 2014, we expect our revenues from consulting and education revenues to increase from the comparable 2013 levels primarily due to an anticipated increase in demand for consulting services.

**International Revenues**

Our international revenues were \$85.0 million (or 34% of total revenues) and \$70.5 million (or 30% of total revenues) for the three months ended September 30, 2014 and 2013, respectively. Our international revenues were \$265.0 million (or 36% of total revenues) and \$218.3 million (or 32% of total revenues) for the nine months ended September 30, 2014 and 2013, respectively. The increase of \$14.5 million (or 21%) in international revenues for the three months ended September 30, 2014 compared to the same period in 2013 was due to increases in software revenues and service revenues in EMEA, Asia-Pacific, and Latin America due to broader adoption of our software products and increase in our installed customer base. The increase of \$46.7 million (or 21%) in international revenues for the nine months ended September 30, 2014 compared to the same period in 2013 was due to increases in software revenues and service revenues in EMEA, Asia-Pacific and Latin America due to broader adoption of our software products and increase in our installed customer base.

For the remainder of 2014, we expect our international revenues as a percentage of total revenues to be relatively consistent with, or increase from, the comparable 2013 levels.

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

Our potential future revenues include backlog consisting primarily of (1) product orders (both on a perpetual and subscription basis) that have not shipped as of the end of a given quarter, (2) product orders received from certain distributors, resellers, OEMs, and end users not included in deferred revenues, where revenue is recognized after cash receipt (collectively (1) and (2) above are referred as “aggregate backlog”), and (3) deferred revenues. Our deferred revenues consist primarily of the following: (1) maintenance revenues that we recognize over the term of the contract, typically one year, (2) subscription offerings that are recognized over the period of performance as services are provided, (3) 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

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all revenue recognition criteria are met or recognized ratably over an extended period, and (4) consulting and education services revenues that have been prepaid but for which services have not yet been performed. We typically ship products shortly after the receipt of an order, which is common in the software industry, and historically our backlog of license orders awaiting shipment at the end of any given quarter has varied. However, our backlog historically decreases from the prior quarter at the end of the first and third quarters and increases at the end of the fourth quarter. Aggregate backlog and deferred revenues at September 30, 2014 were approximately \$318.5 million compared to \$301.6 million at September 30, 2013 and \$343.2 million at December 31, 2013. The change in the third quarter of 2014 from the comparable period of 2013 was primarily due to increases in deferred service and software revenues, partially offset by a decrease in aggregate backlog. The international portion of aggregate backlog and deferred revenues may fluctuate with changes in foreign currency exchange rates. Aggregate backlog and deferred revenues as of any particular date are not necessarily indicative of future results.

**Cost of Revenues**

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

	Three Months Ended September 30,			Nine Months Ended September 30,			
	2014	2013	Percentage Change	2014	2013	Percentage Change	
Cost of software revenues	\$3,357	\$2,710	24 %	\$8,926	\$7,353	21 %	
Cost of service revenues	43,610	37,221	17 %	127,182	109,714	16 %	
Amortization of acquired technology	3,113	5,625	(45) %	10,384	16,970	(39) %	
Total cost of revenues	\$50,080	\$45,556	10 %	\$146,492	\$134,037	9 %	
Cost of software revenues, as a percentage of software revenues	3 %	3 %	— %	3 %	3 %	— %	
Cost of service revenues, as a percentage of service revenues	29 %	27 %	2 %	29 %	28 %	1 %	

**Cost of Software Revenues**

Our cost of software revenues is a combination of costs of license and subscription revenues. Cost of license revenues consists primarily of software royalties, product packaging, documentation, and production costs. Cost of subscription revenues consists primarily of fees paid to third party vendors for hosting services related to our subscription services and royalties paid to postal authorities and other vendors that provide content for our contact validation offerings. Cost of software revenues increased to \$3.4 million (or 3% of software revenues) for the three months ended September 30, 2014 compared to \$2.7 million (or 3% of software revenues) in the same period of 2013. Cost of software revenues increased to \$8.9 million (or 3% of software revenues) for the nine months ended September 30, 2014 compared to \$7.4 million (or 3% of software revenues) in the same period of 2013.

The \$0.6 million (or 24%) increase for the three months ended September 30, 2014 compared to the same period in 2013, was primarily due to a \$0.7 million increase in software royalties, partially offset by a \$0.1 million decrease in fees paid to third party vendors for hosting services. The \$1.6 million (or 21%) increase for the nine months ended September 30, 2014 compared to the same period in 2013, was primarily due to a \$1.4 million increase in software royalties and a \$0.2 million increase in fees paid to third party vendors for hosting services.

For the remainder of 2014, we expect that our cost of software revenues as a percentage of software revenues to be relatively consistent with the first nine months of 2014.

**Cost of Service Revenues**

Our cost of service revenues is a combination of costs of maintenance, consulting and education services revenues. Our cost of maintenance revenues consists primarily of costs associated with customer service personnel expenses and royalty fees for maintenance related to third-party software providers. Cost of consulting revenues consists primarily of personnel costs and expenses incurred in providing consulting services at customers' facilities. Cost of education services revenues consists primarily of the costs of providing education classes and materials at our headquarters,

sales and training offices, and customer locations.

Cost of service revenues increased to \$43.6 million (or 29% of service revenues) in the third quarter of 2014 compared to \$37.2 million (or 27% of service revenues) in the same period of 2013. Cost of service revenues increased to \$127.2 million (or 29% of service revenues) for the nine months ended September 30, 2014 compared to \$109.7 million (or 28% of service revenues) in the same period of 2013.

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The \$6.4 million (or 17%) increase in the third quarter of 2014 compared to the same period of 2013 was primarily due to a \$3.3 million increase in personnel related costs (including stock-based compensation), a \$2.2 million increase in subcontractor fees, and a \$0.9 million increase in general overhead costs. The \$17.5 million (or 16%) increase for the nine months ended September 30, 2014 compared to the same period of 2013 was primarily due to an \$8.4 million increase in personnel related costs (including stock-based compensation), a \$6.7 million increase in subcontractor fees, and a \$2.4 million increase in general overhead costs.

For the remainder of 2014, we expect that our cost of service revenues, in absolute dollars, to increase from the 2013 levels, mainly due to headcount increases to support and deliver increased service revenues. We expect; however, the cost of service revenues as a percentage of service revenues for the remainder of 2014 to remain relatively consistent with the first nine months of 2014.

Amortization of Acquired Technology

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

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2014	2013	Percentage Change	2014	2013	Percentage Change
Amortization of acquired technology	\$3,113	\$5,625	(45)%	\$10,384	\$16,970	(39)%

Amortization of acquired technology is the amortization of technologies acquired through business acquisitions and technology licenses. Amortization of acquired technology decreased to \$3.1 million for the three months ended September 30, 2014 from \$5.6 million in the same period of 2013. Amortization of acquired technology decreased to \$10.4 million for the nine months ended September 30, 2014 from \$17.0 million in the same period of 2013.

The decrease of \$2.5 million (or 45%) for the three months ended September 30, 2014, compared to the same period of 2013 was primarily due to a \$1.6 million decrease in amortization of certain technologies that were fully amortized after September 30, 2013, and a \$0.9 million decrease in amortization of certain acquired technologies which are amortized using a method based on expected cash flows. The decrease of \$6.6 million (or 39%) for the nine months ended September 30, 2014, compared to the same period of 2013 was primarily due to a \$3.0 million decrease in amortization of certain technologies that were fully amortized after September 30, 2013, and a \$3.6 million decrease in amortization of certain acquired technologies which are amortized using a method based on expected cash flows. For the remainder of 2014, we expect the amortization of acquired technology to be approximately \$2.7 million before the effect of any potential future acquisitions subsequent to September 30, 2014.

Operating ExpensesResearch and Development

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

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2014	2013	Percentage Change	2014	2013	Percentage Change
Research and development	\$49,283	\$42,167	17%	\$143,818	\$123,358	17%

Our research and development expenses consist primarily of salaries and other personnel-related expenses, consulting services, facilities, and related overhead costs associated with the development of new products, enhancement and localization of existing products, quality assurance, and development of documentation for our products. Research and development expenses increased to \$49.3 million (or 20% of total revenues) and \$143.8 million (or 19% of total revenues) for the three and nine months ended September 30, 2014, respectively, compared to \$42.2 million (or 18% of total revenues) and \$123.4 million (or 18% of total revenues) for the three and nine months ended September 30, 2013, respectively. All software development costs for software intended to be marketed to customers have been expensed in the period incurred since the costs incurred subsequent to the establishment of technological feasibility have not been significant.



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The \$7.1 million (or 17%) increase in the third quarter of 2014 compared to the same period of 2013 was primarily due to a \$6.6 million increase in personnel-related costs (including stock-based compensation) as a result of increased headcount and a \$0.5 million increase in general overhead costs. The \$20.5 million (or 17%) increase for the nine months ended September 30, 2014 compared to the same period of 2013 was primarily due to a \$16.8 million increase in personnel-related costs (including stock-based compensation) as a result of increased headcount and a \$3.7 million increase in general overhead costs.

For the remainder of 2014, we expect research and development expenses as a percentage of total revenues to be relatively consistent or decrease slightly from the first nine months of 2014.

**Sales and Marketing**

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

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2014	2013	Percentage Change	2014	2013	Percentage Change
Sales and marketing	\$95,490	\$94,160	1 %	\$283,858	\$267,727	6 %

Our sales and marketing expenses consist primarily of personnel costs, including commissions and bonuses, as well as costs of public relations, seminars, marketing programs, lead generation, travel, and trade shows. Sales and marketing expenses increased to \$95.5 million (or 38% of total revenues) and \$283.9 million (or 38% of total revenues) for the three and nine months ended September 30, 2014, respectively, compared to \$94.2 million (or 40% of total revenues) and \$267.7 million (or 40% of total revenues) for the three and nine months ended September 30, 2013, respectively.

The \$1.3 million (or 1%) increase for the three months ended September 30, 2014 compared to the same period in 2013 was primarily due to a \$0.5 million increase in personnel-related costs (including stock-based compensation) and a \$0.8 million increase in general overhead costs. The \$16.1 million (or 6%) increase for the nine months ended September 30, 2014 compared to the same period in 2013 was primarily due to an \$11.6 million increase in personnel-related costs, a \$2.3 million increase in third-party services, and a \$2.2 million increase in general overhead costs. Sales and marketing headcount increased from 1,045 in September 2013 to 1,195 in September 2014.

For the remainder of 2014, we expect sales and marketing expenses as a percentage of total revenues to be relatively consistent with or decrease slightly from the first nine months of 2014. The sales and marketing expenses as a percentage of total revenues may fluctuate from one period to the next due to the timing of hiring new sales and marketing personnel, our spending on marketing programs, and the level of the commission expenditures, in each period.

**General and Administrative**

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

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2014	2013	Percentage Change	2014	2013	Percentage Change
General and administrative	\$20,535	\$23,159	(11)%	\$60,607	\$60,827	—%

Our general and administrative expenses consist primarily of personnel costs for finance, human resources, legal, and general management, as well as professional service expenses associated with recruiting, legal, tax and accounting services. General and administrative expenses decreased to \$20.5 million (or 8% of total revenues) and \$60.6 million (or 8% of total revenues) for the three and nine months ended September 30, 2014, respectively, compared to \$23.2 million (or 10% of total revenues) and \$60.8 million (or 9% of total revenues) for the three and nine months ended September 30, 2013, respectively.

The \$2.6 million (or 11%) decrease for the three months ended September 30, 2014 compared to the same period in 2013 was primarily due to a \$2.1 million decrease in facilities related expenses primarily related to the corporate headquarters move that was completed in September 2013, a \$0.5 million decrease in third-party services, and a \$0.9 million decrease in general overhead costs, partially offset by a \$0.9 million increase in personnel-related costs (including stock-based compensation) as a result of increased headcount.

For the remainder of 2014, we expect general and administrative expenses as a percentage of total revenues to be relatively consistent with or decrease slightly from the first nine months of 2014.

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## Amortization of Intangible Assets

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

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2014	2013	Percentage Change	2014	2013	Percentage Change
Amortization of intangible assets	\$ 1,541	\$ 1,893	(19 )%	\$ 4,461	\$ 5,881	(24 )%

Amortization of intangible assets is the amortization of customer relationships, vendor relationships, trade names, and covenants not to compete acquired through prior business acquisitions, and patents acquired. Amortization of intangible assets decreased to \$1.5 million (or 1% of total revenues) for the three months ended September 30, 2014 from \$1.9 million (or 1% of total revenues) for the three months ended September 30, 2013. Amortization of intangible assets decreased to \$4.5 million (or 1% of total revenues) for the nine months ended September 30, 2014 from \$5.9 million (or 1% of total revenues) for the nine months ended September 30, 2013.

The decrease of \$1.4 million (or 24%) in amortization of intangible assets for the nine months ended September 30, 2014 compared to the same period in 2013 was primarily due to a \$1.0 million net decrease in amortization of certain intangibles which are amortized using a method based on expected cash flows and a \$0.4 million of decrease in amortization of certain intangibles that were fully amortized after September 30, 2013.

For the remainder of 2014, we expect amortization of the remaining intangible assets to be approximately \$1.5 million, before the impact of any amortization for any possible intangible assets acquired as part of any potential future acquisitions subsequent to September 30, 2014.

## Acquisitions and Other Charges

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

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2014	2013	Percentage Change	2014	2013	Percentage Change
Acquisitions and other charges	\$ 66	\$ 1,253	(95 )%	\$ 926	\$ 2,467	(62 )%

For the three and nine months ended September 30, 2014, acquisition and other charges of \$0.1 million and \$0.9 million, respectively, primarily consisted of legal, accounting, tax, bankers' and other professional service fees.

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

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

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## Interest and Other Income, Net

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

	Three Months Ended September 30,			Nine Months Ended September 30,			
	2014	2013	Percentage Change	2014	2013	Percentage Change	
Interest income	\$ 1,180	\$ 805	47	% \$ 3,512	\$ 2,588	36	%
Interest expense	(129	) (121	) 7	% (422	) (369	) 14	%
Other expense, net	(360	) (295	) (22	)% (642	) (754	) 15	%
Interest and other income, net	\$ 691	\$ 389	78	% \$ 2,448	\$ 1,465	67	%

Interest and other income, net consists primarily of interest income earned on our cash, cash equivalents, and short-term investments, as well as foreign exchange transaction gains and losses, and interest expense. The increase in income of \$0.3 million (or 78%) for the three months ended September 30, 2014 compared to the same period in 2013, was primarily due to a \$0.4 million increase in interest income due to higher yields and higher investment balances. The increase in income of \$1.0 million (or 67%) for the nine months ended September 30, 2014 compared to the same period in 2013, was primarily due to a \$0.9 million increase in interest income due to higher yields and higher cash and investment balances, and a \$0.1 million increase in foreign exchange gains.

## Income Tax Provision

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

	Three Months Ended September 30,			Nine Months Ended September 30,			
	2014	2013	Percentage Change	2014	2013	Percentage Change	
Income tax provision	\$ 11,283	\$ 17,191	(34	)% \$ 36,001	\$ 32,824	10	%
Effective tax rate	33	% 62	% (29	)% 34	% 41	% (7	)%

Our effective tax rates were 33% and 62% for the three months ended September 30, 2014 and 2013, respectively, and 34% and 41% for the nine months ended September 30, 2014 and 2013, respectively. Our rates for the three and nine months ended September 30, 2014 were lower than the federal statutory rate of 35% primarily due to the benefits of foreign earnings in lower-tax jurisdictions and the domestic manufacturing deduction, partially offset by nondeductible stock-based compensation, state income taxes, and the accrual of reserves related to uncertain tax positions. The higher tax rates for the three and nine months ended September 30, 2013 were primarily attributable to acquisition integration-related income tax expenses. As of September 30, 2014, we have not provided for residual U.S. taxes in any of these lower-tax jurisdictions since we intend to indefinitely reinvest the net undistributed earnings of our foreign subsidiaries offshore.

We are a U.S.-based multinational corporation subject to tax in various U.S. and foreign tax jurisdictions. This fact causes our effective tax rate to be sensitive to our geographic mix of earnings. Our results of operations will continue to be adversely affected to the extent that our geographic mix of earnings becomes more weighted toward jurisdictions with higher tax rates, and will be favorably affected to the extent the relative geographic mix shifts to lower tax jurisdictions.

Our effective tax rate in 2014 continues to be highly dependent on the result of our global operations, the execution of business combinations, the outcome of various tax audits and any changes in applicable tax laws. For example, our effective tax rate has historically benefited from the federal research and development tax credit. This credit is currently expired for 2014 and has not yet been reinstated. Further, the geographic mix of earnings is impacted by the fluctuation in currency exchange rates between the U.S. dollar and the functional currencies of our foreign subsidiaries.

## Liquidity and Capital Resources

We have funded our operations primarily through cash flows from operations and equity and debt offerings in the past. As of September 30, 2014, we had \$654.6 million in available cash and cash equivalents and short-term investments. Our primary sources of cash are the collection of accounts receivable from our customers and proceeds

from the exercise of stock options and stock purchased under our employee stock purchase plan. In addition, as of September 30, 2014, we had \$220.0 million available for borrowing under the credit agreement discussed below. Our uses of cash include payroll and payroll-related expenses and operating

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expenses such as marketing programs, travel, professional services, and facilities and related costs. We have also used cash to purchase property and equipment, repurchase common stock from the open market to reduce the dilutive impact of stock option issuances, and acquire businesses and technologies to expand our product offerings.

Approximately 33% of our cash, cash equivalents, and short-term investments are held by our foreign subsidiaries. Our intent is to indefinitely reinvest our earnings from foreign operations and current plans do not anticipate that we will need funds generated from foreign operations to fund our domestic operations. In the event funds from foreign operations are needed to fund operations in the United States and if U.S. tax has not already been previously accrued, we would be required to accrue and pay additional U.S. taxes in order to repatriate these funds.

The following table summarizes our cash flows for the nine months ended September 30, 2014 and 2013 (in thousands):

	Nine Months Ended September 30,	
	2014	2013
Cash provided by operating activities	\$143,055	\$138,724
Cash used in investing activities	\$(112,275)	\$(21,595)
Cash used in financing activities	\$(83,663)	\$(26,740)

Operating Activities: Cash provided by operating activities for the nine months ended September 30, 2014 was \$143.1 million, representing an increase of \$4.3 million from the nine months ended September 30, 2013. This increase resulted primarily from a \$28.8 million increase in net cash inflow from accounts receivable, a \$24.0 million increase in net income and a \$0.4 million decrease in net cash outflow from accrued facilities restructuring charges. These were partially offset by a \$16.7 million increase in net cash outflow accounts payable and accrued liabilities, a \$15.8 million increase in net cash outflow from deferred revenues, a \$10.8 million increase in net cash outflows from income taxes payable, a \$2.7 million decrease in net cash inflows from prepaid expenses and other assets and a \$2.9 million decrease in adjustments for non-cash expenses. We recognized excess tax benefits from stock-based compensation of \$3.0 million during the nine months ended September 30, 2014. This amount is recorded as a use of cash from operating activities and an offsetting amount is recorded as a source of cash provided by financing activities. We made net cash payments for taxes in different jurisdictions of \$44.0 million during the nine months ended September 30, 2014. Our “days sales outstanding” in accounts receivable decreased from 63 days at September 30, 2013 to 60 days at September 30, 2014 due to stronger collections compared to the third quarter of 2013.

Investing Activities: Net cash used in investing activities for the nine months ended September 30, 2014 was \$112.3 million due to \$226.6 million in purchases of investments, \$54.6 million used to acquire StrikeIron, net of cash acquired, \$15.9 million in purchases of property and equipment, and \$0.3 million in purchase of an investment in equity interests. These cash outflows were partially offset by cash provided by the maturities of investments of \$172.2 million and sales of investments of \$12.9 million.

Certain reclassifications have been made within the condensed consolidated statement of cash flows to conform to the current year presentation. A change was made to present redemptions by issuers of debt securities held in our portfolio as part of net cash provided by maturities of investments to reflect that these redemptions are an acceleration of the maturity of the debt investment. Redemptions were previously presented as part of net cash provided by sales of investments. This change in presentation will not affect total net cash used in investing activities and conforming changes have been made for all prior periods presented. Net cash provided by redemptions of \$47.6 million was reclassified from sales of investments to maturities of investments for the nine months ended September 30, 2013. We have identified our investment portfolio as “available-for-sale,” and our investment objectives are to preserve principal and provide liquidity while maximizing yields without significantly increasing risk. We may sell an investment at any time if the credit rating of the investment declines, the yield on the investment is no longer attractive, or we need additional cash. We invest only in money market funds, time deposits, and marketable debt securities. We believe that the purchase, maturity, or sale of our investments has no material impact on our overall liquidity.



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

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

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Financing Activities: Net cash used in financing activities for the nine months ended September 30, 2014 was \$83.7 million due to repurchases and retirement of our common stock of \$126.9 million, withholding taxes for restricted stock units net share settlement of \$6.8 million, payment of contingent consideration of \$3.1 million, and \$0.9 million payment of issuance costs on our credit facility. These amounts were partially offset by proceeds received from the issuance of common stock to option holders and participants of our ESPP program of \$50.9 million and excess tax benefits from stock-based compensation of \$3.0 million.

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

Our Board of Directors has approved a stock repurchase program for the repurchase of our common stock. Purchases can be made from time to time in the open market and will be funded from our available cash. The primary purpose of this program is to enhance shareholder value, including partially offsetting the dilutive impact of stock based incentive plans. The number of shares to be purchased and the timing of purchases are based on several factors, including the price of our common stock, our liquidity and working capital needs, general business and market conditions, and other investment opportunities. The repurchased shares are retired and reclassified as authorized and unissued shares of common stock. We may continue to repurchase shares from time to time, as determined by management as authorized by the Board of Directors. In January 2014, the Board of Directors approved the repurchase of up to an additional \$100.0 million of our outstanding common stock. In July 2014, the Board of Directors approved, for the second time in 2014, the repurchase of up to an additional \$100.0 million of our outstanding common stock. As of September 30, 2014, \$77.1 million remained available for share repurchases under this program. In October 2014, we announced that the Board of Directors approved, for the third time in 2014, the repurchase of up to an additional \$100.0 million of our outstanding common stock.

See Part II, Item 2 of this Report for information regarding the number of shares purchased under the stock repurchase program.

In connection with our acquisitions, we are obligated to pay up to an additional \$1.2 million for certain variable and deferred earn-out payments based upon the achievement of certain performance targets.

We believe that our cash balances and the cash flows generated by operations will be sufficient to satisfy our anticipated cash needs for working capital and capital expenditures for at least the next 12 months. However, we may be required to raise or desire additional funds for selective purposes, such as acquisitions or other investments in complementary businesses, products, or technologies, and may raise such additional funds through public or private equity or debt financing or from other sources.

Credit Agreement

In September 2014, we entered into a Credit Agreement (the "Credit Agreement") that matures in September 2019. This Credit Agreement replaces the former agreement that matured 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 us to request to increase the revolving loan commitments or to enter into tranches of term loans in an aggregate amount of up to \$30.0 million, for a total credit facility of up to \$250.0 million. The revolving credit facility has sublimits for swingline loans up to \$10.0 million available on a same day basis and for the issuance of standby letters of credit in a face amount up to \$20.0 million. No amounts were borrowed during the nine months ended September 30, 2014 or outstanding under the Credit Agreement as of September 30, 2014, and a total of \$220.0 million remained available for borrowing. The Credit Agreement contains customary representations and warranties, covenants and events of default, including the requirement to maintain a maximum consolidated leverage ratio of 2.75 to 1.00 and a minimum consolidated interest coverage ratio of 3.50 to 1.00. We were in compliance with all covenants under the Credit Agreement as of September 30, 2014. For further information, see Note 4. Borrowings of Notes to Condensed Consolidated Financial Statements in Part I, Item 1 of this Report.

Contractual Obligations and Operating Leases

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The following table summarizes our significant contractual obligations, including future minimum lease payments at September 30, 2014, 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 2014	2015 and 2016	2017 and 2018	2019 and Beyond
Operating lease payments	\$46,236	\$2,841	\$20,688	\$10,971	\$11,736

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The above commitment table does not include approximately \$31.9 million of long-term income tax liabilities recorded in accordance with ASC 740, Income Taxes. We are unable to make a reasonably reliable estimate of the timing of these potential future payments in individual years beyond 12 months due to uncertainties in the timing of tax audit outcomes. As a result, this amount is not included in the table above. For further information, see Note 9. Income Taxes of Notes to Condensed Consolidated Financial Statements in Part I, Item 1 of this Report.

### Contractual Obligations

Purchase orders or contracts for the purchase of certain goods and services are not included in the preceding table. We cannot determine the aggregate amount of such purchase orders that represent contractual obligations because purchase orders may represent authorizations to purchase rather than binding agreements. For the purposes of this table, contractual obligations for purchase of goods or services are defined as agreements that are enforceable and legally binding and that specify all significant terms, including fixed or minimum quantities to be purchased; fixed, minimum, or variable price provisions; and the approximate timing of the transaction. Our purchase orders are based on our current needs and are fulfilled by our vendors within short time horizons. We also enter into contracts for outsourced services; however, the obligations under these contracts were not significant and the contracts generally contain clauses allowing for cancellation without significant penalty. Contractual obligations that are contingent upon the achievement of certain milestones are not included in the table above.

We estimate the expected timing of payment of the obligations discussed above based on current information. Timing of payments and actual amounts paid may be different depending on the time of receipt of goods or services or changes to agreed-upon amounts for some obligations.

### Operating Leases

We lease certain office facilities and equipment under non-cancelable operating leases, which expire at various dates through 2024.

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

### Off-Balance Sheet Arrangements

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

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

During the three and nine months ended September 30, 2014, there were no significant changes to our quantitative and qualitative disclosures about market risk. Please refer to Part II, Item 7A. Quantitative and Qualitative Disclosures about Market Risk included in our Annual Report on Form 10-K for our year ended December 31, 2013 for a more complete discussion of the market risks we encounter.

## ITEM 4. CONTROLS AND PROCEDURES

Evaluation of disclosure controls and procedures. Our management evaluated, with the participation of our Chief Executive Officer and our Chief Financial Officer, the effectiveness of our disclosure controls and procedures as of the end of the period covered by this Report. Based on this evaluation, our Chief Executive Officer and our Chief Financial Officer have concluded that our disclosure controls and procedures are effective at the reasonable assurance level to ensure that information we are required to disclose in reports that we file or submit under the Securities Exchange Act of 1934 (1) is recorded, processed, summarized, and reported within the time periods specified in Securities and Exchange Commission rules and forms, and (2) is accumulated and communicated to Informatica’s management, including our Chief Executive Officer and our Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure. Our disclosure controls and procedures are designed to provide reasonable assurance that such information is accumulated and communicated to our management. Our disclosure controls and procedures include components of our internal control over financial reporting. Management’s assessment of the effectiveness of



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our internal control over financial reporting is expressed at the level of reasonable assurance because a control system, no matter how well designed and operated, can provide only reasonable, but not absolute, assurance that the control system's objectives will be met.

Change in internal control over financial reporting. There were no changes in our internal controls over financial reporting that occurred during the three months ended September 30, 2014 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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PART II: OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The information set forth under the "Litigation" subheading in Note 11. Commitments and Contingencies of Notes to Condensed Consolidated Financial Statements in Part I, Item 1 of this Report is incorporated herein by reference.

ITEM 1A. RISK FACTORS

In addition to the other information contained in this Form 10-Q, we have identified the following risks and uncertainties that may have a material adverse effect on our business, financial condition, or results of operation. Investors should carefully consider the risks described below before making an investment decision. The trading price of our common stock could decline due to any of these risks, and investors may lose all or part of their investment. In assessing these risks, investors should also refer to the information contained in our other SEC filings, including our Form 10-K for the year ended December 31, 2013.

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

The market for our products is highly competitive, quickly evolving, and subject to rapidly changing technology, which may expand the alternatives available to our current and potential customers for their data integration requirements. Our competition consists of hand-coded, custom-built data integration solutions developed in-house by various companies in the industry segments that we target, large vendors of data integration software products (such as IBM, Microsoft, Oracle, SAP, and SAS Institute), certain privately held companies, alternate technologies, and open source solutions. From time to time, we compete with business intelligence and analytics vendors that offer, or may develop, products with functionalities that compete with our products.

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

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

In addition, consolidation among vendors in the software industry is continuing at a rapid pace. Our current and potential competitors may make additional strategic acquisitions, consolidate their operations, or establish cooperative relationships among themselves or with other solution providers, thereby increasing their ability to provide a broader suite of software products or solutions and more effectively address the needs of our current and prospective customers. Such acquisitions could cause customers to defer their purchasing decisions. Our current and potential

competitors may also establish or strengthen cooperative relationships with our current or future strategic partners, thereby limiting our ability to sell products through these channels. If any of this were to occur, our ability to market and sell our software products would be impaired. In addition, competitive pressures could reduce our market share or require us to reduce our prices, either of which could harm our business, results of operations, and financial condition.



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Furthermore, during periods of U.S. or global economic uncertainty, our customers' capital spending may be significantly reduced. As a result, there is significantly increased competition for the allocation of IT budget dollars, and other IT implementations may take priority over the use of our products and services.

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

Rapid technological changes, including changes in customer requirements and preferences, are characteristic in the software industry. In particular, in the market for enterprise data integration software and services, especially for broader data integration initiatives, we have experienced increased competition from new and emerging technologies and increased market confusion from our customers or prospective customers about the benefits of our products compared to other solutions. In order to address the expanding data integration needs of our customers and prospective customers and to respond to rapid technological changes, technological trends and customer concerns, we introduce new products and technology enhancements on a regular basis, including products we acquire. For example, in the past few years, we have delivered a version upgrade to our entire data integration platform by delivering the generally available version of Informatica 9, and introduced Informatica Vibe, an embedded virtual data machine, designed to embed data integration into the next generation of applications. In addition, we extended our existing master data management (“MDM”) offerings through the acquisition of Heiler Software, and we introduced various solutions for the cloud market, among others. Furthermore, we recently announced our next-generation intelligent data platform, including two new products in data security and data analytics, and we continue to increase our investments to develop new products that further expand our offerings beyond our traditional data integration products. The introduction of new products, integration of acquired products and enhancement of existing products, is a complex and costly process involving inherent risks, such as:

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

We devote significant resources to the development of new products, the acquisition of products, and the enhancement of existing products, as well as to the integration of these products with each other. In addition, as we develop new products, particularly those based on new or emerging technologies, we may need to develop sales and marketing strategies that differ from the strategies we currently utilize, which may result in increased levels of investment and additional costs. As a result of the risks involved, we cannot predict the impact on our overall sales from new or enhanced products, and we may not generate sufficient revenues from these products to justify their costs, which would adversely affect our competitive position and results of operations.

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

Our quarterly operating results, including our software revenues and particularly our license revenues, have fluctuated in the past and may do so in the future. These fluctuations have caused our stock price to decline and could cause our

stock price to significantly fluctuate or decline in the future. Our license revenues, which are primarily sold on a perpetual license basis, are difficult to forecast accurately and are vulnerable to short-term shifts in customer demand. Also, we may experience order deferrals by customers in anticipation of future new product introductions or product enhancements, as well as a result of their particular budgeting and purchase cycles. The continued global economic and geopolitical uncertainty is also likely to cause further customer order deferrals or reductions, stricter customer purchasing controls and approval processes, and adversely affect budgeting and

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purchase cycles. By comparison, our short-term expenses are relatively fixed and based in part on our expectations of future revenues. In addition, our backlog of license orders at the end of a given fiscal period has tended to vary. Historically, our backlog typically decreases from the prior quarter at the end of the first and third quarters and increases from the prior quarter at the end of the fourth quarter. Furthermore, we generally recognize a substantial portion of our license revenues in the last month of each quarter and, sometimes in the last few weeks or days of each quarter. As a result, we cannot predict the adverse impact caused by cancellations or delays in prospective orders until the end of each quarter. Moreover, the expansion of our product portfolio through the introduction of new products and enhancements has increased the complexity and size of our transactions. The likelihood of an adverse impact may be greater if we experience increased average transaction sizes due to a mix of relatively larger deals in our sales pipeline.

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

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

As our business has grown, we have become increasingly subject to the risks arising from adverse changes in the domestic and global economies, particularly Europe. Revenues from Europe, the Middle East, and Africa (“EMEA”) accounted for approximately 22% and 21% of our total revenues in the third quarter of 2014 and 2013, and 24% and 22% for the nine months ended September 30, 2014 and 2013, respectively. We have experienced the adverse effect of economic slowdowns in the past, which resulted in a significant reduction in capital spending by our customers, as well as longer sales cycles and the deferral or delay of purchases of our products.

Uncertainty in the macroeconomic environment and associated global economic conditions, as well as geopolitical conditions, have resulted in extreme volatility in credit, equity, and foreign currency markets. In particular, economic concerns continue with respect to the European sovereign debt markets and potential ramifications of any U.S. debt, income tax and budget issues, including future delays in approving the U.S. budget or reductions in government spending. Such uncertainty and associated conditions have also resulted in volatility in various vertical markets, particularly the financial services and public sectors, which are typically two of the larger vertical sectors that we serve. For example, in 2010 and through the first three quarters of 2012, we experienced a decline in European public sector transactions, and we continue to expect uncertainty in Europe at least until the sovereign debt issues are resolved. In addition, we experienced a decline in financial services and public sector transactions in the second quarter of 2014 as compared to both the first quarter of 2014 and the second quarter of 2013. We expect financial services and public sector transactions to continue to be volatile in the near term, particularly in North America, and as a result, growth in our business becomes more dependent on growth in other sectors in the U.S. and internationally.

These conditions have also adversely affected the buying patterns of our customers and prospective customers, including the size of transactions and length of sales cycles, and have adversely affected our overall pipeline conversion rate as well as our revenue growth expectations. For example, in the second and third quarters of 2012, the macroeconomic uncertainty in Europe contributed to a delay in customer purchasing decisions, stricter customer purchasing controls and approval processes, and a decline in our pipeline conversion rate. In addition, in the third quarter of 2013, we experienced weaker than expected results in Asia-Pacific. Furthermore, in the second quarter of 2014, we had fewer transactions over \$1 million in the financial services and public sectors as compared to the first quarter of 2014. We expect these conditions, together with our recent sales execution challenges and our worldwide sales leadership transitions, will continue to adversely affect our results in the near term. If macroeconomic or geopolitical conditions continue to deteriorate or if the pace of recovery is slower or more uneven, our overall results of operations could be adversely affected, we may not be able to grow at the rates we have experienced in the past, and we could fail to meet the expectations of stock analysts and investors, which could cause the price of our common stock to decline.

We continue to invest in our international operations. There are significant risks with overseas investments, and our growth prospects in these regions are uncertain. Increased volatility, further declines in the European credit, equity and foreign currency markets or geopolitical conditions could cause delays in or cancellations of European orders. For example, recent events in the Ukraine and Russia may adversely affect transactions in Eastern Europe, and could adversely affect greater EMEA transactions as well as U.S. and European public sector transactions if the geopolitical conditions do not stabilize in the future. Deterioration of economic or geopolitical conditions in the countries in which we do business could also cause slower or impaired collections on accounts receivable. In addition, we could experience delays in the payment obligations of our worldwide reseller customers if they experience weakness in the end-user market, which would increase our credit risk exposure and harm our financial condition.

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

We use a “pipeline” system, a common industry practice, to forecast sales and trends in our business. Our sales personnel monitor the status of all potential sales of our products and estimate when a customer will make a purchase decision and the potential dollar amount of the sale. We aggregate these estimates periodically in order to generate a sales pipeline. We assess the pipeline at various points in time to look for trends in our business. While this pipeline analysis may provide us with some guidance in business planning and budgeting, these pipeline estimates are necessarily speculative. Our pipeline estimates may not consistently correlate to revenues in a particular quarter or over a longer period of time, particularly in a weak or uncertain global macroeconomic environment. In addition, our pipeline estimates can prove to be unreliable in a particular quarter or over a longer period of time, in part because both the “conversion rate” of the pipeline into contracts and the quality and timing of pipeline generation can be very difficult to estimate. For example, in the second and third quarters of 2012, continued changes in our sales organization and challenges in our sales execution generally, together with the macroeconomic uncertainty in Europe, adversely affected our pipeline management capabilities, the reliability of our pipeline estimates, and, consequently, our pipeline conversion rate. In particular, in the third quarter of 2012, our pipeline conversion rate was significantly lower as compared to the second quarter of 2012. In addition, further sales execution challenges adversely affected our pipeline conversion rate in certain geographies and vertical industry sectors in 2014 as compared to 2013. While we have made further changes to our sales, marketing and field operations organizations, including the implementation of pipeline generation initiatives, more rigorous sales planning and process measures; in the near term, such actions may decrease the predictive value of our pipeline in assessing near term trends in our business or in comparison to historical trends.

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

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

In the past and recently, we have experienced a reduced conversion rate of our overall license pipeline, primarily as a result of general economic slowdowns and general macroeconomic uncertainty, which caused the amount of customer purchases to be reduced, deferred, or cancelled. Although the size of our sales pipeline and our pipeline conversion rate generally have increased as a result of our additional investments in sales personnel and a gradually improving IT spending environment, they are not consistent on a quarter-to-quarter basis. The recent global economic recession and continued macroeconomic uncertainty has had and will continue to have an adverse effect on our pipeline conversion rate in the near future. For example, our pipeline conversion rate decreased in certain geographies and vertical industry sectors in 2011, 2012 and 2014. If we are unable to continue to increase the size of our sales pipeline and our pipeline conversion rate, our results of operations could fail to meet the expectations of stock analysts and investors, which could cause the price of our common stock to decline.

We have expanded our international operations and opened new sales offices in other countries. We have experienced and may continue to experience various leadership transitions in our worldwide sales organization. We have also continued to make investments in our sales specialists and domain experts, and implemented changes in our worldwide sales, marketing and field operations to address recent sales execution challenges and improve performance, particularly with respect to our pipeline generation and management capabilities, the reliability of our pipeline estimates and our pipeline conversion rates. As a result of our international expansion and these changes, as

well as the increase in our direct sales headcount in the United States, our sales and marketing expenses have increased. As our products become more complex and we target new customers for our software and services, we expect to broaden our go-to-market initiatives and, as a result, our expenses may increase. We expect these investments to increase our revenues, sales productivity, and eventually our profitability. However, if we experience an increase in sales personnel turnover, do not achieve expected increases in our sales pipeline, experience a decline in our sales pipeline conversion ratio, or do not achieve increases in productivity and efficiencies from our new sales personnel as they gain more experience, then we may not achieve our expected increases in revenue, sales productivity, and profitability.

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

Due to the expense, broad functionality, and company-wide deployment of our products, our customers' decisions to purchase our products typically require the approval of their executive decision makers. Also, macroeconomic uncertainty and global economic conditions can adversely affect the buying patterns of our customers and prospective customers, including the size of transactions, and lengthen our sales cycle. For example, in the second and third quarters of 2012, the macroeconomic uncertainty in Europe contributed to a delay in customer purchasing decisions and stricter customer purchasing controls and approval processes in EMEA. We experienced similar delays in customer purchasing decisions and increased approval processes in financial services and public sector transactions in North America in the second quarter of 2014. In addition, we frequently must educate our potential customers about the full benefits of our products, which also can require significant time. These trends toward greater customer executive level involvement or stricter customer purchasing controls and approval processes and increased customer education efforts are likely to increase, particularly as we expand our market focus to broader data integration initiatives and experience increased competition from new or emerging technologies. Further, our sales cycle may lengthen as we continue to focus our sales efforts on large corporations. In addition, the purchase of our products may be delayed, or our sales cycle may become more complex, due to potential conflicts in our sales channels and sales processes if we increasingly sell our subscription-based offerings together with our perpetual license-based products. As a result of these factors, the length of time from our initial contact with a customer to the customer's decision to purchase our products typically ranges from three to nine months. We are subject to a number of significant risks as a result of our lengthy sales cycle that could delay, reduce or otherwise adversely affect the purchase of our products, including:

- changes in our customers' budgetary constraints and internal acceptance review procedures;
- the timing of our customers' budget cycles;
- the seasonality of technology purchases, which historically has resulted in stronger sales of our products in the fourth quarter of the year, especially when compared to lighter sales in the first quarter of the year;
- our customers' concerns about the introduction of our products;
- market confusion over the introduction of new or emerging technologies by us or our competitors or changes in technological trends, particularly the shift to cloud-based solutions; or
- potential downturns in general economic or political conditions or potential tightening of credit markets that could occur during the sales cycle.

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

Our subscription offering strategy may not be successful and may adversely affect our profitability.

We offer a variety of subscription offerings, including cloud data integration products and services that provide our customers with functionality within a cloud-based IT environment, and contact validation offerings that we manage and offer via a subscription-based model. Our strategy and business model for these subscription offerings, which differs from our traditional perpetual license-based model for our on-premise software products, continue to evolve. The market for subscription-based offerings, particularly for cloud-based solutions, is not as mature as the market for on-premise software products and it may not develop as anticipated. In addition, market acceptance of subscription-based offerings, particularly cloud-based solutions, may be affected by a variety of factors, including the data security, privacy, cost, reliability, performance and perceived value associated with such offerings. Many customers have invested substantial resources on traditional, perpetually licensed, on-premise software solutions and they may be unwilling or reluctant to migrate to cloud-based solutions or other subscription offerings. We may not be able to compete effectively or generate significant demand for or revenues from our subscription offerings. Also, demand for our subscription offerings may unfavorably impact demand for certain of our other products and services. In addition, our subscription offering strategy will require continued investment in product development and

operations, including cloud-based IT infrastructure. We may incur costs at a higher than expected rate as we expand our subscription business, adversely affecting our profitability. In addition, we will incur costs associated with the investments in our subscription business in advance of our ability to recognize the revenue associated with our subscription offerings.

Subscription offerings may increase the difficulty of evaluating our future financial position.

With our subscription offerings, we generally recognize revenue from customers ratably over the terms of their subscription agreements. As a result, most of the subscription revenue we report in each quarter is the result of subscription agreements entered into during previous quarters. Consequently, a decline in subscriptions in any one quarter may not affect our results in that quarter,



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but could reduce revenue in future quarters. We may not be able to adjust our cost structure in response to changes in revenue. Accordingly, the effect of significant downturns in sales of our subscription offerings may not be fully reflected in our results of operations until future periods. Also, as revenue from new customers is recognized over the term of their subscription, it is difficult for us to rapidly increase revenue through additional sales in any period. In addition, if we sell certain elements of our subscription-based offerings together with our perpetual license-based products, we may not be able to recognize the revenue associated with the perpetually licensed products up-front, and we may be required to recognize such revenue ratably over the term of the subscription agreement. The timing of such revenue recognition may make it more difficult to forecast sales and trends in our business, particularly changes in revenue, and could have a potentially negative impact on our financial performance.

Furthermore, our customers have no obligation to renew their subscriptions after the expiration of their initial subscription period, and in fact, some customers have elected not to renew. As a result, we may not be able to accurately predict future renewal rates, and our customers' renewal rates may decline or fluctuate as a result of a number of factors, including satisfaction with our subscription offerings, the prices of our subscription offerings and the prices offered by competitors, the perceived information security of our systems, reductions in customers' spending levels and general economic conditions. If our customers do not renew their subscriptions, or if they renew on less favorable terms, our revenue may decline.

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

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

- general economic and political conditions in these foreign markets;
- fluctuations in exchange rates between the U.S. dollar and foreign currencies;
- slower or impaired collections on accounts receivable;
- increased operating costs and wage inflation, particularly in India and Brazil;
- greater difficulty in protecting our ownership rights to intellectual property developed in foreign countries, which may have laws that materially differ from those in the United States;
- higher risk of unexpected changes in regulatory practices, tariffs, and tax laws and treaties;
- greater risk of a failure of our employees to comply with both U.S. and foreign laws, including antitrust regulations, the U.S. Foreign Corrupt Practices Act, the U.K. Bribery Act of 2010, and any trade regulations ensuring fair trade practices;
- increased expenses, delays and our limited experience in developing, testing and marketing localized versions of our products;
- increased competition from companies in the industry segments that we target or other vendors of data integration software products that are more established in a particular region than us;
- potential conflicts with our established distributors in countries in which we elect to establish a direct sales presence, or the inability to enter into or maintain strategic distributor relationships with companies in certain international markets where we do not have a local presence;
- our limited experience in establishing a sales, marketing and support presence and the appropriate internal systems, processes, and controls, particularly in Brazil, Russia, and Asia-Pacific (especially China, Japan, South Korea, and Taiwan);
- difficulties in recruiting, training, managing, and retaining our international staff, particularly our international sales management and sales personnel, which have adversely affected our ability to increase sales productivity, and the costs and expenses associated with such activities;
  - differing business practices, which may require us to enter into software license agreements that include non-standard terms related to payment, maintenance rates, warranties, or performance obligations that may affect our ability to recognize revenue ratably; and
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communication delays between our main development and support center in California and our international development and support centers, which may delay the development, testing, release or support of new and existing products, and communication delays between our U.S. headquarters and our shared services center in India. These factors and other factors could harm our ability to gain future international revenues and, consequently, materially impact our business, results of operations, and financial condition. The expansion of our existing international operations and entry into additional international markets will require significant management attention and financial resources. Our failure to manage our international operations and the associated risks effectively could limit the future growth of our business.

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

We believe our success depends upon our ability to attract and retain highly skilled personnel and key members of our management team. Historically, there has been a significant level of competition to attract these individuals, and we have recently experienced significant changes in our senior management team. For example, we recently announced the appointment of a new chief financial officer in October 2014. We also announced the appointment of a new chief marketing officer in 2012, a new chief product officer in 2013, and, in 2014, the promotion of our senior vice president of EMEA sales to be our new executive vice president of worldwide field operations and the transition of our former chief financial officer to his new role as chief customer officer and executive vice president, operations strategy. As new senior personnel join our company and become familiar with our business strategy and systems, or as existing senior personnel assume new roles within the company, their integration or transition could result in disruption to our ongoing operations.

The market for talent has become increasingly competitive and hiring has become more difficult and costly, and our personnel-related costs are likely to increase as we compete to attract and retain employees. Our employees are increasingly becoming more attractive to other companies. Many of our competitors have greater financial and other resources than us for attracting experienced personnel. Our plan for continued growth requires us to add personnel to meet our growth objectives and places increased importance on our ability to attract, train, and retain new personnel, in particular, new sales personnel. For example, recent changes we implemented in customer segmentation and sales territories adversely affected the quality of our pipeline estimates in 2012. In addition, the leadership transition in our EMEA sales organization adversely affected our pipeline management capabilities in 2012 and 2013. Continued leadership transitions in our worldwide sales, marketing and field operations, particularly in EMEA, may adversely affect our ability to manage and grow our business. As we continue to implement further changes to our worldwide sales, marketing and field operations organizations, including the implementation of more rigorous sales planning and process measures and continued investment in sales specialists and domain experts, we may experience increased sales force turnover and additional disruption to our ongoing operations, and we may not experience the increases in sales force productivity that we anticipate, particularly in EMEA. These changes may also take longer to implement than expected, which may adversely affect our sales force productivity. If we are unable to effectively attract and train new personnel on a timely basis, or if we experience an increase in the level of turnover, our results of operations may be negatively affected.

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

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

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

We rely on our relationships with our strategic partners. If we do not establish, maintain and strengthen these relationships, our ability to generate revenue and control expenses could be adversely affected, which could cause a

decline in the price of our common stock.

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

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that may differ from the types of strategic partners we currently have. We may not be able to successfully establish such relationships, which may adversely affect the market acceptance of our products.

Our strategic partners offer products from several different companies, including, in some cases, products that compete with our products. We have limited control, if any, as to whether these strategic partners devote adequate resources to promoting, selling, and implementing our products as compared to our competitors' products. Also, new or emerging technologies, technological trends or changes in customer requirements may result in certain of our strategic partners becoming potential competitors in the future. In addition, from time to time our strategic partners have acquired, and will likely continue to acquire, competitors of ours. Such consolidation makes it critical that we continue to develop, maintain and strengthen our relationships with other strategic partners. We may not be able to develop, maintain and strengthen such relationships and successfully generate additional revenue.

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

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

From time to time, we evaluate potential acquisitions or investments in complementary businesses, products, or technologies. For example, we acquired StrikeIron in 2014, Active Endpoints in 2013, and Data Scout and TierData in 2012. Also, in the fourth quarter of 2012, we completed the takeover offer for Heiler Software, a publicly-traded German company. The squeeze-out of the remaining shareholders was effective in the second quarter of 2013, increasing our ownership to 100 percent. Certain minority shareholders of Heiler Software have initiated appraisal proceedings before the Stuttgart District Court for review of the adequacy of the cash compensation paid in connection with the squeeze-out. These proceedings may result in an increase of the cash compensation to be paid to minority shareholders if the court finds that the valuation underlying the cash compensation was too low.

Acquisitions and investments involve a number of risks, including:

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

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

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

- the failure to accurately predict how the acquired company's pipeline will convert into sales or revenues following the acquisition, as conversion rates post-acquisition may be quite different from the acquired company's historical conversion rates and can be affected by changes in business practices that we implement;

- any inability to generate revenue from the acquired company's products in an amount sufficient to offset the associated acquisition and maintenance costs, including addressing issues related to the availability of offerings on multiple platforms and from cross-selling and up-selling our products to the acquired company's installed customer

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

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

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

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

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

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

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

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

In addition to our traditional data integration products, we have expanded our platform to include products and services in the emerging market for broader data integration initiatives, such as cloud data integration, data quality, information lifecycle management, data exchange, and MDM, among others. The market for our broader data integration products and services remains relatively new and continues to change, and efforts to expand beyond our traditional data integration products may not succeed and may not result in significant revenue. For example, we recently announced that we are increasing our investments to develop



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new products that continue to expand our offerings beyond our traditional data integration products. Our newer products may not achieve market acceptance if our customers or prospective customers:

- do not fully value the benefits of using our products;
- do not achieve favorable results using our products;
- use their budgets for other products that have priority over our products;
- defer or decrease product purchases due to macroeconomic uncertainty or global economic conditions;
- experience technical difficulties in implementing our products; or
- use alternative methods to solve the problems addressed by our products.

Market acceptance of our products may also be affected if, among other things, competition substantially increases in the data integration market or transactional applications suppliers integrate their products to such a degree that the utility of the functionality that our products and services provided is minimized or rendered unnecessary. Market acceptance of our products may also be affected by customer confusion surrounding the introduction of new and emerging technologies by us and our competitors or changes in technological trends, particularly the shift to cloud-based solutions, and confusion about the benefits of our products compared to other solutions. In addition, in order to enable our sales personnel and our external distribution channels to sell these newer products effectively, we have continued to invest resources and incur additional costs in training programs on new product functionalities, key differentiators, and key business values. If these newer products do not achieve market acceptance, our revenues could be adversely affected and our revenue growth rate, profitability and stock price could decline.

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

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

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

Any significant defect, error or performance failure in our software or services could cause us to lose revenue and expose us to product liability claims.

The software and services we offer are inherently complex and, despite extensive testing and quality control, have in the past and may in the future contain defects or errors, especially when first introduced, or not perform as contemplated. These defects, errors or performance failures could cause damage to our reputation, loss of customers or revenue, product returns, order cancellations, service terminations, or lack of market acceptance of our software and services. As the use of our software and services, including software or services recently acquired or developed, expands to more sensitive, secure, or mission critical uses by our customers, we may be subject to increased scrutiny, potential reputational risk, or potential liability should our software or services fail to perform as contemplated in such deployments. We have in the past and may in the future need to issue corrective releases of our software or services to fix these defects, errors or performance failures, which could require us to allocate significant research and development and customer support resources to address these problems.

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

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be substantial in light of the use of our products in enterprise-wide environments. In addition, our insurance against product liability may not be adequate to cover a potential claim.

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

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

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

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

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

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

However, these legal rights and contractual agreements may provide only limited protection. Our pending patent applications may not be allowed or our competitors may successfully challenge the validity or scope of any of our issued patents or any future issued patents. Our patents alone may not provide us with any significant competitive advantage, and third parties may develop technologies that are similar or superior to our technology or design around our patents. Third parties could copy or otherwise obtain and use our products or technology without authorization or develop similar technology independently. We cannot easily monitor any unauthorized use of our products, and, although we are unable to determine the extent to which piracy of our software products exists, software piracy is a prevalent problem in our industry in general. We may be forced to initiate litigation to protect our proprietary rights. Litigating claims related to the enforcement of proprietary rights is very expensive and can be burdensome in terms of management time and resources, which could adversely affect our business and operating results. In addition, the risk of not adequately protecting our proprietary technology and our exposure to competitive pressures may be increased if a competitor should resort to unlawful means in competing against us.

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

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

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

We make significant efforts to maintain the security and integrity of our product source code and computer systems. However, the threats to network and data security are increasingly diverse and sophisticated. In addition to traditional computer "hackers," malicious code (such as viruses and worms), employee theft or misuse, and denial of service attacks, sophisticated nation-state and nation-state supported actors now engage in intrusions and attacks (including advanced persistent threat intrusions), and fundamental software vulnerabilities add to the risks to our products and computer systems, including our internal network, and the information they store and process. Despite significant efforts to create security barriers to such threats, it is virtually impossible for us to entirely mitigate these risks. Like all software products, our software is vulnerable to such incidents. The impact of such an incident could disrupt the proper functioning of our software products, cause errors in the output of our customers' work, allow unauthorized access to sensitive, proprietary or confidential information of ours or our customers and other destructive outcomes. If this were to occur, our reputation may suffer, customers may stop buying our products, we could face lawsuits and potential liability and our financial performance could be negatively affected. In addition, as we continue to devote more resources to evaluate our systems and products for security vulnerabilities, the cost of addressing these vulnerabilities could reduce our operating margins. If we do not address security vulnerabilities or otherwise provide adequate security features in our products, certain customers, particularly government and other public sector customers, may delay or stop purchasing our products. Furthermore, the risks related to network or security incidents will increase as we continue to develop our cloud products and services, which may store, transmit and process our customers' sensitive, proprietary or confidential data, including personal or identifying information, in cloud-based IT environments. We also work with third party vendors to process credit card payments by our customers. Unauthorized access or security incidents, including the unauthorized disclosure of sensitive, proprietary or confidential data, such as credit card information, could expose us to loss of this data, litigation, indemnity obligations and significant other liabilities, which may adversely affect our business. In addition, we also have acquired a number of companies, products, services and technologies over the years. As a result, we may inherit additional IT security issues when we integrate these acquisitions.

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

Sales to U.S. and foreign federal, state, and local governmental agency end-customers have accounted for a portion of our revenue, and we may in the future increase sales to government entities. However, government entities have recently announced reductions in, or experienced increased pressure to reduce, government spending. In particular, such measures have adversely affected European public sector transactions. Furthermore, the continued U.S. debt, income tax and budget issues, including future delays in approving the U.S. budget or reductions in government spending, may adversely impact future U.S. public sector transactions. Such budgetary constraints or shifts in spending priorities of government entities may adversely affect sales of our products and services to such entities. We expect these conditions to continue to adversely affect public sector transactions in the near-term.

In addition, sales to government entities are subject to a number of risks. Selling to government entities can be highly competitive, expensive and time consuming, often requiring significant upfront time and expense without any assurance that we will successfully sell our products to such governmental entity. Government entities may require contract terms that differ from our standard arrangements. Government contracts may require the maintenance of certain security clearances for facilities and employees which can entail administrative time and effort possibly resulting in additional costs and delays. In addition, government demand and payment for our products may be more volatile as they are affected by public sector budgetary cycles, funding authorizations, and the potential for funding reductions or delays, making the time to close such transactions more difficult to predict. This risk is enhanced as the size of such sales to the government entities increases. As the use of our products, including products recently

acquired or developed, expands to more sensitive, secure or mission critical uses by our government customers, we may be subject to increased scrutiny, potential reputational risk, or potential liability should our products fail to perform as contemplated in such deployments or should we not comply with the terms of our government contracts or government contracting requirements.

Most of our sales to government entities have been made indirectly through providers that sell our products. Government entities may have contractual or other legal rights to terminate contracts with our providers for convenience or due to a default, and any such termination may adversely impact our future results of operations. For example, if the provider receives a significant portion of its revenue from sales to such governmental entity, the financial health of the provider could be substantially harmed, which could negatively affect our future sales to such provider. Governments routinely audit and investigate government contractors, and we may be subject to such audits and investigations. If an audit or investigation uncovers improper or illegal activities, including any misuse of confidential or classified information by our employees, we may be subject to civil or criminal

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penalties and administrative sanctions, including termination of contracts, forfeiture of profits, suspension of payments, fines, and suspension or prohibition from doing business with such government entity. In addition, we could suffer serious reputational harm if allegations of impropriety were made against us or our employees or should our products not perform as contemplated in government deployments.

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

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

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

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

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

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

The process of determining our anticipated tax liabilities involves many calculations and estimates that are inherently complex and make the ultimate tax obligation determination uncertain. As part of the process of preparing our consolidated financial statements, we are required to estimate our income taxes in each of the jurisdictions in which we operate prior to the completion and filing of tax returns for such periods. This process requires estimating both our geographic mix of income and our current tax exposures in each jurisdiction where we operate. These estimates involve complex issues, require extended periods of time to resolve, and require us to make judgments, such as anticipating the outcomes of audits with tax authorities and the positions that we will take on tax returns prior to actually preparing the returns. We also determine the need to record deferred tax liabilities and the recoverability of deferred tax assets. A valuation allowance is established to the extent recovery of deferred tax assets is not likely based on our estimation of future taxable income and other factors in each jurisdiction.

Furthermore, our overall effective income tax rate and tax expenses may be affected by various factors in our business, including acquisitions, changes in our legal structure, changes in the geographic mix of income and expenses, changes in valuation allowances, and changes in applicable tax laws and accounting pronouncements. For example, our effective tax rate has historically benefited from the federal research and development tax credit. As of September 30, 2014, the credit had not been extended resulting in no tax benefit in 2014. Further, the geographic mix of income and expense is impacted by the fluctuation in exchange rates between the U.S. dollar and the functional currencies of our subsidiaries.

We are under examination by various taxing authorities covering the past several years. We may receive additional assessments from domestic and foreign tax authorities that might exceed amounts reserved by us. In the event we are unsuccessful in reducing the amount of such assessment, our business, financial condition, or results of operations could be adversely affected. Specifically, if additional taxes and/or penalties are assessed as a result of these audits,

there could be a material effect on our income tax provision, operating expenses, and net income in the period or periods when that determination is made.

As our business expands, we are subject to increasingly complex regulatory and compliance obligations and differing business practices, both foreign and domestic, which may strain our resources and divert management's attention.

During the past few years, our organizational structure has increased in complexity due to compliance with financial reporting obligations, tax regulations and tax accounting requirements, acquisitions, and other regulatory and compliance requirements,



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including compliance with the rules and regulations related to the Sarbanes-Oxley Act of 2002 and anti-corruption and anti-bribery laws such as the U.S. Foreign Corrupt Practices Act (the “FCPA”) and the UK Bribery Act of 2010 (the “UK Bribery Act”). In addition, new or changing rules and regulations, including those relating to corporate governance, securities laws and public disclosure, often create uncertainty for public companies, increasing legal and financial compliance costs and making some activities more time consuming. These practices may evolve over time upon new guidance from regulatory or governing bodies, resulting in continued uncertainty regarding compliance and higher costs to adopt or modify our practices accordingly. Also, as we expand internationally, we become subject to the various rules and regulations of foreign jurisdictions. If we are unable to effectively comply with the rules and regulations applicable to us, particularly those relating to financial reporting, investors may lose confidence in our ability to manage our compliance obligations, which would have an adverse effect on our stock price. Furthermore, we continue to develop our cloud products and services, which may store, transmit and process our customers' sensitive, proprietary or confidential data, including personal or identifying information, in cloud-based IT environments. These new cloud products and services may expose us to higher regulation than our traditional on-premise products and services, particularly with respect to privacy and data security. Privacy laws are changing and evolving globally, and many countries have more stringent data protection laws than those in the U.S. As a result, new cloud products and services may increase our liability exposure, compliance requirements and costs associated with privacy and data security issues. Our efforts to comply with all of these requirements may result in an increase in expenses and a diversion of management's time and attention from other business activities. If our efforts to comply differ from those intended by regulatory or governing bodies, such authorities may initiate proceedings against us and our business may be harmed.

Further, we have expanded our presence in the Asia-Pacific region, where business practices can differ from those in other regions of the world and can create internal control risks. To address potential risks, we recognize revenue on transactions derived in this region (except for direct sales in Japan and Australia) only when the cash has been received and all other revenue recognition criteria have been met. We also provide business practices training to our sales teams. Overall, the combination of increased structural complexity and the ever-increasing regulatory complexity make it more critical for us to attract and retain qualified and technically competent employees in the United States and internationally.

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

We continue to experience growth in our customer base and operations, which may place a strain on our management, administrative, operational and financial infrastructure. We anticipate that additional investments in our infrastructure will be necessary to scale our operations and increase productivity. These additional investments will increase our costs, and may adversely affect our operating margins if we are unable to sufficiently increase revenues to cover these additional costs. If we are unable to successfully scale our operations and increase productivity, we may be unable to execute our business strategies. Also, we have substantial real estate commitments, both leased and owned, in the United States and internationally. Our business has grown in recent years through internal expansion and through acquisitions, and we expect such growth to continue. As a result, we may need to enter into additional lease commitments, expand existing facilities, or purchase new facilities or undeveloped real estate, which may adversely affect our cash flows and results of operations. For example, in February 2012 we purchased the property associated with our former corporate headquarters in Redwood City, California, for approximately \$148.6 million, which reflects a purchase price of \$153.2 million less a rent credit of \$4.6 million. We relocated our corporate headquarters to these facilities in the third quarter of 2013.

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

In addition, we need to continue to improve our internal systems, processes, and controls to effectively manage our operations and growth, including our international growth into new geographies, particularly the Asia-Pacific and

Latin American markets. We are continually investing resources to upgrade and improve our internal systems, processes and controls in order to meet the growing requirements of our business. For example, we have recently upgraded our human resources information systems and our enterprise resource planning systems. Upgrades or improvements to our internal systems, processes, and controls may require us to implement incremental reconciliation or additional reporting measures to evaluate the effectiveness of such upgrade or improvement, or to adopt new processes or procedures in connection with the upgrade or improvement. We may not be able to successfully implement upgrades and improvements to our systems, processes, and controls in an efficient or timely manner, and we may discover deficiencies in existing systems, processes, and controls, which could adversely affect our business. We have licensed technology and utilized support services from various third parties to help us implement upgrades and improvements. We may experience difficulties in managing upgrades and improvements to our systems, processes, and controls or in connection with third-party software, which could disrupt existing customer relationships, causing us to lose customers, limit us to smaller

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deployments of our products, or increase our technical support costs. The support services available for such third-party technology also may be negatively affected by mergers and consolidation in the software industry, and support services for such technology may not be available to us in the future. In addition, we use both on-premise and cloud resources, and any security or other flaws in such resources could have a negative impact on our internal systems, processes, or controls.

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

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

In addition, the FASB is currently working together with the International Accounting Standards Board ("IASB") to converge certain accounting principles and facilitate more comparable financial reporting between companies who are required to follow GAAP and those who are required to follow International Financial Reporting Standards ("IFRS"). These projects may result in different accounting principles under GAAP, which may have a material impact on the way in which we report financial results in areas including, but not limited to, principles for revenue recognition and lease accounting. A change in accounting principles from GAAP to IFRS may have a material impact on our financial statements. A change in existing financial accounting standards or practices may even retroactively adversely affect previously reported transactions. It is not clear if we have the proper systems and controls in place to accommodate such changes.

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

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

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

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

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

In September 2014, we entered into a credit agreement for an unsecured revolving credit facility in an amount of up to \$220.0 million, with an option for us to request to increase the revolving loan commitments or to enter into tranches of term loans by an aggregate amount of up to \$30.0 million with new or additional commitments, for a total credit facility of up to \$250.0 million. No amounts were outstanding under the credit agreement as of September 30, 2014. The credit agreement contains affirmative and negative covenants, including covenants that may limit or restrict our and our subsidiaries' ability to, among other things, incur indebtedness, grant liens, merge or consolidate, dispose of assets, make investments, make acquisitions, enter into hedging

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agreements, enter into certain transactions with affiliates, pay dividends or make distributions, repurchase stock, enter into restrictive agreements and enter into sale and leaseback transactions, in each case subject to customary exceptions for a credit facility of this size and type. We are also required to maintain compliance with a consolidated leverage ratio and a consolidated interest coverage ratio. We were in compliance with all covenants under the credit agreement as of September 30, 2014. Our ability to comply with these covenants is dependent on our future performance, which will be subject to many factors, some of which are beyond our control, including prevailing economic conditions. The breach of any of these covenants for any reason could result in an event of default under our credit facility. The credit agreement also contains events of default that, include among other things, non-payment defaults, inaccuracy of representations and warranties, covenant defaults, cross default to material indebtedness, bankruptcy and insolvency defaults, material judgment defaults, ERISA defaults and a change of control default. If such an event of default occurs, all of our outstanding debt thereunder, if any, could become immediately due and payable, which could result in a default under any other outstanding debt that we may have incurred and could lead to an acceleration of the obligations related to such other outstanding debt. The existence of such a default could preclude us from borrowing funds under our credit facility. Any such default under our credit facility, if not cured or waived, could have a material adverse effect on us. If our cash is utilized to repay any outstanding debt, depending on the amount of debt outstanding, we could experience an immediate and significant reduction in working capital available to operate our business. Even if we are able to comply with all of the applicable covenants under our credit facility, the restrictions on our ability to operate our business could adversely affect our business by, among other things, limiting our ability to take advantage of financings, mergers, acquisitions, investments and other corporate opportunities that may be beneficial to the business.

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

We maintain an investment portfolio, which consists primarily of certificates of deposit, commercial paper, corporate notes and bonds, money market funds, time deposits, municipal securities, U.S. government and agency notes and bonds and equity securities. Although we follow an established investment policy, which specifies credit quality standards for our investments and limits the amount of credit exposure to any single issue, issuer, or type of investment, and other criteria in order to help mitigate our exposure to interest rate and credit risk, the assets in our investment portfolio may lose value or become impaired, or our interest income may decline. We may be required to record impairment charges for other-than-temporary declines in fair market value in our investments. Future fluctuations in economic and market conditions could adversely affect the market value of our investments, and we could record additional impairment charges and lose some of the principal value of investments in our portfolio. A total loss of an investment or a significant decline in the value of our investment portfolio could adversely affect our operating results and financial condition. For information regarding interest rate risk, see “Quantitative and Qualitative Disclosures About Market Risk” in Part II, Item 7A of our Annual Report on Form 10-K for the year ended December 31, 2013. During the three months ended September 30, 2014, there were no significant changes to our quantitative and qualitative disclosures about market risk.

In addition, from time to time we make investments in private companies. Our investments in private companies are subject to risk of loss of investment capital. Some of these investments may have been made to further our strategic objectives and support our key business initiatives. Our investments in private companies are inherently risky because the markets for the technologies they have under development are typically in the early stages and may never materialize. We could lose the value of our entire investment in these companies.

Business interruptions could adversely affect our business.

Our operations are vulnerable to interruption by fire, earthquake, power loss, telecommunications or network failure, and other events beyond our control. We have prepared a detailed disaster recovery plan which includes the use of internal and external resources and will continue to expand the scope over time. Disasters or disruptions, such as the March 2011 earthquake and tsunami off the coast of Japan and the December 2006 earthquake off the coast of Taiwan, can negatively affect our operations given necessary interaction among our international facilities. For example, the December 2006 Taiwan earthquake resulted in a major fiber outage, which affected network connectivity

in some of our facilities in Asia. In the event such an earthquake or any other natural disaster or man-made failure occurs, it could disrupt the operations of our affected facilities and recovery of our resources. In addition, we do not carry sufficient business interruption insurance to compensate us for losses that may occur, and any losses or damages incurred by us could have a material adverse effect on our business.

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

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

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

## Repurchases of Equity Securities

The following table provides information about the repurchase of our common stock for the quarter ended September 30, 2014.

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares That May Yet Be Purchased Under the Plans or Programs (in thousands)
July 1 — July 31				
From employees <sup>(1)</sup>	—	—	—	—
Repurchase program <sup>(2)</sup>	344,800	\$31.89	344,800	\$137,130
August 1 — August 31				
From employees <sup>(1)</sup>	25,263	\$31.40	—	—
Repurchase program <sup>(2)</sup>	1,666,887	\$32.38	1,666,887	\$83,164
September 1 — September 30				
From employees <sup>(1)</sup>	—	—	—	—
Repurchase program <sup>(2)</sup>	179,406	\$33.59	179,406	\$77,137
Total	2,216,356	\$32.39	2,191,093	

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

We repurchased shares in the third quarter of 2014 under our ongoing stock repurchase program. This program does not have a specific expiration date and authorizes repurchases in the open market. In January 2014, the Board of Directors approved the repurchase of up to an additional \$100.0 million of our outstanding common stock. In July 2014, the Board of Directors approved, for the second time in 2014, the repurchase of up to an additional \$100.0 million of our outstanding common stock. As of September 30, 2014, we had \$77.1 million remaining under the program for future share repurchases. In October 2014, we announced that the Board of Directors approved, for the third time in 2014, the repurchase of up to an additional \$100.0 million of our outstanding common stock. For further information about our stock repurchase program, see Note 7. Stock Repurchase Program of Notes to Condensed Consolidated Financial Statements in Part I, Item 1 of this Report.

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



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ITEM 6. EXHIBITS

Exhibit Number	Document
10.1	Credit Agreement, dated as September 26, 2014, by and among Informatica Corporation, each of the lenders party thereto from time to time, JPMorgan Chase Bank, N.A., as Administrative Agent, Bank of America, N.A., as Syndication Agent, and J.P. Morgan Securities LLC and Merrill Lynch, Pierce, Fenner & Smith Inc., as Joint Bookrunners and Joint Lead Arrangers.
31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a)/15d-15(a).
31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a)/15d-15(a).
32.1 *	Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance.
101.SCH	XBRL Taxonomy Extension Schema.
101.CAL	XBRL Taxonomy Extension Calculation Linkbase.
101.LAB	XBRL Taxonomy Extension Label Linkbase.
101.PRE	XBRL Taxonomy Extension Presentation Linkbase.
101.DEF	XBRL Taxonomy Extension Definition Linkbase.

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\* Furnished, not filed.

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SIGNATURE

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

November 6, 2014

INFORMATICA CORPORATION

/s/ MICHAEL BERRY

Michael Berry

EVP and Chief Financial Officer (Duly  
Authorized Officer and Principal Financial  
and Accounting Officer)

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INFORMATICA CORPORATION  
 EXHIBITS TO FORM 10-Q QUARTERLY REPORT  
 For the Quarter Ended September 30, 2014

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