INFORMATICA CORP
Form 10-Q
November 07, 2012
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

R Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended September 30, 2012
or
£ Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
Commission File Number: 0-25871
INFORMATICA CORPORATION
(Exact name of registrant as specified in its charter)

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

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

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. R Yes £ No
Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the Registrant was required to submit and post such files). Yes R No £
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer,” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.
Large accelerated filer R Accelerated filer £ Non-accelerated filer £ Smaller reporting company £
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). £ Yes R No
As of October 31, 2012, there were approximately 107,907,000 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, 2012 (Unaudited)	December 31, 2011
Assets		
Current assets:		
Cash and cash equivalents	$237,391	$316,835
Short-term investments	346,891	285,579
Accounts receivable, net of allowances of $4,551 and $4,001, respectively	122,128	176,066
Deferred tax assets	20,542	21,591
Prepaid expenses and other current assets	28,657	23,206
Total current assets	755,609	823,277
Property and equipment, net	144,805	16,025
Goodwill	447,240	432,269
Other intangible assets, net	47,792	64,789
Long-term deferred tax assets	24,421	23,037
Other assets	5,373	21,351
Total assets	$1,425,240	$1,380,748
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$7,671	$9,459
Accrued liabilities	56,063	58,947
Accrued compensation and related expenses	38,258	58,042
Income taxes payable	—	1,178
Accrued facilities restructuring charges	—	17,751
Deferred revenues	217,793	208,039
Total current liabilities	319,785	353,416
Accrued facilities restructuring charges, less current portion	—	5,543
Long-term deferred revenues	9,157	6,573
Long-term income taxes payable	19,596	16,709
Other liabilities	3,118	6,304
Total liabilities	351,656	388,545
Commitments and contingencies (Note 13)		
Stockholders' equity:		
Common stock, $0.001 par value; 200,000 shares authorized; 107,901 shares and 106,946 shares issued and outstanding at September 30, 2012 and December 31, 2011, respectively	108	107
Additional paid-in capital	769,111	751,350
Accumulated other comprehensive loss	(11,299)	(12,802)
Retained earnings	315,664	253,548
Total stockholders' equity	1,073,584	992,203
Total liabilities and stockholders' equity	$1,425,240	$1,380,748

See accompanying notes to condensed consolidated financial statements.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Revenues:				
License	$65,891	$83,736	$216,935	$241,580
Service	124,427	112,151	359,895	315,066
Total revenues	190,318	195,887	576,830	556,646
Cost of revenues:				
License	925	1,011	3,210	3,669
Service	30,655	30,432	92,764	87,111
Amortization of acquired technology	5,172	5,156	16,164	14,334
Total cost of revenues	36,752	36,599	112,138	105,114
Gross profit	153,566	159,288	464,692	451,532
Operating expenses:				
Research and development	35,998	34,577	105,561	98,093
Sales and marketing	73,239	70,437	213,615	200,962
General and administrative	15,692	14,516	46,369	40,507
Amortization of intangible assets	1,462	1,886	4,690	5,959
Facilities restructuring and facility lease termination costs (benefit), net	—	(282)	710	704
Acquisitions and other charges (benefit)	2,036	917	2,389	(5)
Total operating expenses	128,427	122,051	373,334	346,220
Income from operations	25,139	37,237	91,358	105,312
Interest income	987	1,185	3,342	3,374
Interest expense	(126)	(105)	(379)	(2,006)
Other income (expense), net	(533)	685	(1,257)	(795)
Income before income taxes	25,467	39,002	93,064	105,885
Income tax provision	9,966	12,012	30,948	30,776
Net income	$15,501	$26,990	$62,116	$75,109
Basic net income per common share	$0.14	$0.25	$0.58	$0.73
Diluted net income per common share	$0.14	$0.24	$0.55	$0.67
Shares used in computing basic net income per common share	108,091	106,274	107,957	103,080
Shares used in computing diluted net income per common share	111,776	112,406	112,518	112,655

See accompanying notes to condensed consolidated financial statements.

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INFORMATICA CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(In thousands)
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Net income	$15,501	$26,990	$62,116	$75,109
Other comprehensive income:				
Change in foreign currency translation adjustment, net of tax benefit (expense) of $(50), $233, $23 and $(7)	3,378	(9,805)	(1)	(961)
Available-for-sale investments:				
Change in net unrealized gain (loss), net of tax benefit (expense) of $(117), $269, $(322) and $201	191	(439)	526	(327)
Less: reclassification adjustment for net (gain) loss included in net income, net of tax benefit (expense) of $1, $(4), $ - and $(18)	2	(6)	—	(30)
Net change, net of tax benefit (expense) of $(118), $273, $(322) and $219	193	(445)	526	(357)
Cash flow hedges:				
Change in unrealized gain (loss), net of tax benefit (expense) of $(135), $(4), $24 and $666	218	11	(41)	(1,084)
Less: reclassification adjustment for loss included in net income, net of tax benefit of $328, $249, $624 and $612	536	405	1,019	998
Net change, net of tax benefit (expense) of $(463), $(253), $(600) and $54	754	416	978	(86)
Total other comprehensive income, net of tax effect	4,325	(9,834)	1,503	(1,404)
Total comprehensive income, net of tax effect	$19,826	$17,156	$63,619	$73,705

See accompanying notes to condensed consolidated financial statements.

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

	Nine Months Ended September 30, 2012	2011
Operating activities:		
Net income	$62,116	$75,109
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	8,709	4,303
Share-based compensation	31,583	24,300
Deferred income taxes	(1,830)	633
Tax benefits from share-based compensation	12,577	20,088
Excess tax benefits from share-based compensation	(12,470)	(19,795)
Amortization of intangible assets and acquired technology	20,854	20,293
Other operating activities, net	939	(1,704)
Changes in operating assets and liabilities:		
Accounts receivable	54,083	18,422
Prepaid expenses and other assets	12,626	(10,615)
Accounts payable and accrued liabilities	(35,056)	(14,104)
Income taxes payable	(1,894)	3,793
Accrued facilities restructuring charges	(23,977)	(10,723)
Deferred revenues	12,152	20,247
Net cash provided by operating activities	140,412	130,247
Investing activities:		
Purchases of property and equipment	(137,599)	(8,502)
Purchases of investments	(204,515)	(304,871)
Investment in equity interest, net	(257)	542
Maturities of investments	47,051	102,524
Sales of investments	98,558	158,647
Business acquisitions, net of cash acquired	(8,438)	(27,969)
Net cash used in investing activities	(205,200)	(79,629)
Financing activities:		
Net proceeds from issuance of common stock	38,555	45,457
Repurchases and retirement of common stock	(58,709)	(70,115)
Withholding taxes related to restricted stock units net share settlement	(6,243)	(5,701)
Excess tax benefits from share-based compensation	12,470	19,795
Net cash used in financing activities	(13,927)	(10,564)
Effect of foreign exchange rate changes on cash and cash equivalents	(729)	(239)
Net increase (decrease) in cash and cash equivalents	(79,444)	39,815
Cash and cash equivalents at beginning of period	316,835	208,899
Cash and cash equivalents at end of period	$237,391	$248,714

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, 2012 and 2011 are unaudited. The interim results presented are not necessarily indicative of results for any subsequent interim period, the year ending December 31, 2012, or any other future period.
The preparation of the Company's condensed consolidated financial statements in conformity with GAAP requires management to make certain estimates, judgments, and assumptions. The Company believes that the estimates, judgments, and assumptions upon which it relies are reasonable based on information available at the time that these estimates, judgments, and assumptions are made. These estimates, judgments, and assumptions can affect the reported amounts of assets and liabilities as of the date of the financial statements as well as the reported amounts of revenues and expenses during the periods presented. To the extent there are material differences between these estimates and actual results, Informatica's financial statements would be affected. In many cases, the accounting treatment of a particular transaction is specifically dictated by GAAP and does not require management's judgment in its application. There are also instances that management's judgment in selecting an available alternative would not produce a materially different result.
These unaudited, condensed consolidated financial statements should be read in conjunction with the Company's audited consolidated financial statements and notes thereto for the year ended December 31, 2011 included in the Company's Annual Report on Form 10-K filed with the SEC. The consolidated balance sheet as of December 31, 2011 has been derived from the audited consolidated financial statements of the Company. The Company's significant accounting policies are described in Note 2 to the audited consolidated financial statements included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2011.
As discussed below, on January 1, 2012, the Company adopted Accounting Standards Update No. 2011-04, Financial Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs, which clarifies the application of certain existing fair value measurement guidance and expands the disclosure for fair value measurements that are estimated using significant unobservable (Level 3) inputs.
The Company also adopted Accounting Standards Update No. 2011-05 Comprehensive Income (Topic 220): Presentation of Comprehensive Income ("ASU 2011-05"). In June 2011, the FASB issued ASU 2011-05 which requires companies to present net income and other comprehensive income in one continuous statement or in two separate, but consecutive, statements. In addition, in December 2011, the FASB issued an amendment to an existing accounting standard which defers the requirement to present components of reclassifications of other comprehensive income on the face of the financial statements. The Company adopted both standards in the first quarter of 2012. There have been no other changes in our critical accounting policies since the end of fiscal year 2011.

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, 2012 (in thousands):

	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Money market funds (i)	$28,143	$28,143	$—	$—
Time deposits (ii)	30,964	30,964	—	—
Marketable debt securities (ii)	318,581	—	318,581	—
Total money market funds, time deposits, and marketable debt securities	377,688	59,107	318,581	—
Foreign currency derivatives (iii)	6	—	6	—
Total assets	$377,694	$59,107	$318,587	$—
Liabilities:				
Foreign currency derivatives (iv)	$435	$—	$435	$—
Acquisition-related contingent consideration (v)	13,928	—	—	13,928
Total liabilities	$14,363	$—	$435	$13,928

The following table summarizes financial assets and financial liabilities that the Company measures at fair value on a recurring basis as of December 31, 2011 (in thousands):

	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Money market funds (i)	$147,635	$147,635	$—	$—
Time deposits (ii)	38,683	38,683	—	—
Marketable debt securities (ii)	246,896	—	246,896	—
Total money market funds, time deposits, and marketable debt securities	433,214	186,318	246,896	—
Foreign currency derivatives (iii)	702	—	702	—
Total assets	$433,916	$186,318	$247,598	$—
Liabilities:				
Foreign currency derivatives (iv)	$2,496	$—	$2,496	$—
Acquisition-related contingent consideration (v)	12,872	—	—	12,872
Total liabilities	$15,368	$—	$2,496	$12,872

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

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

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INFORMATICA CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Money Market Funds, Time Deposits, and Marketable Securities
The Company uses a market approach for determining the fair value of all its Level 1 and Level 2 money market funds, time deposits, and marketable securities.
To value its money market funds and time deposits, the Company values the funds at $1 stable net asset value, which is the market pricing convention for identical assets that the Company has the ability to access.
The Company's marketable securities consist of certificates of deposit, commercial paper, corporate notes and bonds, municipal securities, and U.S. government and agency notes and bonds. To value its certificates of deposit and commercial paper, the Company uses mathematical calculations to arrive at fair value for these securities, which generally have short maturities and infrequent secondary market trades. For example, in the absence of any observable transactions, the Company may accrete from purchase price at purchase date to face value at maturity. In the event that a transaction is observed on the same security in the marketplace, and the price on that subsequent transaction clearly reflects the market price on that day, the Company will adjust the price in the system to the observed transaction price and follow a revised accretion schedule to determine the daily price.
To determine the fair value of its corporate notes and bonds, municipal securities, and U.S. government and agency notes and bonds, the Company uses a “consensus price” or a weighted average price for each security. Market prices for these securities are received from a variety of industry standard data providers (e.g., Bloomberg), security master files from large financial institutions, and other third-party sources. These multiple prices are used as inputs into a distribution-curve-based algorithm to determine the daily market value. Our fair value processes include controls that are designed to ensure that we record appropriate fair values for our Level 2 investments. These controls include comparison to pricing provided by another pricing service, validation of pricing sources and models, and independent recalculation of prices where appropriate.
Foreign Currency Derivatives and Hedging Instruments
The Company uses the income approach to value the derivatives using observable Level 2 market expectations at the measurement date and standard valuation techniques to convert future amounts to a single present value amount, assuming that participants are motivated but not compelled to transact. Level 2 inputs are limited to quoted prices that are observable for the assets and liabilities, which include interest rates and credit risk. The Company uses mid-market pricing as a practical expedient for fair value measurements. Key inputs for currency derivatives include spot and forward rates, interest rates, and credit derivative market rates. The spot rate for each currency is the same spot rate used for all balance sheet translations at the measurement date and is sourced from the Federal Reserve Bulletin. The following values are interpolated from commonly quoted intervals available from Bloomberg: forward points and the London Interbank Offered Rate ("LIBOR") used to discount and determine the fair value of assets and liabilities. Credit default swap spread curves identified per counterparty at month end in Bloomberg are used to discount derivative assets for counterparty non-performance risk, all of which have terms of four months or less. The Company discounts derivative liabilities to reflect the Company’s own potential non-performance risk to its counterparties and has used its credit 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, 2011 and 2012.
See Note 6. Accumulated Other Comprehensive Loss, Note 7. Derivative Financial Instruments, and Note 13. Commitments and Contingencies of Notes to Condensed Consolidated Financial Statements for a further discussion.
Acquisition-related Contingent Consideration
We 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.

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INFORMATICA CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

The changes in the acquisition-related contingent consideration liability for the nine months ended September 30, 2012 consisted of the following (in thousands):

	September 30, 2012
Beginning balance as of December 31, 2011	$12,872
Additions from new acquisitions	4,973
Change in fair value of contingent consideration	523
Payment of contingent consideration	(4,440)
Ending balance as of September 30, 2012	$13,928

See Note 16. Acquisitions of Notes to Condensed Consolidated Financial Statements for a further discussion.

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

The Company's marketable securities are classified as available-for-sale as of the balance sheet date and are reported at fair value with unrealized gains and losses reported as a separate component of accumulated other comprehensive income in stockholders' equity, net of tax. Realized gains or losses and other-than-temporary impairments, if any, on available-for-sale securities are reported in other income or expense as incurred. Realized gains recognized for the three and nine months ended September 30, 2012, and three months ended September 30, 2011 were negligible. Realized gain recognized for the nine months ended September 30, 2011 was approximately $0.3 million. The cost of securities sold was determined based on the specific identification method.

The following table summarizes the Company’s cash, cash equivalents, and short-term investments as of September 30, 2012 (in thousands):

	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Cash	$206,594	$—	$—	$206,594
Cash equivalents:				
Money market funds	28,143	—	—	28,143
Commercial paper	2,250	—	—	2,250
Corporate notes and bonds	404	—	—	404
Total cash equivalents	30,797	—	—	30,797
Total cash and cash equivalents	237,391	—	—	237,391
Short-term investments:				
Certificates of deposit	2,733	5	—	2,738
Commercial paper	6,288	—	—	6,288
Corporate notes and bonds	152,651	479	(19)	153,111
Federal agency notes and bonds	103,311	145	(5)	103,451
Time deposits	30,964	—	—	30,964
U.S. government notes and bonds	7,123	21	—	7,144
Municipal notes and bonds	43,174	30	(9)	43,195
Total short-term investments	346,244	680	(33)	346,891
Total cash, cash equivalents, and short-term investments (i)	$583,635	$680	$(33)	$584,282

(i) Total estimated fair value above included $377.7 million comprised of cash equivalents and short-term investments at September 30, 2012.

The following table summarizes the Company's cash, cash equivalents, and short-term investments as of December 31, 2011 (in thousands):

	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Cash	$169,200	$—	$—	$169,200
Cash equivalents:				
Money market funds	147,635	—	—	147,635
Total cash equivalents	147,635	—	—	147,635
Total cash and cash equivalents	316,835	—	—	316,835
Short-term investments:				
Certificates of deposit	2,755	—	—	2,755
Commercial paper	2,998	—	—	2,998
Corporate notes and bonds	122,803	209	(596)	122,416
Federal agency notes and bonds	103,932	149	(26)	104,055
Time deposits	38,683	—	—	38,683
U.S. government notes and bonds	2,892	21	—	2,913
Municipal notes and bonds	11,718	41	—	11,759
Total short-term investments	285,781	420	(622)	285,579
Total cash, cash equivalents, and short-term investments (i)	$602,616	$420	$(622)	$602,414

(i) Total estimated fair value above included $433.2 million comprised of cash equivalents and short-term investments at December 31, 2011.

See Note 1. Summary of Significant Accounting Policies of Notes to Condensed Consolidated Financial Statements for further information regarding the fair value of the Company's financial instruments.
The following table summarizes the fair value and gross unrealized losses related to the Company's short-term investments, aggregated by investment category that have been in a continuous unrealized loss position for less than twelve months, at September 30, 2012 (in thousands):

	Less Than 12 months	
	Fair Value	Gross Unrealized Losses
Corporate notes and bonds	$15,054	$(19)
Federal agency notes and bonds	16,542	(5)
Municipal notes and bonds	16,159	(9)
Total	$47,755	$(33)

As of September 30, 2012, the Company did not have any investments that were in a continuous unrealized loss position for periods greater than 12 months. The changes in value of these investments are primarily related to changes in interest rates and are considered to be temporary in nature.

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INFORMATICA CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

The following table summarizes the cost and estimated fair value of the Company’s short-term investments by contractual maturity at September 30, 2012 (in thousands):

	Cost	Fair Value
Due within one year	$221,317	$221,599
Due in one year to two years	96,617	96,904
Due after two years	28,310	28,388
Total	$346,244	$346,891

Note 3. Property and Equipment
The following table summarizes the cost of property and equipment and related accumulated depreciation at September 30, 2012 and December 31, 2011 (in thousands):

	Estimated Useful Lives	September 30, 2012	December 31, 2011
Land	N/A	$20,637	$—
Buildings	25 years	105,727	—
Site improvements	15 years	1,162	—
Total land and buildings		127,526	—
Computer and equipment	1-5 years	53,933	51,907
Furniture and fixtures	3-5 years	6,634	5,391
Leasehold improvements	1-9 years	24,139	22,039
Capital work-in-progress		—	471
Total property and equipment		212,232	79,808
Less: Accumulated depreciation and amortization		(67,427)	(63,783)
Total property and equipment, net		$144,805	$16,025

On February 15, 2012, the Company purchased the property associated with its former corporate headquarters at 2000 and 2100 Seaport Boulevard in Redwood City, California. The property consists of two office buildings totaling an aggregate of 290,305 square feet and the associated 11.6 acres of land. The transaction has been accounted for as a purchase of an asset that was previously subject to an operating lease during the lease term in accordance with ASC 840 Leases. The purchase of the property totaled approximately $148.6 million in cash, which reflects a purchase price of $153.2 million less a rent credit of $4.6 million. The Company recorded a charge of approximately $21.2 million representing the cost to terminate the operating lease in the Condensed Consolidated Statement of Income during the three months ended March 31, 2012 and nine months ended September 30, 2012. The net purchase price of the land and buildings was $127.5 million, which represents the fair value at date of purchase. The net purchase price was allocated as $105.7 million to buildings, $20.6 million to land, and $1.2 million to site improvements. The building and site improvements are depreciated on a straight-line basis over the estimated useful life of 25 years and 15 years, respectively. See Note 10. Facilities Restructuring Charges of Notes to Condensed Consolidated Financial Statements for a further discussion.
Capital work-in-progress consisted of capitalized costs related to software acquired, developed or modified solely to meet the Company's internal requirements, pursuant to ASC 350-40 Internal-Use Software. For the nine months ended September 30, 2012, the Company capitalized a total of $2.4 million in costs associated with internal use software, and $2.8 million was placed in service in August 2012, resulting in a reclassification from work in progress to computer and equipment and began amortization.

INFORMATICA CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Note 4. Intangible Assets and Goodwill
The carrying amounts of the intangible assets other than goodwill as of September 30, 2012 and December 31, 2011 are as follows (in thousands, except years):

	Intangible Assets, Gross			Accumulated Amortization			Intangible Assets, Net		Weighted
	December 31, 2011	Additions and Adjustments	September 30, 2012	December 31, 2011	Expense	September 30, 2012	December 31, 2011	September 30, 2012	Average Useful Life (Years)
Developed and core technology	$102,492	$3,150	$105,642	$(54,742)	$(16,164)	$(70,906)	$47,750	$34,736	6
Other Intangible Assets:									
Customer relationships	34,385	1,128	35,513	(25,871)	(2,908)	(28,779)	8,514	6,734	6
All other (i)	16,844	60	16,904	(8,800)	(1,782)	(10,582)	8,044	6,322	5 - 11
Total other intangible assets	51,229	1,188	52,417	(34,671)	(4,690)	(39,361)	16,558	13,056	
Total intangible assets subject to amortization	153,721	4,338	158,059	(89,413)	(20,854)	(110,267)	64,308	47,792	
In-process research and development	481	(481)	—	—	—	—	481	—	N.A.
Total intangible assets, net	$154,202	$3,857	$158,059	$(89,413)	$(20,854)	$(110,267)	$64,789	$47,792	

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

Total amortization expense related to intangible assets was $6.6 million and $7.0 million for the three months ended September 30, 2012 and 2011, respectively, and $20.9 million and $20.3 million for the nine months ended September 30, 2012 and 2011, 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, 2012, 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 2012	$5,442	$1,856	$7,298
2013	17,296	5,588	22,884
2014	7,063	2,779	9,842

2015	2,931	865	3,796
2016	1,637	1,559	3,196
Thereafter	367	409	776
Total intangible assets subject to amortization	$34,736	$13,056	$47,792

In the fourth quarter of 2011, in conjunction with our acquisition of certain assets of Sand Technology, the Company recorded in-process research and development (IPR&D) of $0.5 million. The IPR&D capitalized costs were associated with software development efforts in process at the time of the business combination that had not yet achieved technological feasibility and no future alternative uses had been identified. Technological feasibility was achieved during the second quarter of 2012 for the IPR&D from the Sand Technology acquisition, which was reclassified to developed technology and will be amortized over the expected useful life of the technology.

The changes in the carrying amount of goodwill for the nine months ended September 30, 2012 are as follows (in thousands):

	September 30, 2012
Beginning balance as of December 31, 2011	$432,269
Goodwill from acquisitions	15,009
Subsequent goodwill adjustments	(38)
Ending balance as of September 30, 2012	$447,240

Subsequent goodwill adjustments of $38,000 for the nine months ended September 30, 2012 consist primarily of foreign currency translation adjustments. The goodwill is partially deductible for tax purposes. See Note 16. Acquisitions for a further discussion of goodwill from acquisitions.

Note 5. Borrowings

Convertible Senior Notes

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

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

Credit Agreement

On September 29, 2010, the Company entered into a Credit Agreement (the "Credit Agreement") that matures on September 29, 2014. The Credit Agreement provides for an unsecured revolving credit facility in an amount of up to $220.0 million, with an option for the Company to request to increase the revolving loan commitments by an aggregate amount of up to $30.0 million with new or additional commitments, for a total credit facility of up to $250.0 million. No amounts were outstanding under the Credit Agreement as of September 30, 2012, and a total of $220.0 million remained available for borrowing.

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

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The Credit Agreement contains customary representations and warranties, covenants, and events of default, including the requirement to maintain a maximum consolidated leverage ratio of 2.75 to 1.00 and a minimum consolidated interest coverage ratio of 3.50 to 1.00. The occurrence of an event of default could result in the acceleration of the obligations under the Credit Agreement. Under certain circumstances, a default interest rate will apply on all obligations during the existence of an event of default under the Credit Agreement at a per annum rate equal to 2.00% above the applicable interest rate for any overdue principal and 2.00% above the rate applicable for base rate loans for any other overdue amounts. The Company was in compliance with all covenants under the Credit Agreement as of September 30, 2012.

Note 6. Accumulated Other Comprehensive Loss

Accumulated other comprehensive loss, net of taxes, as of September 30, 2012 and December 31, 2011 consisted of the following (in thousands):

	September 30, 2012	December 31, 2011
Net unrealized gain (loss) on available-for-sale investments	$401	$(125)
Cumulative translation adjustments	(11,376)	(11,375)
Derivative loss	(324)	(1,302)
Accumulated other comprehensive loss, net of taxes	$(11,299)	$(12,802)

The Company did not have any other-than-temporary gain or loss reflected in accumulated other comprehensive loss as of September 30, 2012 and December 31, 2011.

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

See Note 1. Summary of Significant Accounting Policies, Note 7. Derivative Financial Instruments, and Note 13. Commitments and Contingencies of Notes to Condensed Consolidated Financial Statements for a further discussion.

Note 7. Derivative Financial Instruments

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

Cash Flow Hedges

The Company enters into certain cash flow hedge programs in an attempt to reduce the impact of certain foreign currency fluctuations. These contracts are designated and documented as cash flow hedges. The purpose of these programs is to reduce the volatility of identified cash flow and expenses caused by movement in certain foreign currency exchange rates, in particular, the Indian rupee. The Company is currently using foreign exchange forward contracts to hedge certain non-functional currency anticipated expenses and revenue reflected in the intercompany accounts between Informatica U.S. and its subsidiary in India. In December 2010, the Company entered into foreign exchange forward contracts with monthly expiration dates through January 2012. In October and December 2011, the Company entered into additional foreign exchange forward contracts with monthly expiration dates through January 2013.

The Company releases the amounts accumulated in other comprehensive income into earnings in the same period or periods during which the forecasted hedge transaction affects earnings.

The Company has forecasted the amount of its anticipated foreign currency expenses and intercompany revenue based on its historical performance and its 2012 financial plan. As of September 30, 2012, the remaining open foreign exchange contracts, carried at fair value, are hedging Indian rupee expenses and have a maturity of four months or less. These foreign exchange contracts mature monthly as the foreign currency denominated expenses are paid and any gain or loss is offset against operating expense. Once the hedged item is recognized, the cash flow hedge is de-designated and subsequent changes in value are recognized in other income (expense) to offset changes in the value of the resulting non-functional currency monetary liabilities.

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The notional amount of these foreign exchange forward contracts was $7.5 million and $39.3 million as of September 30, 2012 and December 31, 2011, respectively.

Balance Sheet Hedges

Beginning in the second quarter of 2011, the Company also entered into foreign exchange contracts to hedge monetary assets and liabilities that are denominated in currencies other than the functional currency of its subsidiaries. These foreign exchange contracts are carried at fair value and do not qualify for hedge accounting treatment and are not designated as hedging instruments. Changes in the value of the foreign exchange contracts are recognized in other income (expense) and offset the foreign currency gain or loss on the underlying monetary assets or liabilities. The notional amounts of foreign currency contracts open at period end in US dollar equivalents were $2.7 million to buy at September 30, 2012 and $5.0 million to sell at December 31, 2011.

The following table reflects the fair value amounts for the foreign exchange contracts designated and not designated as hedging instruments at September 30, 2012 and December 31, 2011 (in thousands):

	September 30, 2012		December 31, 2011	
	Fair Value Derivative Assets (i)	Fair Value Derivative Liabilities (ii)	Fair Value Derivative Assets (i)	Fair Value Derivative Liabilities (ii)
Derivatives designated as hedging instruments	$2	$333	$—	$2,480
Derivatives not designated as hedging instruments	4	102	702	16
Total fair value of derivative instruments	$6	$435	$702	$2,496

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

As of September 30, 2012, a derivative loss of $0.3 million was included in accumulated other comprehensive loss, net of applicable taxes. The Company expects to reflect this amount in its condensed consolidated statements of income during the next twelve months.

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

The effects of derivative instruments designated as cash flow hedges on the accumulated other comprehensive loss and condensed consolidated statements of income for the three and nine months ended September 30, 2012 and 2011 are as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Amount of gain (loss) recognized in other comprehensive income (effective portion)	$353	$15	$(65)	$(1,750)
Amount of loss reclassified from accumulated other comprehensive income to operating expenses (effective portion)	$(864)	$(654)	$(1,643)	$(1,610)
Amount of gain recognized in income on derivatives for the amount excluded from effectiveness testing located in operating expenses	$213	$20	$1,018	$483

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

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The gain (loss) recognized in other income (expense), net for non-designated foreign currency forward contracts for the three and nine months ended September 30, 2012 and 2011 is as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Gain (loss) recognized in interest and other income (expense), net	$80	$928	$(663)	$1,728

See Note 1. Summary of Significant Accounting Policies and Note 6. Accumulated Other Comprehensive Loss of Notes to Condensed Consolidated Financial Statements for a further discussion.

Note 8. 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. On July 3, 2012, the Company's Board of Directors approved the repurchase of up to an additional $100.0 million of its 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 months ended September 30, 2012 and 2011, the Company repurchased approximately 915,000 shares of its common stock at a cost of $29.1 million and approximately 1,110,000 shares of its common stock at a cost of $50.5 million, respectively. During the nine months ended September 30, 2012 and 2011, the Company repurchased approximately 1,603,000 shares of its common stock at a cost of $58.7 million and approximately 1,475,000 shares of its common stock at a cost of $70.1 million, respectively.

As of September 30, 2012, $118.3 million remained available for share repurchases under this program.

Note 9. Share-Based Compensation

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

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Option grants:				
Expected volatility	47%	38%	39 - 47%	35 - 38%
Weighted-average volatility	47%	38%	43%	36%
Expected dividends	—	—	—	—
Expected term of options (in years)	3.3	3.8	3.3	3.8
Risk-free interest rate	0.5%	0.9%	0.5%	1.5%
ESPP:*				
Expected volatility	53%	38%	43 - 53%	35 - 38%
Weighted-average volatility	53%	38%	49%	36%
Expected dividends	—	—	—	—
Expected term of ESPP (in years)	0.5	0.5	0.5	0.5
Risk-free interest rate	0.1%	0.2%	0.1%	0.2%

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

The allocations of the share-based compensation, net of income tax benefit, for the three and nine months ended September 30, 2012 and 2011 are as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Cost of service revenues	$1,061	$874	$3,171	$2,599
Research and development	3,861	2,825	10,824	7,878
Sales and marketing	3,599	2,616	10,078	7,503
General and administrative	2,435	2,318	7,510	6,320
Total share-based compensation	10,956	8,633	31,583	24,300
Tax benefit of share-based compensation	(2,815)	(2,219)	(8,066)	(6,169)
Total share-based compensation, net of tax benefit	$8,141	$6,414	$23,517	$18,131

Note 10. Facilities Restructuring Charges

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

In February 2012, the Company purchased the property associated with its former corporate headquarters in Redwood City, California for approximately $148.6 million in cash, which reflects a purchase price of $153.2 million less a rent credit of $4.6 million. As a result of the transaction, the Company no longer has any further commitments relating to the original lease agreements. The purchase of the buildings discharges the Company's future lease obligations that were previously accounted for under the 2001 and 2004 Restructuring Plans. The transaction has been accounted for as a purchase of an asset that was previously subject to an operating lease in accordance with ASC 840 Leases. The Company was the sole lessee of both of these buildings. During the first quarter of 2012 the Company reversed the existing accrued facilities restructuring liability of $20.6 million and recorded a corresponding facilities restructuring benefit on the Condensed Consolidated Statement of Income in accordance with ASC 420, Exit or Disposal Cost Obligations. The Company also recorded a charge of approximately $21.2 million representing the cost to terminate the operating lease included in facility lease termination costs, net in the Condensed Consolidated Statements of Income. See Note 3. Property and Equipment of Notes to Condensed Consolidated Financial Statements for a further discussion.

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2004 Restructuring Plan

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

Subsequent to 2004, the Company continued to record accretion on the cash obligations related to the 2004 Restructuring Plan. Accretion represents imputed interest and is the difference between the non-discounted future cash obligations and the discounted present value of these cash obligations.

2001 Restructuring Plan

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

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

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

A summary of the activity of the accrued restructuring charges for the nine months ended September 30, 2012 is as follows (in thousands):

	Accrued Restructuring Charges at December 31, 2011	Restructuring Charges	Restructuring Adjustments	Net Cash Payment	Non-Cash Reclass	Reversal on Purchase of Land and Buildings	Accrued Restructuring Charges at September 30, 2012
2004 Restructuring Plan							
Excess lease facilities	$20,810	$97	$28	$(2,422)	$(28)	$(18,485)	$—
2001 Restructuring Plan							
Excess lease facilities	2,484	—	—	(327)	—	(2,157)	—
Total restructuring plans	$23,294	$97	$28	$(2,749)	$(28)	$(20,642)	$—

For the three months ended March 31, 2012, prior to the acquisition the Company recorded $0.1 million of restructuring charges related to the 2004 Restructuring Plan. These charges consist of accretion charges and amortization of tenant improvements and are included in facilities restructuring charges on the Condensed Consolidated Statement of Income. Net cash payments for the three months ended March 31, 2012 for facilities included in the 2004 and 2001 Restructuring Plans amounted to $2.4 million and $0.3 million, respectively. There were no further activities after the close of the first quarter of 2012.

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Note 11. Income Taxes

The Company's effective tax rates were 39% and 31% for the three months ended September 30, 2012 and 2011, respectively, and 33% and 29% for the nine months ended September 30, 2012 and 2011, respectively. The effective tax rate for the three and nine months ended September 30, 2012 differed from the federal statutory rate of 35% primarily due to benefits of certain earnings from operations in lower-tax jurisdictions throughout the world, the impact of the domestic manufacturing deduction pursuant to Section 199 of the Internal Revenue Code, and the benefit of foreign tax credits partially offset by compensation expense related to non-deductible share-based compensation, state income taxes, non-deductible acquisition related costs, and the accrual of reserves related to uncertain tax positions. During the three months ended September 30, 2012, the change in the geographic mix of earnings caused an increase in the Company's estimated annual effective tax rate, resulting in the Company recording a 39% tax rate for the third quarter to bring its year-to-date tax rate in line with the estimated annual effective tax rate for 2012. The Company's effective annual tax rate will continue to be very sensitive to the geographic mix of earnings. The effective tax rates for the three and nine months ended September 30, 2011 differed from the federal statutory rate of 35% primarily due to benefits of certain earnings from operations in lower-tax jurisdictions throughout the world, the recognition of current year research and development credits, and the impact of the domestic manufacturing deduction pursuant to Section 199 of the Internal Revenue Code partially offset by compensation expense related to non-deductible share-based compensation, state income taxes, the revaluation of deferred taxes previously recorded in acquisition accounting, and the accrual of reserves related to uncertain tax positions. With the exception of our subsidiaries in the Israel and Canada, net undistributed earnings of our foreign subsidiaries are considered to be indefinitely reinvested, and accordingly, no provision for U.S. income taxes has been provided thereon.

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, 2012, 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, 2012, it was considered more likely than not that the Company's non-share-based payments related deferred tax assets would be realized with the exception of the deferred tax asset related to the California research and development credit generated in 2012. Even though this attribute has an indefinite life, it is unlikely that the Company will utilize any of this currently generated credit in the foreseeable future. The remaining valuation allowance is primarily related to deferred tax assets that were created through the benefit from stock option deductions on a “with” and “without” basis and recorded on the balance sheet with a corresponding valuation allowance prior to the Company’s adoption of ASC 718, Stock Compensation. Pursuant to ASC 718-740-25-10, the benefit of these deferred tax assets will be recorded in stockholders’ equity when they are utilized on an income tax return to reduce the Company’s taxes payable, and as such, they will not impact the Company’s effective tax rate.

The unrecognized tax benefits related to ASC 740, if recognized, would impact the income tax provision by $17.9 million and $15.2 million as of September 30, 2012 and 2011, respectively. The Company has elected to include interest and penalties as a component of tax expense. Accrued interest and penalties as of September 30, 2012 and 2011 were approximately $2.6 million and $2.3 million, respectively. As of September 30, 2012, the gross uncertain tax position was approximately $18.9 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 federal, state, and foreign jurisdictions have anywhere from three to six open tax years at any point in time. The field work for certain state and foreign audits has commenced and is at various stages of completion as of September 30, 2012.

Although the outcome of any tax audit is uncertain, the Company believes that it has adequately provided in its financial statements for any additional taxes that it may be required to pay as a result of such examinations. The

Company regularly assesses the likelihood of outcomes resulting from these examinations to determine the adequacy of its provision for income taxes, and believes its current reserve to be reasonable. If tax payments ultimately prove to be unnecessary, the reversal of these tax liabilities would result in tax benefits in the period that the Company had determined such liabilities were no longer necessary. However, if an ultimate tax assessment exceeds its estimate of tax liabilities, an additional tax provision might be required.

Note 12. 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, 2012 and 2011 (in thousands, except per share amounts):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Net income	$15,501	$26,990	$62,116	$75,109
Effect of convertible senior notes, net of related tax effects	—	—	—	811
Net income adjusted	$15,501	$26,990	$62,116	$75,920
Weighted-average shares of common stock used to compute basic net income per share (excluding unvested restricted stock)	108,091	106,274	107,957	103,080
Effect of dilutive common stock equivalents:				
Dilutive effect of unvested restricted stock units	273	458	384	545
Dilutive effect of employee stock options	3,412	5,674	4,178	6,283
Dilutive effect of convertible senior notes	—	—	—	2,747
Shares used in computing diluted net income per common share	111,776	112,406	112,518	112,655
Basic net income per common share	$0.14	$0.25	$0.58	$0.73
Diluted net income per common share	$0.14	$0.24	$0.55	$0.67
Weighted average stock options and restricted stock units excluded from calculation due to anti-dilutive effect	4,790	1,730	3,412	1,213

The diluted net income per common share calculation requires the dilutive effect of convertible securities to be reflected in the diluted net income per share by application of the “if-converted” method. This method assumes an add-back of interest and amortization of issuance cost, net of income taxes, to net income if the securities are converted. The Company determined that the Notes had a dilutive effect on diluted net income per share for the nine months ended September 30, 2011. As such, the Company had an add-back of $0.8 million for the nine months ended September 30, 2011, in interest and issuance cost amortization, net of income taxes, to net income for the diluted net income per share calculation. The Notes were redeemed on March 18, 2011; therefore, there was no dilutive effect of the notes for the three and nine months ended September 30, 2012 and three months ended September 30, 2011. See Note 5. Borrowings - Convertible Senior Notes of Notes to Condensed Consolidated Financial Statements for a further discussion.

Note 13. Commitments and Contingencies

Lease Obligations

In December 2004, the Company relocated its corporate headquarters within Redwood City, California and entered into a new lease agreement for two buildings at 100 and 200 Cardinal Way. The initial lease term was from December 15, 2004 to December 31, 2007 with a three-year option to renew to December 31, 2010 at fair market value. In May 2007, the Company exercised its renewal option to extend the office lease term to December 31, 2010. In May 2009, the Company executed the lease amendment to further extend the lease term for another three years to December 31, 2013. The future minimum contractual lease payments are $0.9 million for the remainder of 2012 and $3.6 million for the year ending December 31, 2013.

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

2013.

In February 2012, the Company purchased the property associated with its former corporate headquarters in Redwood City, California for approximately $148.6 million in cash, which reflects a purchase price of $153.2 million less a rent credit of $4.6 million. As a result of the transaction, the Company no longer has any further commitments relating to the original lease agreements. The Company expects to receive payments from the tenants of approximately $4.9 million as the owner of the buildings, which include rental income of $2.1 million and reimbursement of certain property costs such as common area maintenance, insurance, and property taxes, through the remainder of their respective lease terms of $2.8 million. The estimates of lease income may vary significantly depending, in part, on factors that may be beyond the Company's control, such as the global economic downturn, time periods required to locate and contract suitable leases, and market rates at the time of leases. Currently, the Company has leased its former corporate headquarters through July 2013. Future adjustments to the expected lease income could result from any default by a lessor, which could impact the time period that the buildings will be vacant, expected lease rates, and expected lease terms.

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

Future minimum lease payments as of September 30, 2012 under non-cancelable operating leases with original terms in excess of one year are summarized as follows (in thousands):

	Operating Leases
Remaining 2012	$3,207
2013	12,746
2014	7,904
2015	7,109
2016	4,060
Thereafter	5,817
Total future minimum operating lease payments	$40,843

Warranties

The Company generally provides a warranty for its software products and services to its customers for a period of three to six months and accounts for its warranties. The Company's software products' media are generally warranted to be free from defects in materials and workmanship under normal use, and the products are also generally warranted to substantially perform as described in certain Company documentation and the product specifications. The Company's services are generally warranted to be performed in a professional manner and to materially conform to the specifications set forth in a customer's signed contract. In the event there is a failure of such warranties, the Company generally will correct or provide a reasonable work-around or replacement product. To date, the Company's product warranty expense has not been significant. The warranty accrual as of September 30, 2012 and December 31, 2011 was not material.

Indemnification

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

The Company believes its internal development processes and other policies and practices limit its exposure related to the indemnification provisions of the License Agreement. In addition, the Company requires its employees to sign a proprietary information and inventions agreement, which assigns the rights to its employees' development work to the Company. To date, the 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, 2012.

For several reasons, including the lack of prior indemnification claims and the lack of a monetary liability limit for certain infringement cases under the License Agreement, the Company cannot determine the maximum amount of potential future payments, if any, related to such indemnification provisions.

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

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INFORMATICA CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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 6. Accumulated Other Comprehensive Loss, and Note 7. Derivative Financial Instruments of Notes to Condensed Consolidated Financial Statements for a further discussion.

Litigation

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

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

Note 14. 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, 2012 and 2011. At September 30, 2012 and December 31, 2011, 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 29% and 32% of total revenues in the third quarter of 2012 and 2011, respectively, and 32% and 34% of total revenues for the nine months ended September 30, 2012 and 2011, respectively.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Revenues:				
North America	$134,613	$132,282	$389,587	$370,076
Europe	37,705	46,663	125,456	136,113
Other	18,000	16,942	61,787	50,457
Total revenues	$190,318	$195,887	$576,830	$556,646

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INFORMATICA CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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

	September 30, 2012	December 31, 2011
Long-lived assets, net (excluding assets not allocated):		
North America	$179,895	$69,867
Europe	4,884	3,224
Other	7,818	7,723
Total long-lived assets	$192,597	$80,814

Note 15. Recent Accounting Pronouncements

In July 2012, the FASB issued Accounting Standards Update 2012-02 Testing Indefinite-Lived Intangible Assets, to simplify how entities test indefinite-lived intangible assets other than goodwill for impairment. These amended standards permit an assessment of qualitative factors to determine whether it is more likely than not that the fair value of an indefinite-lived intangible asset is less than its carrying value. For assets in which this assessment concludes it is more likely than not that the fair value is more than its carrying value, these amended standards eliminate the requirement to perform quantitative impairment testing as outlined in the previously issued standards. The new guidance is effective for annual and interim impairment tests performed for fiscal years beginning after December 15, 2012, with early adoption permitted. The Company does not expect its adoption of ASU 2012-02 to have an impact to the condensed consolidated financial statements.

In September 2011, the FASB issued Accounting Standards Update No. 2011-08, Intangibles—Goodwill and Other (Topic 350): Testing Goodwill for Impairment. ASU 2011-08 allows an entity to use a qualitative approach to test goodwill for impairment. This ASU permits an entity to first perform a qualitative assessment to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying value. If it is concluded that this is the case, it is necessary to perform the currently prescribed two-step goodwill impairment test. Otherwise, the two-step goodwill impairment test is not required. ASU 2011-08 is effective for the Company's impairment test in October 2012 and early adoption is permitted. The Company does not expect its adoption of ASU 2011-08 to have an impact to the condensed consolidated financial statements.

In December 2011, the Financial Accounting Standards Board issued Accounting Standard Update (ASU) No. 2011-11, Balance Sheet (Topic 210) - Disclosures about Offsetting Assets and Liabilities (ASU 2011-11), that requires an entity to disclose additional information about offsetting and related arrangements to enable users of the financial statements to understand the effect of those arrangements on the financial position. ASU 2011-11 will be effective for us in fiscal 2013 and any related disclosures required will be applied retrospectively. The adoption of ASU 2011-11 may impact future disclosures but will not impact the consolidated financial statements.

Note 16. Acquisitions

Data Scout Solutions Group Limited

On September 10, 2012, the Company acquired all of the outstanding securities of Data Scout Solutions Group Limited. ("Data Scout"), a privately-held company, for approximately $6.0 million. Data Scout designs, markets, and supports a cloud based master data management application for salesforce.com customers. As a result of this acquisition, the Company also assumed certain liabilities and commitments. Approximately $1.4 million of the consideration otherwise payable to former Data Scout shareholders was held as partial security for certain indemnification obligations, and will be held back for payment until March 2014.

Informatica is obligated to pay up to an additional $3.5 million for certain variable and deferred earn-out payments based upon the achievement of certain performance targets. The Company determined the fair market value of these earn-outs based on probability analysis. At the time of acquisition, the fair market value and gross amount of these earn-out payments were $2.7 million and $3.5 million, respectively. The fair value measurement is based on significant inputs not observed in the market and thus represents a Level 3 measurement. 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.

The following table summarizes the fair value of assets acquired and liabilities assumed of $8.3 million and the acquiree's transaction related costs and debt settlement of $0.4 million (in thousands):

Goodwill	$9,088
Developed and core technology	690
Customer relationships	700
Assumed liabilities, net of assets	(2,173)
Total purchase price allocation	8,305
Acquiree's transaction related costs and debt settlement	354
Total	$8,659

The acquiree's transaction related costs consist of legal, accounting, and consulting fees as of the date of this acquisition. The goodwill is partially deductible for tax purposes.

TierData, Inc.

On September 10, 2012, the Company acquired all of the outstanding securities of TierData, Inc. ("TierData"), a privately-held company, for approximately $6.0 million. TierData develops and markets software that improves database application performance. As a result of this acquisition, the Company also assumed certain liabilities and commitments. Approximately $1.4 million of the consideration otherwise payable to former TierData stockholders was held as partial security for certain indemnification obligations, and will be held back for payment until March 2014.

Informatica is obligated to pay up to an additional $2.5 million for certain variable and deferred earn-out payments based upon the achievement of certain performance targets. The Company determined the fair market value of these earn-outs based on probability analysis. At the time of acquisition, the fair market value and gross amount of these earn-out payments were $2.2 million and $2.5 million, respectively. The fair value measurement is based on significant inputs not observed in the market and thus represents a Level 3 measurement. 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.

The following table summarizes the fair value of assets acquired and liabilities assumed of $6.7 million and the acquiree's transaction related costs and accrued liabilities of $1.5 million (in thousands):

Goodwill	$5,921
Developed and core technology	2,010
Customer relationships	420
Non-compete agreements	60
Assumed liabilities, net of assets	(1,684)
Total purchase price allocation	6,727
Acquiree's transaction related costs and accrued liabilities	1,516
Total	$8,243

The acquiree's transaction related costs consist of legal, accounting, and consulting fees as of the date of this acquisition. The goodwill is not deductible for tax purposes.

Sand Technology

On October 4, 2011, the Company acquired certain assets of Sand Technology Inc., ("Sand"), a publicly-held company, relating to Sand's Information Lifecycle Management for SAP product line for approximately $6.0 million. Of the $6.0 million consideration paid to Sand, $0.8 million was placed into an escrow fund and held as partial security for indemnification obligations and $1.0 million was held back and payable upon the achievement of certain customer-related conditions. The Company paid approximately $0.8 million of the $1.0 million hold back in December 2011 and paid the remaining $0.2 million in the first quarter of 2012. The escrow fund will remain in place until October 4, 2013.

The Company was obligated to pay up to an additional $2.0 million in 2012 for certain deferred earn-out payments based upon the achievement of certain performance targets. The Company determined the fair market value of these earn-outs based on

probability analysis. At the time of acquisition, the fair market value and gross amount of these earn-out payments were approximately $1.9 million and $2.0 million, respectively. The fair value measurement is based on significant inputs not observed in the market and thus represents a Level 3 measurement. 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. The Company paid $2.0 million in earn-out payments during the nine months ended September 30, 2012.
The following table summarizes the fair value of assets acquired and liabilities assumed of $7.9 million (in thousands):

Goodwill	$5,144
Developed and core technology	1,510
Customer relationships	250
Patents and applications	690
In-process research and development	460
Assumed liabilities, net of assets	(187)
Total	$7,867

The assumed liabilities consisted of certain employee related compensation as of the date of the acquisition. The goodwill is partially deductible for tax purposes.
ActiveBase
On July 13, 2011, the Company acquired all of the outstanding securities of ActiveBase Ltd. (“ActiveBase”), a privately-held company, for approximately $6.0 million in cash. ActiveBase provides dynamic data masking technology. As a result of this acquisition, the Company also assumed certain liabilities and commitments. Approximately $1.2 million of the consideration otherwise payable to former ActiveBase stockholders was placed into an escrow fund and held as partial security for the indemnification obligations of the former ActiveBase stockholders. The escrow fund will remain in place until July 14, 2013, although a portion of the funds is expected be paid to former stockholders in the fourth quarter of 2012.
The Company is obligated to pay up to an additional $4.0 million for certain variable and deferred earn-out payments based upon the achievement of certain performance targets. The Company determined the fair market value of these earn-outs based on probability analysis. At the time of acquisition, the fair market value and gross amount of these earn-out payments were $3.3 million and $4.0 million, respectively. The fair value measurement is based on significant inputs not observed in the market and thus represents a Level 3 measurement. 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. The Company paid $0.4 million in earn-out payments during the nine months ended September 30, 2012.
The following table summarizes the fair value of assets acquired and liabilities assumed of $8.3 million and the acquiree's transaction related costs and debt settlement of $1.0 million (in thousands):

Goodwill	$7,042
Developed and core technology	2,080
Customer relationships	120
Assumed liabilities, net of assets	(968)
Total purchase price allocation	8,274
Acquiree's transaction related costs and debt settlement	974
Total	$9,248

The acquiree's transaction related costs consist of legal and accounting fees and certain employee related compensation as of the date of this acquisition. The goodwill is not deductible for tax purposes.
WisdomForce Technologies, Inc.
On June 28, 2011, the Company acquired all of the outstanding securities of WisdomForce Technologies, Inc. (“WisdomForce”), a privately-held company, and certain assets of its two affiliated companies for approximately $25.0

million in cash. WisdomForce develops and markets software that helps improve the quality, availability and continuity of data within information technology systems. As a result of this acquisition, the Company also assumed certain liabilities and commitments.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Approximately $5.0 million of the consideration otherwise payable to former WisdomForce stockholders was placed into an escrow fund and held as partial security for the indemnification obligations of the former WisdomForce stockholders. The escrow fund will remain in place until December 28, 2012.
Informatica is obligated to pay up to an additional $10.0 million for certain variable and deferred earn-out payments based upon the achievement of certain performance targets. The Company determined the fair market value of these earn-outs based on probability analysis. At the time of acquisition, the fair market value and gross amount of these earn-out payments were $7.3 million and $10.0 million, respectively. The fair value measurement is based on significant inputs not observed in the market and thus represents a Level 3 measurement. 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. The Company paid $2.0 million in earn-out payments during the nine months ended September 30, 2012.

The following table summarizes the fair value of assets acquired and liabilities assumed of $32.1 million and the acquiree's transaction related costs of $0.2 million (in thousands):

Goodwill	$26,188
Developed and core technology	6,910
Customer relationships	500
In-process research and development	1,632
Assumed liabilities, net of assets	(3,180)
Total purchase price allocation	32,050
Acquiree's transaction related costs	231
Total	$32,281

The acquiree's transaction related costs consist of legal, accounting, and consulting fees as of the date of this acquisition. The goodwill is not deductible for tax purposes.
Note 17. Subsequent Event
On October 1, 2012, Informatica Deutschland AG, an indirect wholly-owned subsidiary of the Company, announced its decision to make a voluntary public takeover offer (the "Offer") to acquire all the outstanding shares of Heiler Software AG for 7.04 Euro per share in cash, or approximately 80.8 million Euro for the total number of outstanding shares (excluding treasury shares). 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. Based on the exchange rate in effect on October 1, 2012, the total consideration to be offered is expected to be approximately $103.8 million US dollars. On October 22, 2012, the Company published the offer document for the Offer. The initial acceptance period for the Offer commenced with the publication of the offer document and is expected to end on November 21, 2012. If the Offer is successful and the Company achieves a certain minimum ownership threshold, the Company will begin consolidating Heiler Software's financial results with its financial results in the fourth quarter of 2012 based on the Company's relative ownership percentage, excluding the non-controlling interest owned by Heiler Software's continuing stockholders.

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

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

The following discussion should be read in conjunction with our Condensed Consolidated Financial Statements and Notes thereto appearing in Part I, Item 1 of this Report.

Overview

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

We receive license revenues from licensing our products under perpetual licenses directly to end users and indirectly through resellers, distributors, and OEMs in the United States and internationally. We receive service revenues from maintenance contracts, consulting services, and education services that we perform for customers that license our products either directly or indirectly. We also receive an increasing amount of service revenues from our customers and partners under subscription-based licenses for a variety of cloud and address validation offerings. Most of our international sales have been in Europe. Revenues outside of Europe and North America have comprised less than 10% of total consolidated revenues during the past three years, except in the first half of 2012 when revenues outside of North America and Europe comprised approximately 10%.

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

In the third quarter of 2012, continued changes in our sales organization to address recent challenges in sales execution adversely affected our pipeline conversion rate, as well as our pipeline management capabilities and the reliability of our pipeline estimates, particularly in Europe. In addition, macroeconomic uncertainty in portions of North America and Europe and increased competition for the allocation of our customers' IT budget dollars contributed to a delay in customer purchasing decisions and stricter customer purchasing controls and approval processes. As a result, our total revenues in the third quarter of 2012 slightly decreased by 3% to $190.3 million compared to $195.9 million for the same period in 2011. License revenues decreased by 21% to $65.9 million in the third quarter of 2012 compared to $83.7 million for the same period in 2011. The decline in license revenues reflected a reduced number of license transactions in the quarter ended September 30, 2012 compared to the same period in 2011. Services revenues increased by 11% in the third quarter of 2012 from the same period in 2011 due to a 12% growth in maintenance revenues and a 7% increase in consulting, education, and subscription services. The maintenance revenue growth was attributable to the increased size of our installed customer base, and the increase in consulting, education, and subscription services was due to higher customer demand and increased subscriptions. Our operating income as a percentage of revenues decreased to 13% in the third quarter of 2012 from 19% in the third quarter of 2011.

In the first nine months of 2012, we grew our total revenues by 4% to $576.8 million from $556.6 million in the comparable period a year ago, and license revenues decreased by 10% to $216.9 million from $241.6 million on a year-over-year basis. The decline in license revenues for the nine months ended September 30, 2012 compared to the prior year was primarily due to a decrease in the number of license transactions as a result of lower pipeline conversion rate in certain geographies and vertical sectors, partially offset by an increase in the average size of license transactions. Service revenues increased by 14% in the first

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nine months of 2012 compared to the same period in 2011 due to a 16% growth in maintenance revenues and a 9% increase in consulting, education, and subscription services. The maintenance revenue growth was attributable to the increased size of our installed customer base, and the increase in consulting, education, and subscription services was due to higher customer demand and increased subscriptions. Our operating income as a percentage of revenues decreased to 16% in the nine-month period ended September 30, 2012 from 19% in the nine-month period ended September 30, 2011.

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

- Macroeconomic Conditions: The United States and many foreign economies, particularly Europe, continue to experience uncertainty driven by varying macroeconomic conditions. Although some of these economies have shown signs of improvement, macroeconomic recovery remains uncertain and uneven. Uncertainty in the macroeconomic environment and associated global economic conditions have resulted in extreme volatility in credit, equity, and foreign currency markets, particularly with respect to the European sovereign debt markets and potential ramifications of U.S. debt issues, income tax and budget concerns, and future delays in approving the U.S. budget. Such uncertainty and associated conditions have also resulted in volatility in various vertical markets, particularly the financial services and public sectors. These conditions have also adversely affected the buying patterns of customers and our overall pipeline conversion rate, as well as our revenue growth expectations. Furthermore, we have made incremental investments in Asia-Pacific and Latin America, and have continued investing in Europe, the Middle East, and Africa ("EMEA"). There are significant risks with overseas investments, and our growth prospects in these regions are uncertain.
- Competition: Inherent in our industry are risks arising from competition with existing software solutions, including solutions from IBM, Oracle, and SAP, technological advances from other vendors, and the perception of cost savings by solving data integration challenges through customer hand-coding development resources. Our prospective customers may view these alternative solutions as more attractive than our offerings. Additionally, the consolidation activity in our industry pose challenges as competitors market a broader suite of software products or solutions and bundled pricing arrangements to our existing or prospective customers. Moreover, because of current macroeconomic uncertainty, there is increased competition for the allocation of customers' IT budget dollars.
- Product Introductions and Enhancements: To address the expanding data integration and data quality needs of our customers and prospective customers, we introduce new products and technology enhancements on a regular basis, including products we acquire. The introduction of new products, integration of acquired products and enhancement of existing products, is a complex process involving inherent risks, and to which we devote significant resources. We cannot predict the impact of new or enhanced products on our overall sales and we may not generate sufficient revenues to justify their costs.
- Quarterly and Seasonal Fluctuations: Historically, purchasing patterns in the software industry have followed quarterly and seasonal trends and are likely to do so in the future. Specifically, it is normal for us to recognize a substantial portion of our new license orders in the last month of each quarter and sometimes in the last few weeks or days of each quarter, though such fluctuations are mitigated somewhat by recognition of backlog orders. In recent years, the fourth quarter has had the highest level of license revenues and license orders, and we generally have weaker demand for our software products and services in the first and third quarters of the year. Each quarter of 2011 and the first quarter of 2012 followed these seasonal trends. However, license revenues for the second and third quarters of 2012 were lower as compared to the first quarter of 2012 and the second and third quarters of 2011. The uncertain macroeconomic conditions and continued changes in our sales organization make our future results more difficult to predict based on historical seasonal trends.

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

We concentrate on maintaining and strengthening our relationships with our existing strategic partners and building relationships with additional strategic partners. These partners include systems integrators, resellers and distributors, and strategic technology partners, including enterprise application providers, database vendors, and enterprise information integration vendors, in the United States and internationally. For example, we are partners with Cloudera, Dun & Bradstreet, EMC, Hewlett-Packard, Intel, Microsoft, MicroStrategy, NetSuite, Oracle, salesforce.com, SAP, and Symantec, among others. See “Risk Factors — We rely on our relationships with our strategic partners. If we do not maintain and strengthen these relationships, our ability to

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generate revenue and control expenses could be adversely affected, which could cause a decline in the price of our common stock" in Part II, Item 1A of this Report.

We have broadened our distribution efforts, and we have continued to expand our sales both in terms of traditional data warehousing products and more strategic data integration solutions beyond data warehousing, including enterprise data integration, data quality, master data management, B2B data exchange, application information lifecycle management, complex event processing, ultra messaging, and cloud data integration. We also operate the Informatica Marketplace, which allows buyers and sellers to share and leverage data integration solutions. To address the risks of introducing new products or enhancements to our existing products, we have continued to invest in programs to help train our internal sales force and our external distribution channel on new product functionalities, key differentiators, and key business values. These programs include user conferences for customers and partners, our annual sales kickoff conference for all sales and key marketing personnel, "webinars" and other informational seminars and materials for our direct sales force and indirect distribution channel, in-person technical seminars for our pre-sales consultants, the building of product demonstrations, and creation and distribution of targeted marketing collateral.

We continue to implement changes in our worldwide sales and field operations to address recent sales execution challenges and improve performance, particularly with respect to our pipeline management capabilities, the reliability of our pipeline estimates and our pipeline conversion rates. In addition to the sales leadership transitions, we are also implementing 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 this international expansion, as well as the increase in our direct sales headcount in the United States, our sales and marketing expenses have increased. In the long term, we expect these investments to result in increased revenues and productivity and ultimately higher profitability. As we continue to implement further changes, we may experience increased sales force turnover and additional disruption to our ongoing operations. These changes may also take longer to implement than expected, which may adversely affect our sales force productivity. If we experience an increase in sales personnel turnover, do not achieve expected increases in our sales pipeline, experience a decline in our sales pipeline conversion ratio, or do not achieve increases in sales productivity and efficiencies from our new sales personnel as they gain more experience, then it is unlikely that we will achieve our expected increases in revenue, sales productivity, or profitability.

In the third quarter of 2012, we extended our master data management offerings through our acquisition of Data Scout Solutions Group Limited. Data Scout designs, markets and supports a cloud based master data management application for salesforce.com customers. Also in the third quarter of 2012, we extended our application information lifecycle management offerings with our acquisition of TierData, Inc. TierData develops and markets software that improves database application performance.

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

Recent Developments

On October 1, 2012, we announced our decision to make a voluntary public takeover offer to acquire all the outstanding shares of Heiler Software AG, through an indirect wholly-owned subsidiary. 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. The consideration offered to all shareholders of Heiler Software is 7.04 Euro per share in cash, or approximately 80.8 million Euro for the total number of outstanding shares (excluding treasury shares). Based on the exchange rate in effect on October 1, 2012, the total consideration to be offered is approximately $103.8 million US dollars. The acceptance period for the takeover offer commenced on October 22, 2012 and is expected to end on November 21, 2012. If the takeover offer is successful and we achieve a certain minimum ownership threshold, we will begin consolidating Heiler Software's financial results with our financial results in the fourth quarter of 2012 based on our relative ownership percentage, excluding the non-controlling interest owned by Heiler Software's continuing stockholders.

Critical Accounting Policies and Estimates

Our consolidated financial statements are prepared in accordance with generally accepted accounting principles ("GAAP") in the United States, which require us to make estimates, judgments, and assumptions. We believe that the estimates, judgments, and assumptions upon which we rely are reasonable based upon information available to us at the time that these assumptions, judgments, and estimates are made. These estimates, judgments, and assumptions can affect the reported amounts of assets and liabilities as of the date of the financial statements as well as the reported amounts of revenues and expenses during the periods presented. Any material differences between these estimates and actual results will impact our consolidated financial statements. On a regular basis, we evaluate our estimates, judgments, and assumptions and make changes accordingly. We also discuss our critical accounting estimates with the Audit Committee of the Board of Directors. We believe that the estimates, judgments, and assumptions involved in the accounting for revenue recognition, income taxes, impairment of goodwill and intangible assets, business combinations, share-based compensation, and allowance for doubtful accounts have the greatest potential impact on our consolidated financial statements, so we consider these to be our critical accounting policies. The critical accounting estimates associated with these policies are discussed in Part II, Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations, of our Annual Report on Form 10-K for the fiscal year ended December 31, 2011.

On January 1, 2012, we adopted an accounting pronouncement on fair value measurements that are estimated using significant unobservable (Level 3) inputs. As discussed below, on January 1, 2012, we also adopted an accounting pronouncement on the presentation of other comprehensive income. There have been no other changes in our critical accounting policies since the end of fiscal year 2011.

Recent Accounting Pronouncements

For recent accounting pronouncements, see Note 15. Recent Accounting Pronouncements 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, 2012 and 2011 as a percentage of total revenues:

	Three Months Ended September 30, 2012	Three Months Ended September 30, 2011	Nine Months Ended September 30, 2012	Nine Months Ended September 30, 2011
Revenues:				
License	35 %	43 %	38 %	43 %
Service	65	57	62	57
Total revenues	100	100	100	100
Cost of revenues:				
License	—	1	1	1
Service	16	16	16	16
Amortization of acquired technology	3	2	2	2
Total cost of revenues	19	19	19	19
Gross profit	81	81	81	81
Operating expenses:				
Research and development	19	18	18	18
Sales and marketing	39	36	37	36
General and administrative	8	7	8	7
Amortization of intangible assets	1	1	1	1
Facilities restructuring and facility lease termination costs (benefit), net	—	—	—	—
Acquisitions and other charges (benefit)	1	—	1	—
Total operating expenses	68	62	65	62
Income from operations	13	19	16	19
Interest income	—	1	—	—
Interest expense	—	—	—	—
Other income (expense), net	—	—	—	—
Income before income taxes	13	20	16	19
Income tax provision	5	6	5	6
Net income	8 %	14 %	11 %	13 %

Revenues

Our total revenues decreased to $190.3 million for the three months ended September 30, 2012 compared to $195.9 million for the three months ended September 30, 2011, representing a decline of $5.6 million (or 3%), primarily as a result of a decrease in license revenues due to a reduced number of license transactions offset by increased maintenance revenues as a result of growth in our customer installed base. Our total revenues increased to $576.8 million for the nine months ended September 30, 2012 compared to $556.6 million for the nine months ended September 30, 2011, representing a growth of $20.1 million (or 4%). The increase for the first nine months of 2012 was due to increased maintenance revenues driven by the growth in our customer installed base which is partially offset by a decrease in license revenues due to a lower volume of license transactions as a result of a decline in our pipeline conversion rate.

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The following table and discussion compare our revenues by type for the three and nine months ended September 30, 2012 and 2011 (in thousands, except percentages):

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2012	2011	Percentage Change	2012	2011	Percentage Change
License	$65,891	$83,736	(21)%	$216,935	$241,580	(10)%
Service revenues:						
Maintenance	91,872	81,666	12 %	266,345	229,571	16 %
Consulting, education, and other	32,555	30,485	7 %	93,550	85,495	9 %
Total service revenues	124,427	112,151	11 %	359,895	315,066	14 %
Total revenues	$190,318	$195,887	(3)%	$576,830	$556,646	4 %

License Revenues

Our license revenues decreased to $65.9 million (or 35% of total revenues) and $216.9 million (or 38% of total revenues) for the three and nine months ended September 30, 2012, respectively, from $83.7 million (or 43% of total revenues) and $241.6 million (or 43% of total revenues) for the three and nine months ended September 30, 2011, respectively. The decreases in license revenues of $17.8 million (or 21%) for the three months ended September 30, 2012 compared to the same period in 2011 and $24.6 million (or 10%) for the nine months ended September 30, 2012 compared to the same period in 2011 were primarily due to a decreases in the number of license transactions as a result of a decline in our pipeline conversion rate, particularly in Europe, due to the factors discussed above in the "Overview" section. However, in both the three and nine month periods ended September 30, 2012, we experienced an increase in the average transaction size of license orders.

We offer two types of upgrades: (1) upgrades that are not part of the post-contract services for which we charge customers an additional fee, and (2) upgrades that are part of the post-contract services that we provide to our customers at no additional charge, when and if available. The average transaction amount for orders greater than $100,000 in the third quarter of 2012, including upgrades for which we charge customers an additional fee, increased to $443,000 from $413,000 in the third quarter of 2011. The average transaction amount for orders greater than $100,000 in the nine-month period ended September 30, 2012, including upgrades for which we charge customers an additional fee, increased to $448,000 from $426,000 in the same period of 2011.

The number of transactions greater than $1.0 million decreased to 13 in the third quarter of 2012 compared to 18 in the third quarter of 2011. The number of transactions greater than $1.0 million was 39 in the nine-month period ended September 30, 2012 compared to 44 in the comparative period in 2011.

Service Revenues

Maintenance Revenues

Maintenance revenues increased to $91.9 million (or 48% of total revenues) for the three months ended September 30, 2012 compared to $81.7 million (or 42% of total revenues) for the three months ended September 30, 2011. Maintenance revenues increased to $266.3 million (or 46% of total revenues) for the nine months ended September 30, 2012 compared to $229.6 million (or 41% of total revenues) for the nine months ended September 30, 2011. The increase of $10.2 million (or 12%) and $36.8 million (or 16%) in maintenance revenues for the three and nine months ended September 30, 2012, respectively, compared to the same periods in 2011 was primarily due to the increasing size of our installed customer base.

For the remainder of 2012, we expect maintenance revenues to increase from the comparable 2011 levels due to our growing installed customer base.

Consulting and Education, and Other Services Revenues

Consulting, education, and other services revenues increased to $32.6 million (or 17% of total revenues) for the three months ended September 30, 2012 compared to $30.5 million (or 15% of total revenues) for the three months ended September 30, 2011. Consulting, education, and other services revenues increased to $93.6 million (or 16% of total revenues) for the nine months ended September 30, 2012 compared to $85.5 million (or 16% of total revenues) for the nine months ended September 30, 2011. The increases of $2.1 million (or 7%) and $8.1 million (or 9%) in consulting, education, and other services revenues for the three and nine months ended September 30, 2012, respectively, compared to the same periods in 2011 was primarily due to an increase in subscription revenues.

For the remainder of 2012, we expect our revenues from consulting and education, and other services revenues to increase from the comparable 2011 levels primarily due to an anticipated increase in demand for subscriptions offerings.

International Revenues

Our international revenues were $55.7 million (or 29% of total revenues) and $63.6 million (or 32% of total revenues) for the three months ended September 30, 2012 and 2011, respectively. Our international revenues were $187.2 million (or 32% of total revenues) and $186.6 million (or 34% of total revenues) for the nine months ended September 30, 2012 and 2011, respectively. The decrease of $7.9 million (or 12%) in international revenues for the three months ended September 30, 2012 compared to the same period in 2011 was primarily due to a decline in license revenues in Europe, partially offset by an increase in maintenance revenues in Asia and an increase in consulting revenues in Asia and Latin America. The increase of $0.7 million in international revenues for the nine months ended September 30, 2012 compared to the same period in 2011 was primarily due to increases in maintenance and consulting revenues, offset by a decrease in license revenue. The increase in maintenance revenues was due to increases in Europe, Latin America and Asia and the increase in consulting revenues was due to increases in Europe and Asia. The decrease in license revenue was primarily due to a decrease in Europe.

For the remainder of 2012, we expect our international revenues as a percentage of total revenues to be relatively consistent with the comparable 2011 levels, subject to the continued macroeconomic uncertainty in Europe.

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

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

We typically ship products shortly after the receipt of an order, which is common in the software industry, and historically our backlog of license orders awaiting shipment at the end of any given quarter has varied. However, our backlog historically decreases from the prior quarter at the end of the first and third quarters and increases at the end of the fourth quarter. Aggregate backlog and deferred revenues at September 30, 2012 were approximately $251.5 million compared to $222.4 million at September 30, 2011 and $251.3 million at December 31, 2011. The change in the third quarter of 2012 from the comparable period of 2011 was primarily due to an increase in deferred maintenance revenues, deferred subscription license revenues, and license backlog, partially offset by a decrease in deferred perpetual license revenues. 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,		
	2012	2011	Percentage Change	2012	2011	Percentage Change
Cost of license revenues	$925	$1,011	(9)%	$3,210	$3,669	(13)%
Cost of service revenues	30,655	30,432	1%	92,764	87,111	6%
Amortization of acquired technology	5,172	5,156	—%	16,164	14,334	13%
Total cost of revenues	$36,752	$36,599	—%	$112,138	$105,114	7%
	1%	1%	—%	1%	2%	(1)%

Cost of license revenues, as a percentage of license revenues						
Cost of service revenues, as a percentage of service revenues	25 %	27 %	(2)%	26 %	28 %	(2)%

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Cost of License Revenues

Our cost of license revenues consists primarily of software royalties, product packaging, documentation, and production costs. Cost of license revenues slightly decreased to $0.9 million (or 1% of license revenues) for the three months ended September 30, 2012 compared to $1.0 million (or 1% of license revenues) in the same period of 2011. Cost of license revenues decreased to $3.2 million (or 1% of license revenues) for the nine months ended September 30, 2012 compared to $3.7 million (or 2% of license revenues) in the same period of 2011. The decrease of $0.5 million (or 13%) in cost of license revenues for the nine months ended September 30, 2012, compared to the same period in 2011, was primarily due to lower license orders for the nine months ended September 30, 2012.

For the remainder of 2012, we expect that our cost of license revenues as a percentage of license revenues to be relatively consistent with the first three quarters of 2012.

Cost of Service Revenues

Our cost of service revenues is a combination of costs of maintenance, consulting, education, and other services revenues. Our cost of maintenance revenues consists primarily of costs associated with customer service personnel expenses and royalty fees for maintenance related to third-party software providers. Cost of consulting revenues consists primarily of personnel costs and expenses incurred in providing consulting services at customers' facilities. Cost of education services revenues consists primarily of the costs of providing education classes and materials at our headquarters, sales and training offices, and customer locations. Cost of other services revenue consists primarily of fees paid to third party vendors for hosting services related to our subscription services and royalties paid to postal authorities.

Cost of service revenues was $30.7 million (or 25% of service revenues) in the third quarter of 2012 compared to $30.4 million (or 27% of service revenues) in the same period of 2011. The $0.3 million (or 1%) increase in the third quarter of 2012 compared to the same period of 2011 was primarily due to a $0.8 million increase in personnel related costs (including share-based compensation) and a $0.4 million increase in general overhead costs, which were offset by a $0.2 million decrease in reimbursable expenses and a $0.7 million decrease in subcontractor fees.

Cost of service revenues was $92.8 million (or 26% of service revenues) for the nine months ended September 30, 2012 compared to $87.1 million (or 28% of service revenues) in the same period of 2011. The $5.7 million (or 6%) increase for the nine months ended September 30, 2012 compared to the same period of 2011 was primarily due to a $4.0 million increase in personnel related costs (including share-based compensation), a $0.7 million increase in reimbursable expenses, and a $1.4 million increase in general overhead costs, which were offset by a $0.4 million decrease in subcontractor fees.

For the remainder of 2012, we expect that our cost of service revenues, in absolute dollars, to increase from the 2011 levels, mainly due to headcount increases to support and deliver increased service revenues. We expect the cost of service revenues as a percentage of service revenues for the remainder of 2012 to remain relatively consistent with the first three quarters of 2012.

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,		
	2012	2011	Percentage Change	2012	2011	Percentage Change
Amortization of acquired technology	$5,172	$5,156	— %	$16,164	$14,334	13 %

Amortization of acquired technology is the amortization of technologies acquired through business acquisitions and technology licenses. Amortization of acquired technology remained flat at $5.2 million for both of the three-month periods ended September 30, 2012 and 2011. Amortization of acquired technology increased to $16.2 million for the nine months ended September 30, 2012 compared to $14.3 million in the same period of 2011. The increase of $1.9 million (or 13%) for the nine months ended September 30, 2012, compared to the same period of 2011 was primarily due to amortization of certain technologies from the acquisitions of WisdomForce, ActiveBase, and Sand Technology in 2011.

For the remainder of 2012, we expect the amortization of acquired technology to be approximately $5.4 million before the effect of any potential future acquisitions subsequent to September 30, 2012.

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Operating Expenses

Research and Development

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

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2012	2011	Percentage Change	2012	2011	Percentage Change
Research and development	$35,998	$34,577	4 %	$105,561	$98,093	8 %

Our research and development expenses consist primarily of salaries and other personnel-related expenses, consulting services, facilities, and related overhead costs associated with the development of new products, enhancement and localization of existing products, quality assurance, and development of documentation for our products. Research and development expenses increased to $36.0 million (or 19% of total revenues) and $105.6 million (or 18% of total revenues) for the three and nine months ended September 30, 2012, respectively, from $34.6 million (or 18% of total revenues) and $98.1 million (or 18% of total revenues) for the three and nine months ended September 30, 2011, respectively. All software development costs for software intended to be marketed to customers have been expensed in the period incurred since the costs incurred subsequent to the establishment of technological feasibility have not been significant.

The $1.4 million (or 4%) increase in third quarter of 2012 compared to the same period of 2011 was primarily due to a $1.0 million increase in personnel-related costs (including share-based compensation) as a result of increased headcount and a $0.4 million increase in general overhead costs. The $7.5 million (or 8%) increase for the nine months ended September 30, 2012 compared to the same period of 2011 was primarily due to a $6.3 million increase in personnel-related costs (including share-based compensation) as a result of increased headcount and a $1.2 million increase in general overhead costs.

For the remainder of 2012, we expect research and development expenses as a percentage of total revenues to be relatively consistent with or slightly decrease from the first three quarters of 2012.

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,		
	2012	2011	Percentage Change	2012	2011	Percentage Change
Sales and marketing	$73,239	$70,437	4 %	$213,615	$200,962	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 were $73.2 million (or 39% of total revenues) and $213.6 million (or 37% of total revenues) for the three and nine months ended September 30, 2012, respectively, compared to $70.4 million (or 36% of total revenues) and $201.0 million (or 36% of total revenues) for the three and nine months ended September 30, 2011, respectively.

The $2.8 million (or 4%) increase for the three months ended September 30, 2012 compared to the same period in 2011 was primarily due to a $2.5 million increase in personnel-related costs. The $12.6 million (or 6%) increase for the nine months ended September 30, 2012 compared to the same period in 2011 was primarily due to a $9.3 million increase in personnel-related costs, a $1.5 million increase in outside services, a $1.2 million increase in general overhead costs, and a $0.6 million increase in marketing programs. Personnel-related costs include salaries, employee benefits, sales commissions, and share-based compensation. Sales and marketing headcount increased from 837 in September 2011 to 982 in September 2012.

For the remainder of 2012, we expect sales and marketing expenses as a percentage of total revenues to be relatively consistent with the first three quarters of 2012. The sales and marketing expenses as a percentage of total revenues may fluctuate from one period to the next due to the timing of hiring new sales and marketing personnel, our spending on marketing programs, and the level of the commission expenditures, in each period.

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General and Administrative

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

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2012	2011	Percentage Change	2012	2011	Percentage Change
General and administrative	$15,692	$14,516	8 %	$46,369	$40,507	14 %

Our general and administrative expenses consist primarily of personnel costs for finance, human resources, legal, and general management, as well as professional service expenses associated with recruiting, legal, tax and accounting services. General and administrative expenses increased to $15.7 million (or 8% of total revenues) for the three months ended September 30, 2012 compared to $14.5 million (or 7% of total revenues) for the three months ended September 30, 2011. General and administrative expenses increased to $46.4 million (or 8% of total revenues) for the nine months ended September 30, 2012 compared to $40.5 million (or 7% of total revenues) for the nine months ended September 30, 2011.

The $1.2 million (or 8%) increase for the three months ended September 30, 2012 compared to the same period in 2011 was primarily due to a $0.6 million increase in personnel-related costs (including share-based compensation), a $0.5 million increase in the provision for doubtful accounts, and a $0.1 million increase in general overhead costs. The $5.9 million (or 14%) increase for the nine months ended September 30, 2012 compared to the same period in 2011 was primarily due to a $3.9 million increase in personnel-related costs (including share-based compensation) as a result of increased headcount, a $0.9 million increase in the provision for doubtful accounts, and a $1.1 million increase in general overhead costs.

For the remainder of 2012, we expect general and administrative expenses as a percentage of total revenues to be relatively consistent with or a slight decrease from the first three quarters of 2012.

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,		
	2012	2011	Percentage Change	2012	2011	Percentage Change
Amortization of intangible assets	$1,462	$1,886	(22)%	$4,690	$5,959	(21)%

Amortization of intangible assets is the amortization of customer relationships and vendor relationships acquired, trade names, and covenants not to compete through prior business acquisitions. Amortization of intangible assets decreased to $1.5 million (or 1% of total revenues) for the three months ended September 30, 2012 compared to $1.9 million (or 1% of total revenues) for the three months ended September 30, 2011. Amortization of intangible assets decreased to $4.7 million (or 1% of total revenues) for the nine months ended September 30, 2012 compared to $6.0 million (or 1% of total revenues) for the nine months ended September 30, 2011.

The decreases of $0.4 million (or 22%) and $1.3 million (or 21%) in amortization of intangible assets for the three and nine months ended September 30, 2012, respectively, compared to the same periods in 2011 were primarily due to decreasing amortization for customer relationships, which are amortized using a method based on expected cash flows.

For the remainder of 2012, we expect amortization of the remaining intangible assets to be approximately $1.9 million, before the impact of any amortization for any possible intangible assets acquired as part of any potential future acquisitions subsequent to September 30, 2012.

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Facilities Restructuring and Facility Lease Termination Costs (Benefit), Net

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

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2012	2011	Percentage Change	2012	2011	Percentage Change
Facilities restructuring and facility lease termination costs (benefit), net	$—	$(282)	(100)%	$710	$704	1%

In February 2012, we purchased the property associated with our former corporate headquarters in Redwood City, California. As a result of the transaction, we no longer have any further commitments relating to the original lease agreements. The purchase of the buildings discharges our future lease obligations that were previously accounted for under the 2001 and 2004 Restructuring Plans. During the first quarter of 2012 we reversed the existing accrued facilities restructuring liability of $20.6 million and recorded a corresponding facilities restructuring benefit on the Condensed Consolidated Statement of Income in accordance with ASC 420 Exit or Disposal Cost Obligations. We also recorded a charge of approximately $21.2 million representing the cost to terminate the operating lease included in facility lease termination costs, net in the Condensed Consolidated Statements of Income. See Note 10. Facilities Restructuring Charges of Notes to Condensed Consolidated Financial Statements in Part I, Item 1 of this Report.

For the three months ended March 31, 2012, we recorded a net facilities restructuring and facility lease termination costs of $0.7 million, for accretion charges related to the 2004 Restructuring Plan of $0.1 million and an expense of $21.2 million related to the net cost to settle an existing lease obligation, offset by a benefit as a result of the reversal of the existing accrued facilities restructuring liability of $20.6 million. There were no further activities after the first quarter of 2012. Comparatively, for the three and nine months ended September 30, 2011, we recorded a restructuring benefit of $0.3 million and a restructuring charge of $0.7 million, respectively, for accretion charges related to the 2004 Restructuring Plan offset by a benefit as a result of a sublease renewal through the end of our master lease.

2004 Restructuring Plan. Net cash payments for facilities included in the 2004 Restructuring Plan amounted to $3.3 million for the three months ended September 30, 2011, and $2.4 million and $9.3 million for the nine months ended September 30, 2012 and 2011, respectively.

2001 Restructuring Plan. Net cash payments for facilities included in the 2001 Restructuring Plan amounted to $0.4 million for the three months ended September 30, 2011, and $0.3 million and $1.4 million for the nine months ended September 30, 2012 and 2011, respectively.

Acquisitions and Other Charges (Benefit)

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

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2012	2011	Percentage Change	2012	2011	Percentage Change
Acquisitions and other charges (benefit)	$2,036	$917	122			